GREENE KING
BURY ST EDMUNDS

TIME WELL SPENT

ANNUAL REPORT 2015

WE ARE ONE OF THE COUNTRY'S LEADING PUB AND BREWING COMPANIES

At our year end we ran over 1,900 managed, tenanted, leased and franchised pubs, restaurants and hotels, including some well-known brands such as Hungry Horse and Loch Fyne Seafood & Grill. We also have a proud history of brewing award-winning ales for more than 200 years.

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INVESTMENT CASE

OUR OVERALL VISION IS TO BUILD THE BEST PUBS AND BEER BUSINESS IN THE UK

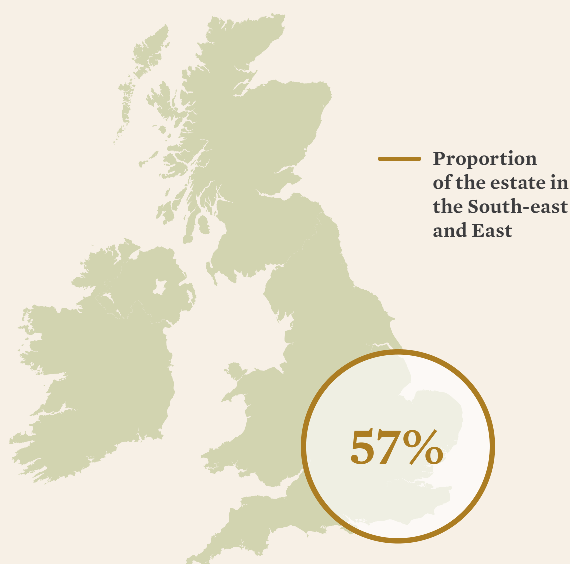
We aim to create a clear industry leader that is the first choice for employees, for customers who want to spend their discretionary income on eating and drinking out, and for shareholders who want to invest in the leisure sector.

Within this, our objective is to offer our customers memorable experiences through the delivery of outstanding value, exceptional service and unbeatable quality across our businesses, differentiated by investment in innovation and in our people.

A HIGH QUALITY, WELL-POSITIONED ESTATE

As at 3 May 2015 we ran 1,909 managed and tenanted pubs. 57% of our estate is situated in the South-east and East, which has proved beneficial throughout the economic recovery.

We own the freehold title on 94% of our estate. This gives us freedom to renovate our pubs and removes the ongoing requirement to use a proportion of the cash that we generate to pay rent. We believe that these benefits, among others, outweigh the initial capital outlay associated with purchasing the freehold title of a pub.



ALIGNED WITH CONSUMER TRENDS

We constantly develop our Retail offer to ensure we remain relevant in an environment of increasing consumer choice and awareness, and we have identified a number of ongoing and emerging consumer trends.

Value hunters

- 'Every day low pricing' approach to value
- Offer of 'key event' meal and other selective deals enticing customers to treat themselves with us

All-day eating out

- Continuous enhancement and extension of a breakfast offer across our estate
- Hot beverage and snack availability designed to attract customers in between meals

Use of and access to technology in leisure

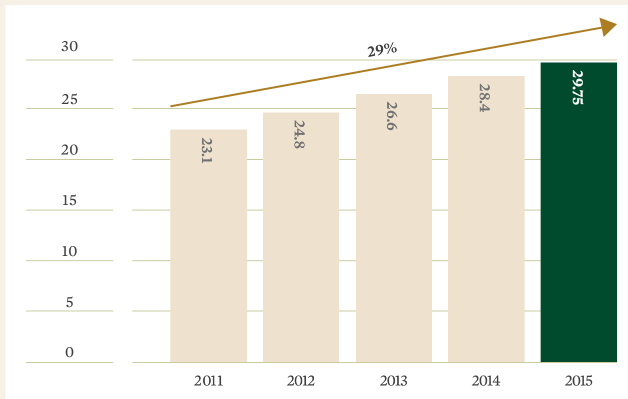
- Hungry Horse ordering apps and pager trials to boost service
- Mobile-enabled booking websites designed to engage with the customer on the move

COMPELLING BLEND OF GROWTH AND DIVIDENDS

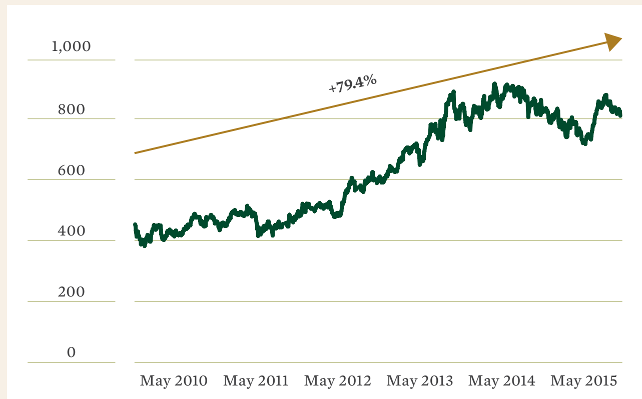
Over the last five years our proven growth strategy combined with our attractive dividend policy has delivered an average annual total shareholder return 30% higher than the FTSE All-share average annual return over the same period. This includes 29% growth in Greene King dividends and 79.4% share price appreciation[1].

1. Past performance is not an indicator of future returns.

TOTAL DIVIDEND PER SHARE 2011–2015 (p)



GREENE KING SHARE PRICE 2010–2015



A DIVERSIFIED AND ROBUST BRAND PORTFOLIO

We have a number of well-known pub and restaurant brands and ales, including:

- Award-winning national pub restaurant, restaurant and accommodation brands such as Hungry Horse, Loch Fyne Seafood & Grill and Old English Inns. During the year we were proud to be named the winner of the 2015 National Fish & Chip awards.
- Well-known brands such as Greene King IPA, Old Speckled Hen, and Abbot Ale, as well as Belhaven Best in Scotland and our craft ale portfolio.

THE BEST AND MOST HIGHLY MOTIVATED PEOPLE IN THE SECTOR

Our people are fundamental to the success of our business and we aim to employ and develop the best and most highly motivated people in the sector.

Key to this is our strategy to engage employees through learning and we have committed to offering a further 2,000 apprenticeships in the current year.

Our investment in our people, skills and development was demonstrated in the award of the VQ (Vocational Qualifications) Employer of the Year in May 2015.

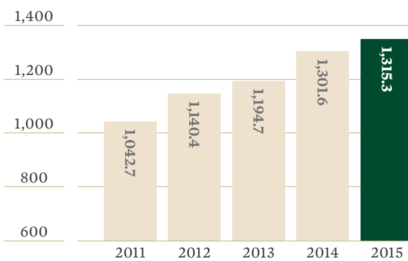
CORPORATE RESPONSIBILITY PAGE 31

PERFORMANCE HIGHLIGHTS

ANOTHER RECORD YEAR

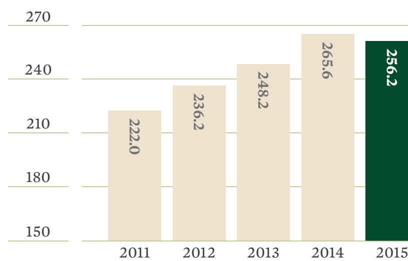
REVENUE (£m)

£1,315.3m +3.0%[1]



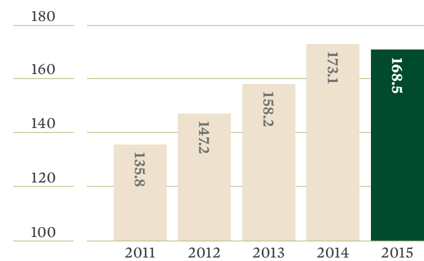
OPERATING PROFIT BEFORE EXCEPTIONALS (£m)

£256.2m -1.7%[1]



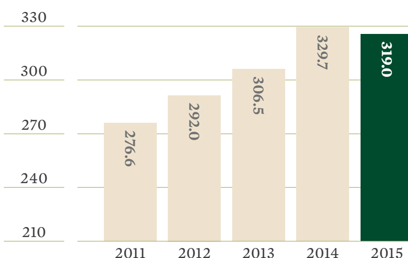
PROFIT BEFORE TAX AND EXCEPTIONALS[4] (£m)

£168.5m -0.8%[1]



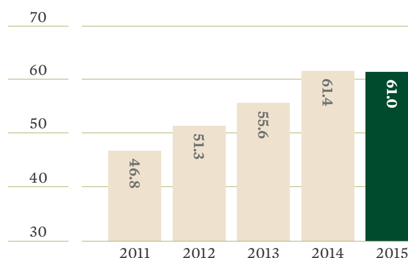
EBITDA[3] (£m)

£319.0m -1.4%[1]



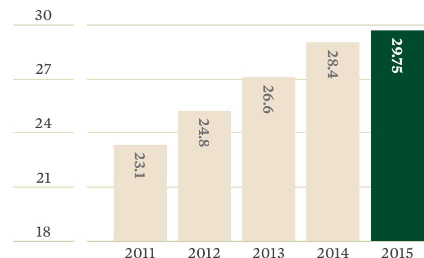
ADJUSTED BASIC EARNINGS PER SHARE[2,4] (p)

61.0p +1.3%[1]



DIVIDEND PER SHARE (p)

29.75p +4.8%



- Record revenue; Retail revenue has reached £1bn.
- Retail like-for-like (LFL) sales[5] +0.4%; Pub Partners LFL net income +3.5%; Brewing & Brands own-brewed volume (OBV) +4.2%.
- Adjusted earnings per share growth of 9.2%[6] with strong cash flow, lower leverage and continued dividend growth.
- Return on capital employed (ROCE) further increased to 9.3%.
- Completed successful five-year strategic plan: expanded Retail sites by 19.4%; increased tenanted EBITDA per pub by 33%; and grew ale market share by 120bps.
- Completed acquisition of Spirit Pub Company plc, post year end, creating the UK's leading managed pub company; integration process underway.

1. Variances shown on an adjusted 52 week basis.
2. As throughout, profit figures are shown before exceptional items.
3. 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.
4. 2011–2013 figures are adjusted for the impact of IAS 19(R).
5. Revenue from the sale of drink, food and accommodation.
6. Retained business, see page 26.

CHAIRMAN'S STATEMENT

DIVIDEND GROWTH

"Maintaining our long-term track record of dividend growth, the total dividend for the year will be 29.75p per share, up 4.8%."

"It has been a year of strong underlying growth for the company."

SEE ALSO

CHIEF EXECUTIVE'S REVIEW
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BOARD OF DIRECTORS
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CORPORATE GOVERNANCE
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Results

In the year, total revenue was £1,315.3m, up 3.0%[1] and another record figure for the company. The operating profit before exceptional items was down 1.7% to £256.2m and profit before tax and exceptional items (PBTE) was down 0.8%, each being affected by lower LFL sales growth and the impact of the disposal of 275 pubs to Hawthorn Leisure. Our adjusted earnings per share were up 1.3% to 61.0p. After making allowance for the disposal of the pubs, the retained business grew PBTE by 6.9% and adjusted earnings per share by 9.2%.

Dividend

Following a year of strong underlying growth for the company, the board has recommended a final dividend of 21.8p per share, up 4.8% on last year. This takes the total dividend for the year to 29.75p per share, up 4.8%, continuing our long track record of dividend growth. The final dividend is expected to be paid on 14 September 2015 to those shareholders on the register at the close of business on 14 August 2015.

Acquisitions

On 23 June, after the year end, we completed the acquisition of Spirit Pub Company plc, the largest acquisition in the company's history. This added 791 retail sites and 416 tenanted and leased sites to our pub estate. During the year, we added 32 sites to our retail estate at a total cost of £75.9m, leaving us with 1,060 sites at the year end.

Disposals

During the year, we sold 314 non-core sites for a total of £94.1m, including the sale to Hawthorn Leisure. The 39 disposals outside of the Hawthorn Leisure transaction realised a sale value of £18.5m.

Board

Sadly, Matthew Fearn, our chief financial officer, had to leave us in September 2014 because of his ill health. In his place, we appointed Kirk Davis, who was formerly the finance director at JD Wetherspoon plc. We welcomed him onto our board as chief financial officer on 3 November 2014.

In July 2014, Rob Rowley joined our board as a non-executive director. He was formerly at Reuters Group plc, where he held various roles including that of finance director, and will be taking the chairmanship of the audit committee from Ian Durant next year.

People

I would like to thank everyone who has worked for Greene King over the course of the year, whether it be those who work in our managed pub business, our tenanted and leased pub business or our beer business. Wherever you are in the company, or in the country, your efforts and your achievements are, as always, highly valued and appreciated.

On the most recent note of all, I would like to welcome all of the Spirit employees. We look forward to working with you, sharing ideas and making the most of our joint opportunity to forge a successful future together.

Tim Bridge
Chairman
30 June 2015

1. Throughout this statement, 2013/14 figures are rebased to 52 weeks for comparative purposes.

RETAIL OVERVIEW

RETAIL

Our retail business comprises both branded and unbranded pubs, restaurants and hotels that we manage across the UK.

The City Barge in Chiswick is one of our Metropolitan pubs, where the focus is on a premium food and drink offer in interesting surroundings. Its menu features classic British ingredients, with British fish and seafood being particularly popular.

OPERATIONAL REVIEW
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PUB PARTNERS OVERVIEW

PUB PARTNERS

Our Pub Partners business offers people the opportunity to run their own pubs across the UK on a tenanted, leased or franchised basis.

We aim to help licensees with various aspects of their business, from training to investment, where appropriate. We recently contributed over £140k to upgrade the kitchen facilities and extend the trading space at the Swan in Long Melford, Suffolk, and it has since received a two-rosette rating from the AA for its food offer.

OPERATIONAL REVIEW
PAGE 21

BREWING & BRANDS

Our Brewing & Brands business brews a wide range of well-known and award-winning ales in our two breweries, in Bury St Edmunds and in Dunbar.

Its flagship brand, Greene King IPA, has undergone a re-brand during the year, with a more contemporary, stylish pump clip which has been well received by consumers.

OPERATIONAL REVIEW
PAGE 23

1799
GREENE KING
BURY ST EDMUNDS
IPA
INDIA PALE ALE
alc.3.6% vol
WESTGATE BREWERY · 1799

CHIEF EXECUTIVE'S REVIEW

ANOTHER RECORD YEAR

"As well as increasing revenue we also made good financial and strategic progress as we came to the end of our five-year strategic plan."

GROUP REVENUE WAS:

£1,315.3m

OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS WAS UP:

3.8%[1]

ADJUSTED EARNINGS PER SHARE GREW:

9.2%[2]

PROFIT BEFORE TAX AND EXCEPTIONALS WAS:

£168.5m

Performance summary

It has been another record year for Greene King with Retail revenue exceeding £1bn for the first time and underlying growth in Pub Partners and Brewing & Brands. We have made good financial and strategic progress and completed a successful five-year strategic plan, culminating in the disposal of over 300 non-core sites in the year and, after the year end, the acquisition of Spirit Pub Company.

We grew total revenue by 3.0%[1], while the retained business, excluding non-core pub disposals, achieved 5.0% growth. Operating profit was 1.7% lower than last year although it was up 3.8% on a retained business basis. The operating margin on a retained business basis fell 20bps to 19.4%, following a significant recovery in the second half.

Adjusted earnings per share were up 1.3% and up 9.2% on a retained business basis. As a result of this continued strong underlying growth, the board has recommended an increase of 4.8% in the dividend per share.

Although underlying retail growth was lower than anticipated at the start of the year, we increased our ROCE to 9.3%, ahead of WACC.

We also made significant progress in key operational metrics, including a 12.3%pt increase in our Retail Net Promoter Scores (NPS) and a 13.4% reduction in Retail team turnover.

Market overview

While economic indicators generally continued to improve throughout the year, the underlying trends within the sector slowed down as customers diverted discretionary spending towards 'bigger ticket items'. However, we are confident that our continued investment in the business will feed through into stronger underlying growth going forward, supported by ongoing improvements in consumer confidence and disposable income.

With 62%[3] of UK leisure spending, the eating and drinking out markets dominate the UK leisure market. Within the eating out market, 27% of spend comes from pubs and bars with spend in branded pubs and bars forecasted to be 14% in 2015, up from 11% in 2010. We believe pubs and bars, and particularly branded pubs and bars, will continue to play a significant role within the UK leisure market.

Now that the Small Business, Enterprise and Employment Bill has become law, we will continue to work closely with the Government to make sure that important secondary legislation is balanced, does not add unnecessary 'red tape' and encourages continued investment in the tenanted and leased sector.

Our Scottish business suffered in the year from the introduction of a lower drink-driving limit just before Christmas. We have mitigated the impact as much as we can through a number of initiatives. However, the lower limit has changed consumer behaviour towards drinking out in Scotland and we expect to see continued LFL sales weakness, at least in the first full year following its introduction.

1. Throughout this review, 2013/14 figures are rebased to 52 weeks for comparative purposes.
2. Retained business, see page 26.
3. Greene King Leisure Spend Tracker, April 2015.

Strategy update

Our five-year strategic plan to improve growth and returns to our shareholders has been successful, helping to drive significant change in the business and better positioning Greene King for sustainable long-term growth. During the last five years, we have:

1. **Expanded our Retail estate by 19.4% and improved average EBITDA per pub by 24%**. Since 2010, we have added 172 sites to our retail estate, including 32 sites this year, ending the year on 1,060 pubs, restaurants and hotels. The acquisitions of Cloverleaf, RealPubs and Capital Pubs accelerated our progress in Retail and, overall, average EBITDA per pub improved 24% over the five years. The return on the cash we invested during the period in new sites was 15.1%, ahead of WACC, and generating shareholder value.

2. **Reduced our Pub Partners estate by 46% and improved average EBITDA per pub by 33%**. Over the five years, we sold or transferred 735 tenanted and leased sites including 310 this year, taking us significantly ahead of our initial target of 1,200 sites. Since 2010, average EBITDA per pub has risen by 33% to £69.9k.

3. **Continued our cask ale leadership position through consistent and industry-leading brand investment**. Since 2010, OBV grew 19.7% against an ale market that declined 12.6%. This outperformance was driven by investment and innovation in our industry-leading brand portfolio. Over the five years, we increased our volume share of the UK ale market by 1.2%pts to 10.0%[1].

Having successfully delivered on our five-year plan, our immediate focus looking forward is to manage the twin challenges of delivering sustainable performance improvements in Greene King Retail, while successfully integrating Spirit Pub Company to create a clear industry leader.

We have worked hard this year to drive improvements in value, service and quality across Retail, but we are clear that more needs to be done if we are to deliver positively memorable experiences to more savvy and connected customers, in an increasingly competitive marketplace.

Linked to the core business challenge is the opportunity that the acquisition of Spirit brings. We completed the acquisition on 23 June, following the CMA's formal acceptance of our undertaking to sell 16 pubs, thereby creating the UK's leading managed pub company. With a combined estate of 3,100 pubs, restaurants and hotels, including over 1,000 in London and the South-east, we are well positioned to deliver long-term growth.

We expect to generate at least £30m of cost synergies and we anticipate there being further opportunities for value creation. The greater the benefits we realise, the more we will seek to invest in key areas of the combined business such as people, IT and marketing, thereby helping to further strengthen the core Retail business.

Current trading and outlook

We have seen a steady start to the new financial year. In the first eight weeks, Retail LFL sales were up 0.6%, LFL net income in Pub Partners was up 1.2% and OBV in Brewing & Brands was down 3.7%, against tough comparatives and a year-on-year delay in the timing of export sales. The new drink-driving regulations in Scotland reduced Retail LFLs by 50bps during the period. For the same eight-week period, managed LFL sales at Spirit were up 0.8%.

While consumer spending on eating and drinking out is improving, spending on big ticket items has been the main beneficiary of the return to real income growth so far. In this environment, we will continue to focus on improving customer experiences in order to drive sustainable growth across the core business.

We are looking forward to integrating Spirit and to building the leading pub hospitality company in the UK, combining the best people, brands and processes from both businesses. We have only recently completed the acquisition, but our early analysis of the business is encouraging and we see a number of exciting opportunities for the combined business.

We are confident of delivering another year of financial and strategic progress for our shareholders.

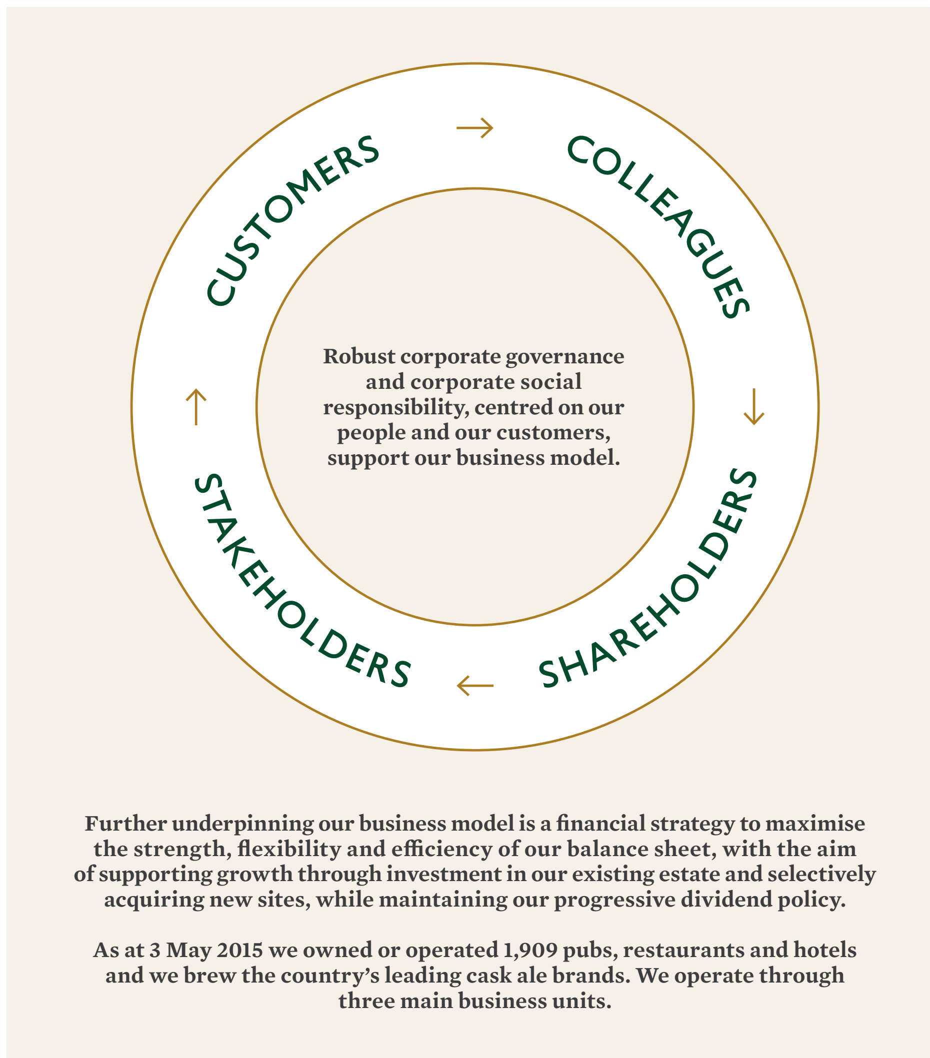
Rooney Anand
Chief executive
30 June 2015

1. BBPA, company.

OUR BUSINESS MODEL

BUILDING THE BEST PUBS AND BEER BUSINESS IN BRITAIN

The Greene King business model balances strong cash generation with investment aimed at further positioning us towards long-term growth markets and thereby delivering sustainable growth and dividends for our shareholders.



Further underpinning our business model is a financial strategy to maximise the strength, flexibility and efficiency of our balance sheet, with the aim of supporting growth through investment in our existing estate and selectively acquiring new sites, while maintaining our progressive dividend policy.

As at 3 May 2015 we owned or operated 1,909 pubs, restaurants and hotels and we brew the country's leading cask ale brands. We operate through three main business units.

KEY BUSINESS DRIVERS

RETAIL

Our retail business is split into two divisions – our more food-focused Destination Pubs and Restaurants division (466 sites) and our more community-focused Local Pubs division (594 sites).

The success of our Retail business is driven by our customers' desire to eat and drink outside of their homes and is specifically determined by the number of customers we attract and the amount that they spend with us.

Our principal revenue streams are food and drink available for consumption on our premises. We gain further revenue from our accommodation offer at some sites, and a number of our sites have gaming machines.

OPERATIONAL PRIORITIES

- Consistently providing outstanding value, exceptional service and unbeatable quality to our customers
- Constantly innovating to ensure that we offer our customers differentiated and compelling experiences
- Selectively and strategically expanding our estate
- Ongoing training of our teams, who are crucial to our Retail success

PUB PARTNERS

Our Pub Partners business offers entrepreneurs the opportunity to operate our pubs in England and Scotland.

We offer a flexible range of agreements, for tenanted pubs, leased pubs and franchised pubs.

Revenue in our Pub Partners business is principally achieved through the supply of beer and other drinks to our licensees and the rent that they pay us to have access to the pub and our support. We also derive a small portion of revenue from gaming machines.

OPERATIONAL PRIORITIES

- Continuing to recruit and retain quality licensees
- The offer of a flexible and attractive range of agreements to existing and future licensees
- Ongoing training of our people to offer industry-leading support to our licensees
- Selective and strategic pub disposals to ensure we maintain an attractive and cash-generative estate

BREWING & BRANDS

Our Brewing & Brands division operates two breweries, one in Bury St Edmunds and the other in Dunbar.

We generate revenue in our Brewing & Brands business from the sale and distribution of ales produced by us in our own breweries, and from the sale and distribution of drinks (both alcoholic and non-alcoholic) produced by third parties.

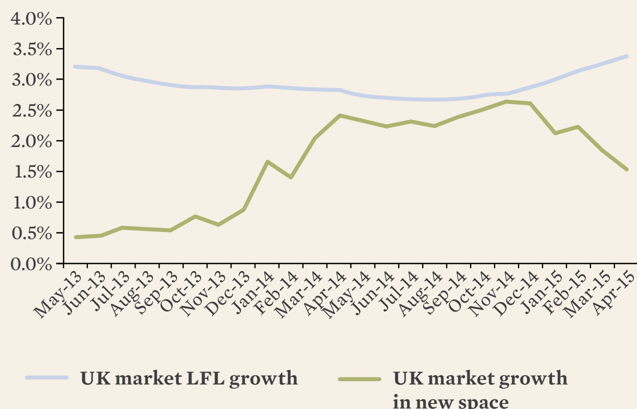
As well as to our internal customers in the other divisions, we also sell our ales to other pub companies and to individual free trade customers. A further important revenue stream is the sale of our own-brewed ales to supermarkets and other retail outlets and, increasingly, in the export market.

OPERATIONAL PRIORITIES

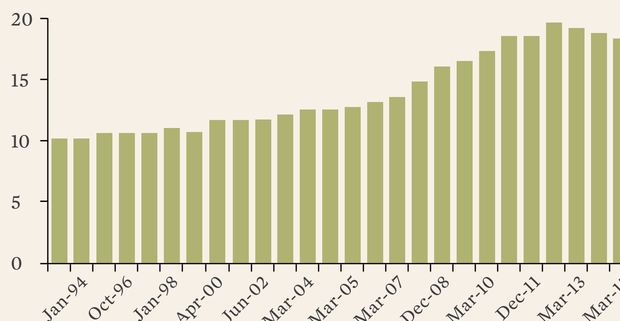
- Evolving our business model to pursue channels of growth within the sector such as the take-home and export markets
- Maximising our market share and cash generation in markets such as the on-trade by ensuring we have an exciting and appealing portfolio of own-brewed brands
- Rigorously training and investing in our people to deliver consistently high levels of service and quality

MARKET OVERVIEW

UK MARKET: LFL GROWTH & CONTRIBUTION FROM NEW SPACE (ROLLING MAT)



BEER DUTY (£ PER 1% ABV/HL)[1]



1. https://www.uktradeinfo.com/Statistics/Pages/TaxAndDutybulletins.aspx.

Introduction

The key markets in which we operate are the UK drinking out, eating out and staying out markets. We aim to grow our share of these markets by utilising our industry-leading brands, our high quality asset base and our talented teams to offer customers unrivalled value, service and quality.

Over the last 12 months, while sector LFL sales growth has been more subdued than in previous years within Greene King Retail, our largest and fastest growing business, we have successfully outperformed the total market and grown total sales by 5.9%. LFL beer volumes in Pub Partners, our tenanted, leased and franchised division, have also outperformed the UK on-trade beer market, while in our Brewing & Brands business own-brewed volumes of our core ale brands have continued to outperform the total UK ale market.

Environmental analysis

Political

The recent election result has provided more certainty as to the direction of policy towards the pub industry which is to be welcomed. In the last 12 months, under a coalition Government and with a devolved Scottish parliament, the pub industry had more than its fair share of political involvement.

While we were pleased to see a third beer duty cut in three years at the pre-election budget, we continue to believe that the statutory code for pub companies, brought in within the Small Business, Enterprise and Employment Act, is unnecessary and has the potential for material, unintended consequences for the wider pub industry. Although we believe we will be able to mitigate the potential financial impact of the market rent only (MRO) option, essentially an option for licensees to go free of their beer tie, the introduction of this option will create significant additional red tape for the ultimate benefit of just a small number of licensees across the UK.

The introduction of a lower drink driving limit in Scotland has changed consumer behaviour in that localised market. The new lower limit of 50mg of alcohol was brought in without any consultation and has had a significantly negative impact on pub sales across Scotland, with rural pubs in small communities most affected.

We maintain our support for an alcohol minimum unit price (MUP). 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.

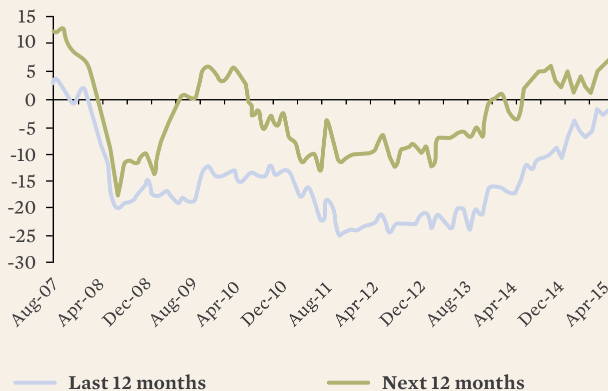
Economic

The macro-economic backdrop continued to improve during the year, with further GDP growth and consumers finally seeing a return to real income growth driven by both improving employment and slowing inflation. Consumer confidence trends have been equally positive.

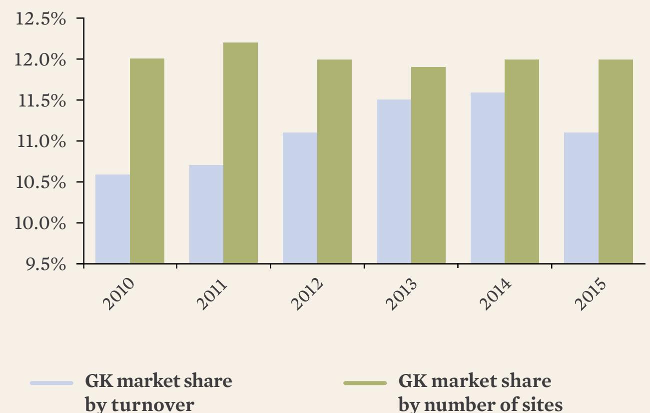
There has been a lag in these positive indicators feeding through to sustainable increases in consumer spend in the UK eating and drinking out market, with spend on bigger ticket items the clear beneficiary of the economic recovery to date. Due to regional variances in employment levels and exposure to slowing inflation, not all consumers have enjoyed a similar return to real income growth as demonstrated by the continued outperformance of the London market.

Nevertheless, customers continue to treat themselves and we have traded well over key events during the year. We continue to evolve and tailor our customer-focused strategy to ensure that we capture any incremental spend in our markets and that our portfolio of brands and concepts is well positioned as the effects of real income growth is increasingly felt by our consumers.

CONSUMER CONFIDENCE IN PERSONAL FINANCIAL SITUATION



GREENE KING SHARE OF THE MANAGED AND BRANDED PUB MARKET 2010–2015



Greene King figures are based on the relevant company years. Market numbers are based on Allegra Project Restaurant 2014 and Allegra Project Pub 2015.

Social

Alcohol consumption in the UK continues to decline with changes in lifestyle including a greater focus on health a contributory factor. However, 2014 was a positive year for beer sales, with total sales rising 0.8% in 2014 following nine years of decline[1] and skewed to the off-trade, where total beer sales grew by 3.2% compared to the on-trade where total beer sales declined by 1.3%[1]. Beer sales have undoubtedly been helped by three years of beer duty cuts and further supported by the increasing popularity of craft beer, as demonstrated by the 6.4% increase in the premium market in the year encompassing increases in both the on and the off-trade channels[1].

The UK eating out market continues to grow with increases in both the proportion of adults eating out of home and the frequency with which they do so. In Q4 2014 84% of adults said that they visited pubs for food[2]. Hectic lifestyles and the desire to treat themselves or others are key drivers of this trend and consumers are increasingly interested in informal dining – great value food and drink – across all day parts.

The UK pub market continues to develop in order to meet these customer-led trends. For example, many pubs have improved their coffee offer and are targeting breakfast sales as well as the more traditional out-of-home dining occasions. In many cases, the distinction between a pub and a restaurant or casual dining outlet is diminishing and, more generally, the various sub-sectors in the UK eating-out market are less distinct. Managed and branded pubs are the key drivers of the evolution of the pub sector and between 2012 and 2015 are forecast to grow turnover at an average annual rate of 3.9% compared with the forecast total pub market growth of 1.1%[2].

The UK provincial staying out market enjoyed a strong year in 2014 benefiting from the economic recovery and a buoyant travel market. RevPAR (revenue per available room) grew at 7% in the provinces, outperforming the London staying out market, and driven by increases in both occupancy and the average daily rate[3]. The 2015 outlook for the UK staying out market is positive. Ongoing improvements in both the UK and international economies are anticipated to feed through to further growth in both business and leisure related travel in 2015, with contributions from inbound visitors and domestic ‘staycations’.

Greene King performance

We continue to grow our market share in our core markets of eating out, drinking out and staying out. Over the course of our five-year strategy plan we are pleased to have increased our market share of the UK branded and managed pub market from 10.1% to 11.3% by turnover, while maintaining our market share by number of sites at 12%. In the staying-out market we have increased our share by turnover by ten basis points to 0.2%, led by our Old English Inns portfolio.

In total we have added 172 sites to our Retail business over the last five years aided by acquisitions such as Cloverleaf, Real Pubs and Capital Pubs. These acquisitions have performed well and together have achieved returns broadly in line with initial plans in addition to increasing our exposure to the buoyant London market.

1. BBPA MAT December 2014.
2. Allegra Project Pub 2015.
3. PwC UK hotels forecast 2014, PwC UK hotels forecast 2015.

OPERATIONAL REVIEW

REVENUE	REVENUE INCREASE	SHARE OF TOTAL REVENUE
£1,000.7m	+5.9%[1]	76%

At the year end our Retail division comprised 466 destination pubs and restaurants and 594 segmented local pubs across Britain, appealing to a broad range of the population.

HIGHLIGHTS OF OUR YEAR

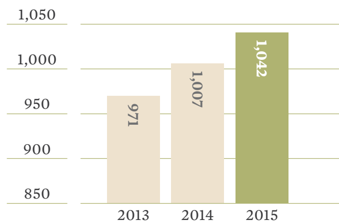
AVERAGE WEEKLY SALES	OPERATING PROFIT	NET PROMOTER SCORES	FACEBOOK FOLLOWERS
+2.3% to £18,100	+3.6%[1]	+12.3%	+64%

1. Variances shown on an adjusted 52 week basis.

KEY PERFORMANCE INDICATORS

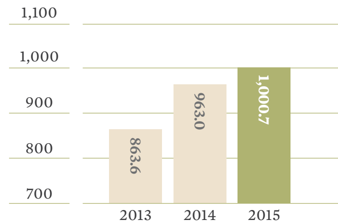
AVERAGE NUMBER OF TRADING SITES

1,042 +3.5%



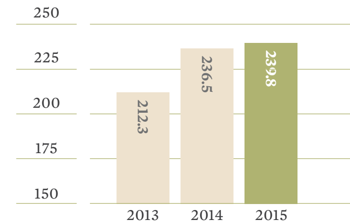
REVENUE (£m)

£1,000.7m +5.9%[1]



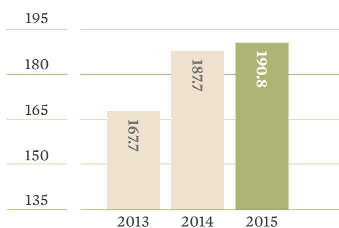
EBITDA (£m)

£239.8m +3.3%[1]



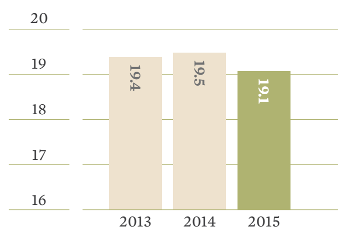
OPERATING PROFIT (£m)

£190.8m +3.6%[1]



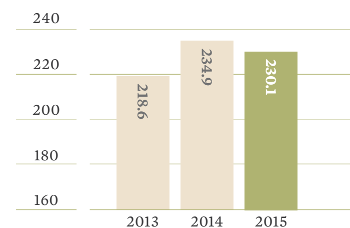
OPERATING PROFIT MARGIN (%)

19.1% -0.4%pts



EBITDA PER SITE (£k)

£230.1k -0.2%[1]



Further strategic and operational progress helped to deliver another year of growth in Greene King Retail. Total Retail revenue grew by 5.9%, outperforming the market[2], which grew by 4.9% over a comparable period. LFL sales growth was 0.4%. LFL sales were affected by a disappointing World Cup in the first half, tougher comparatives in the second half and the impact of the new drink driving legislation in Scotland from December.

Room sales achieved the best LFL sales growth while LFL sales in drink and food performed broadly similarly. Our best performing brands and formats were Metropolitan, our premium London estate, Farmhouse Inns, our growing carvery brand, core Local pubs and OEI.

We exceeded £1bn of total Retail revenue for the first time and this was up 5.9%, or £55.9m, on the previous year. Both Retail divisions, Local Pubs and Destination Pubs, enjoyed growth in the year and the average weekly sales per pub across Retail grew 2.3% to £18,100. Operating profit was up 3.6% to £190.8m while the operating margin was down 40bps, having been down 80bps in the first half. The margin decline was due to the dilutive effect of lower sales growth and increased labour investment, partly offset by cost savings and a more benign cost environment.

Our ongoing progress in Retail is driven by a number of key factors, all predicated on putting customers at the heart of our business, offering them experiences to remember and ensuring their time and money are well spent.

1. Managing constant change in customer perceptions of value, service and quality

In terms of value, we re-launched and expanded our known value item (KVI) strategy across Hungry Horse, Meet & Eat and Flame Grill offering customers enhanced value at 80% more sites than the previous year. In OEI, both leisure and corporate customers were able to take advantage of our great-value breaks, while in Farmhouse Inns we introduced a 'Carvery Baps' lunch offer for £3.95 and a new breakfast menu with 'generosity' at its core.

On service, initiatives such as enhanced menu training programmes and menu simplification helped to improve our average Net Promoter Scores by 12.3%. In Farmhouse Inns, we reconfigured the carvery layout to reduce queue times by over 60%, while in Hungry Horse we introduced pagers to proactively manage peak trading customer requirements.

On quality, we expanded the fresh supply chain in our Premium Locals format, which was subsequently recognised with the award of 'best pub menu' by Restaurant Magazine, while we were proud to see Flame Grill announced as the winner of the National Fish and Chip Awards in 2015.

1. Variances shown on an adjusted 52 week basis.
2. Coffer Peach Business Tracker.

RETAIL CONTINUED

Serving coffee in a Hungry Horse.

A 'Crabacado' burger in a Metropolitan pub.

2. Staying close to our customers

We have identified a number of ongoing and emerging consumer trends including all-day eating out and inter-generational eating out occasions.

Daytime Retail sales grew 8% following an expansion of the breakfast offer in Hungry Horse, the introduction of 'Afternoon Tea' in Farmhouse Inns, new lighter snacks such as chocolate-coated popcorn and a salt-beef sandwich, and a new weekend brunch offer in Loch Fyne Seafood & Grill, which recognises the brand's Scottish heritage by including meals such as 'the full Scottish', and has led to a 76% increase in weekly sales from 7.00am to 11.00am.

We continue to promote family dining in our sites, with the roll-out of our 'Golden Years' offers to further brands across the estate and the introduction of sharing tables and zones designed to enhance sharing occasions in selected new sites. We also introduced a new ice cream offer for families in Farmhouse Inns to complement our successful 'Cakeaway' offer.

3. Expanding our digital platform

For the increasingly connected consumer, we further extended our digital capability, getting closer to our customers by increasing the channels through which we engage with them. Digital initiatives included the 'Golden Ticket' data capture project in Hungry Horse, with 115,000 customers signing up through a monthly prize draw to win £100 golden tickets, and the development of our OEI accommodation website to engage more customers on the move. We also introduced an app-based platform to capture live feedback from field-based employees. Overall, traffic to our websites grew by 20%, the number of loyalty card holders grew by 17% and the number of Facebook followers grew by 64%.

4. Growing our branded retail presence in the eating and drinking out markets

All our pubs are branded, utilising at least one of the pub name, a format or retail brand name, or Greene King. We are focused on growing our retail branding and at the year end we had 763 sites with a retail brand or format, against 710 12 months earlier. Our leading brands and formats by number of sites are Hungry Horse, with 241 sites at the year end, Meet & Eat (182 sites) and OEI (115 sites). The brands receiving the most expansion investment are Hungry Horse and Farmhouse Inns.

5. Employing and developing the best-trained and most motivated people in the sector

Our people are fundamental to the success of our business and we continued to grow our own talent with the launch of initiatives such as a bespoke apprenticeship scheme in Loch Fyne Seafood & Grill and the introduction of a coffee diploma for all team members in Hungry Horse. The impact of our people initiatives is evident in a 13.4% reduction in team turnover across Retail and improvements across our annual employee engagement survey. Now that we have completed the acquisition of Spirit, we employ over 40,000 people, half of whom are under 25. We take the responsibility of employing and developing so many young people seriously and will look to further increase investment in our people going forward.

6. Continuing industry-leading asset investment

We lead the industry in terms of investing in our existing estate and additions to our estate. Our investment in repairing, maintaining and improving the quality of our existing estate rose 5.5% to £79.3m, while we opened 26 sites and transferred in six sites from Pub Partners in the year helping to take the estate to 1,060 sites at the year end. We spent £75.9m on acquiring and developing these sites. Our expansion programme slowed in the year as resources were diverted to important M&A activity, while, following the acquisition of Spirit's 1,207 sites, we expect to open around 15 additional high quality new sites in the 2016 financial year. We also expect to sell a similar number of non-core Retail sites, on top of the agreed CMA disposals.

PUB PARTNERS

REVENUE	REVENUE DECREASE	SHARE OF TOTAL REVENUE
£121.9m	16.9%[1]	9%

Pub Partners is responsible for operating our tenanted, leased and franchised 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.

HIGHLIGHTS OF OUR YEAR

SALE OF
310
NON-CORE PUBS

REVENUE PER PUB
+14.3%[1]

EBITDA PER PUB
+15.5%[1]

AVERAGE TENURE
5 years
and 7 months

1. Variances shown on an adjusted 52 week basis.

OUR AGREEMENTS

- Standard tenancy agreements
- Scholarship tenancy agreement
- Horizon lease agreement
- Meet & Eat franchise agreement
- Local Hero franchise-style agreement

OPERATIONAL REVIEW CONTINUED

PUB PARTNERS CONTINUED

Pub Partners' strategy is to be the preferred partner to the best operators, sharing sustainable profit growth, enabled by industry-leading business support and a high quality estate.

Pub Partners traded ahead of our expectations in the year, delivering LFL net income growth of 3.5% and average EBITDA per pub growth of 15.5%.

Revenue was down 16.9% on last year following the sale of 275 non-core pubs to Hawthorn Leisure in May 2014, but level with last year on a retained basis. The average size of the estate fell 27.4% and average revenue per pub increased 14.3%. EBITDA was £61.6m, down 16.2%, but up 3.9% on a retained basis. The acceleration of our disposal strategy also impacted operating profit although the margin and ROCE improved versus last year, reflecting the higher quality of the remaining Pub Partners estate and the strong trading performance.

In order to be the preferred partner to the best operators, we need the best pubs. In total, we sold 310 pubs in the year and we transferred six sites to Retail where we considered we would generate sufficient incremental profit to justify the transfer. We also continued to invest in our retained estate, spending £18.9m in total over the year.

Supporting our partner ambitions, we continue to develop the strength of our internal team and the quality and reach of our recruitment programme to attract and retain the best operators. Over 30% of attendees to our quarterly open days became licensees with us and we have leveraged the digital expertise in other parts of the Greene King business to successfully engage with potential applicants through targeted social media campaigns. We have increased investment in our licensed training programmes, including hosting 16 regional social media training events and, within our internal team, over two thirds of our business development managers have now attended diploma or masters courses at Birmingham City University. We were proud to see a member of the Pub Partners team crowned National BDM of the Year by the ALMR, the second successive year that we have achieved this recognition.

We provide a range of agreements to potential licensee partners, including short-term tenancies, longer leases, Local Hero, our franchise-style agreement with a retail concept built around local provenance, and Meet & Eat, a fully accredited turnkey franchise agreement. We increased the number of franchise and franchise-style agreements by 26% to 58.

We further developed our online communications platform and launched a bi-monthly 'Innsight' magazine, which is written in partnership with licensees for licensees and, more recently, we launched the 'Flying Start Project' designed to enhance licensee experience in the build-up to, and during, their first 100 days as our business partners.

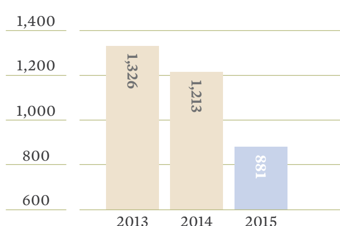
All of these initiatives led to a further increase in average licensee tenure, which, at the end of the year, stood at five years and seven months. We also saw continued low levels of licensee debt and the number of temporary agreements remained at just 12 at the year end.

Looking ahead, the acquisition of Spirit will further improve the quality of our Pub Partners estate, as we add 416 pubs at an average EBITDA per pub of £77k.

KEY PERFORMANCE INDICATORS

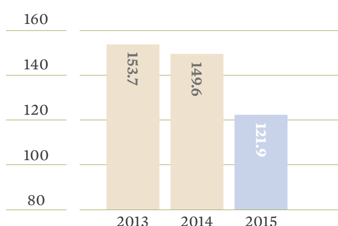
AVERAGE NUMBER OF TRADING SITES

881 -27.4%



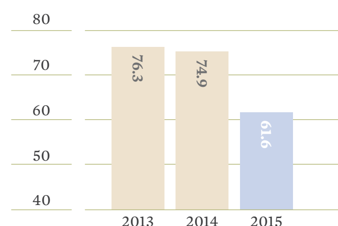
REVENUE (£m)

£121.9m -16.9%[1]



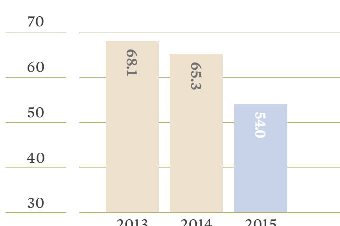
EBITDA (£m)

£61.6m -16.2%[1]



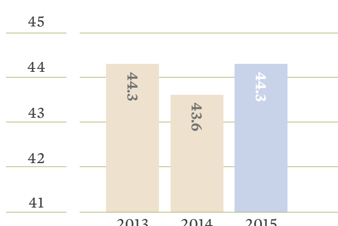
OPERATING PROFIT (£m)

£54.0m -15.7%[1]



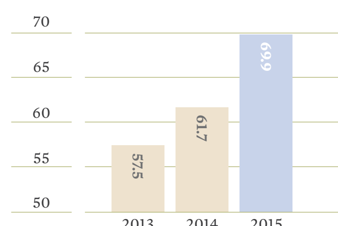
OPERATING PROFIT MARGIN (%)

44.3% +0.7%pts



AVERAGE EBITDA PER PUB (£k)

£69.9k +15.5%[1]



1. Variances shown on an adjusted 52 week basis.

BREWING & BRANDS

REVENUE	REVENUE INCREASE	SHARE OF TOTAL REVENUE
£192.7m	3.9%[1]	15%

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

HIGHLIGHTS OF OUR YEAR

- Core own brewed volume +4.2% against ale market –1.2%
- Ale market share +40bps to 10.0%
- Hen family 16% growth
- Record year for export

1. Variances shown on an adjusted 52 week basis.

OUR CORE BRANDS

OPERATIONAL REVIEW CONTINUED

BREWING & BRANDS CONTINUED

Brewing & Brands' strategy is to grow market share through an appealing portfolio of core brands, complemented by an innovative range of craft and seasonal ales. This growth is enhanced by sector-leading investment in sales and marketing and, by simultaneously running an efficient cost base, maximising cash generation for the group.

Significant progress was made in the year. OBV was up 4.2% in a UK ale market down 1.2% in the 12 months to April 2015[1], with our share rising 40bps to 10.0%[1]. We remain the UK's leading cask ale brewer.

Revenue grew by 3.9% to £192.7m, while operating profit was 0.1% lower at £29.8m, reflecting the sale of 275 leased and tenanted pubs to Hawthorn Leisure at the beginning of the year. Excluding the impact of disposals, operating profit was up 4.4% to £29.3m.

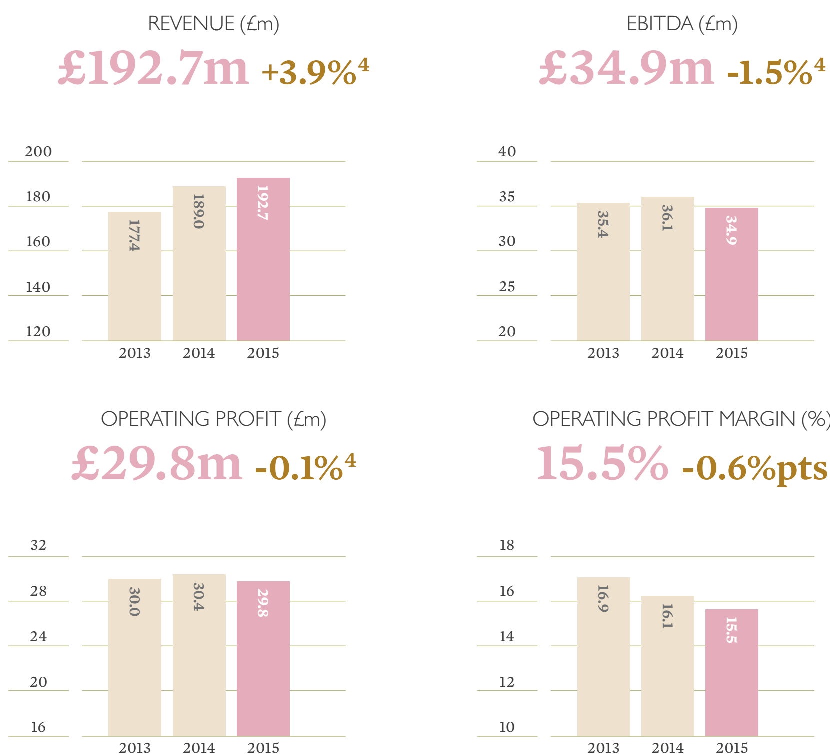
The 'Hen' brand family had another successful year with volume growth of over 16%, outperforming the UK premium ale market which grew 6.5%[1]. Old Speckled Hen remains the number one premium ale brand in Great Britain[2] and has seen its volume almost quadruple since we acquired it in 1999.

Export enjoyed a record year driven by strong sales in Russia, supplemented by the US and Europe. Volumes in the take home channel were also up significantly and Greene King is now the leading British-owned brewer in multiple grocers[3].

Key innovation in the year comprised the Greene King IPA brand relaunch with an accompanying quality assurance programme, designed to further engage with our trade customers and to enhance point-of-sale quality. We continued our focus on new product development and during the year we launched East Coast IPA, an American influenced keg beer, and the limited edition 'Old Nutty Hen'.

Other exciting developments included winning the exclusive rights to the Goose Island beer range in England and Wales, including the award-winning 312 Urban Wheat brand, and Greene King IPA winning a gold award at the 2015 Monde awards.

KEY PERFORMANCE INDICATORS



1. BBPA May 2014 to April 2015.
2. CGA Brand Index MAT to 21 February 2014, Nielson ScanTrack MAT to 25 April 2015.
3. Nielson ScanTrack MAT to 25 April 2015.
4. Variances shown on an adjusted 52 week basis.

FINANCIAL REVIEW

STRONG OPERATIONAL PERFORMANCE

"Retail sales exceeded £1bn for the first time, and there was underlying growth in Pub Partners and Brewing & Brands."

REVENUE UP

3.0%[1]

FREE CASH FLOW

£55.7m

ADJUSTED EARNINGS PER SHARE

61.0p

ROCE

9.3%

Results

Total revenue grew to £1,315.3m, an increase of 3.0%[1]. The biggest driver of growth continues to be our Retail business, where revenue grew by 5.9% and average revenue per site rose 2.4%. Retail now accounts for 76% of group revenue. Total revenue in Pub Partners was down 16.9%, due primarily to the impact of pub disposals, although average revenue per pub increased 14.3%. Brewing & Brands grew revenue by 3.9%. On a retained business basis, stripping out the impact of disposals, total revenue was up 5.0% to £1,313.0m.

Operating profit before exceptionals was £256.2m, down 1.7% on last year, with the operating margin down 90bps to 19.5%. On a retained business basis, operating profit rose 3.8% to £254.4m, with the operating margin down 20bps to 19.4%. The reduction in the retained business operating margin was due to lower retail revenue growth and our additional investment in labour. Net interest costs, before exceptional items of £87.7m, were 3.4% lower than last year, due to strong cash flow management and the impact of disposal proceeds. PBTE was £168.5m, a decrease of 0.8%. Adjusted earnings per share of 61.0p were up 1.3%, benefiting from the reduction in the effective tax rate. Statutory profit before tax was £118.2m, up 12.4% on a 53 week basis, as a result of the impact of exceptional items, summarised below.

Tax

The effective rate of corporation tax (before exceptional items) was 21% compared to 23% in the previous year, resulting in a charge to operating profits (before exceptional items) of £35.3m. This is in line with the standard UK corporation tax rate.

The group's business strategy generates revenue, profits and employment, all of which deliver substantial tax revenues for the UK Government in the form of duties, VAT, income tax and corporation tax. In the year, total tax revenues paid and collected by the group were £405m (2014: £400m). The group's tax policy, which has been approved by the board, aligns with this strategy and ensures that the group fulfils its UK tax responsibilities, while structuring its operations in a tax efficient manner. There are a number of open tax positions in relation to historical transactions and an estimate of the expected total payment relating to these transactions is included within the tax creditor of £50.8m (2014: £46.5m).

Pensions

As at the year end, the group maintained two defined contribution schemes, which are open to all new employees. The group's two defined benefit schemes are both closed to new entrants and to future accrual.

At the year end, there was an IAS 19 pension deficit of £59.2m, which compares to £52.2m at the previous balance sheet date. The movement is primarily due to an increase in value of the schemes' liabilities as a consequence of the reduction in the discount rate applied.

Total cash contributions in the period under the schemes' deficit recovery plans were £6.9m.

1. Unless otherwise stated, all numbers in this review are based on an adjusted 52 week year.

FINANCIAL REVIEW CONTINUED

Exceptional items

We recorded a net exceptional charge of £43.9m, consisting of a £43.9m charge to operating profit before tax, a £6.4m charge to finance costs and a net exceptional tax credit of £6.4m. Full details are set out in note five and the principal items are as follows:

1. An impairment charge of £27.4m (2014: £22.0m) was made against the carrying value of a small number of our pubs where specific market conditions impacted trading.

2. During the year, the group incurred £15.8m in exceptional advisory fees in relation to the acquisition of Spirit Pub Company and open tax positions. In addition, we incurred £1.5m of exceptional employee costs, which included restructuring costs and costs associated with changes to key management.

3. The exceptional tax credit of £6.4m includes a £7.0m tax credit on exceptional items, a deferred tax credit of £2.3m, in respect of the licensed estate, a £9.5m income tax charge in respect of prior periods and an £6.6m deferred tax credit in respect of prior periods.

Cash flow

Operating cash flows continue to be strong. We generated free cash flow (FCF) of £55.7m, which was significantly ahead of our scheduled debt repayments of £31.1m. EBITDA was £319.0m, down 1.4%, but from 13.0% fewer pubs.

During the year, we disposed of 314 sites as part of our strategy to improve the quality of our estate, with the cash proceeds totalling £94.1m. We also made good progress with our strategic Retail expansion plan, adding 26 new pubs to our Retail estate, investing £73.4m.

Capital expenditure

We invested in maintaining and developing our core estate, in addition to growing the size of our Retail estate. Total expenditure during the period was £160.5m.

Capital expenditure on the core estate, including maintenance capital, was £84.6m, an increase of £2.3m. In addition, we invested £75.9m on our retail expansion, with £20.6m invested in acquiring single sites and £55.3m on developing those assets.

Net debt and treasury

Net debt at the year end was £1,368.7m, a reduction of £66.9m from the previous year end, with the key movements being positive FCF of £55.7m, disposal proceeds of £94.1m and the continued investment in growing our Retail estate, through new sites, of £75.9m.

Our high quality pub estate supports £1,180.7m of securitised bonds with amortisation of £31.1m and a weighted average maturity of 12 years.

Our credit metrics remain strong with interest rate hedges in place for 96% of the variable rate debt and a blended average cost of debt of 6.1%. Fixed charge cover has improved slightly to 2.9x, while interest cover remained at 3.0x. Group net debt to EBITDA reduced to 4.3x. Our securitised vehicle had a FCF debt service cover ratio of 1.5x at the year end, giving 24% headroom.

Following the recent acquisition of Spirit Pub Company, the pro-forma net debt of the group is £2.02bn[1] with net debt to EBITDA at 4.2x[2].

Dividend

The board has recommended a final dividend of 21.8p per share, up 4.8%. This will be paid on 14 September 2015 to all shareholders on the register at the close of business on 14 August 2015.

The proposed final dividend brings the total dividend for the year to 29.75p per share, up 4.8%. This is in line with the board's policy of maintaining a dividend cover of around two times underlying earnings, while continuing to invest for future growth, and maintains our long-term track record of annual dividend growth.

Kirk Davis
Chief financial officer
30 June 2015

1. Pro-forma net debt – the sum of net debt as reported by Greene King at 3 May 2015 of £1,368.7m and the nominal value of net debt reported by Spirit at 7 March 2015 of £649.4m.
2. Pro-forma EBITDA – the sum of EBITDA reported by Greene King for the 52 weeks to 3 May 2015 of £319.0m and calculated for Spirit for the 53 weeks to 7 March 2015 of £163.0m.

Underlying retained business

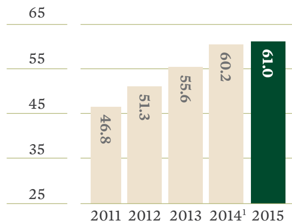
	52 weeks to 3 May 2015			53 weeks to 4 May 2014		
	Underlying retained business £m	**Tenanted disposals £m**	**Before exceptional items £m**	Underlying retained business £m	Tenanted disposals £m	Before exceptional items £m
Revenue[1]	**1,313.0**	**2.3**	**1,315.3**	1,274.0	27.6	1,301.6
Operating profit[1]	**254.4**	**1.8**	**256.2**	249.9	15.7	265.6
Net finance costs[2]	**(87.4)**	**(0.3)**	**(87.7)**	(90.7)	(1.8)	(92.5)
Profit before tax	**167.0**	**1.5**	**168.5**	159.2	13.9	173.1
Tax[3]	**(35.0)**	**(0.3)**	**(35.3)**	(36.6)	(3.2)	(39.8)
Profit attributable to equity holders of parent	**132.0**	**1.2**	**133.2**	122.6	10.7	133.3
Earnings per share – adjusted basic[4]	**60.4p**	**0.6p**	**61.0p**	56.4p	5.0p	61.4p

1. Adjusted for FY 15 and FY 14 revenue and operating profit of tenanted pubs disposed of in the 52 week period ended 3 May 2015 and the 53 week period ended 4 May 2014.
2. Estimated reduction in finance costs assuming disposal proceeds were received at the start of FY 14; calculated by applying marginal bank facility interest rates to net proceeds received.
3. Tax at the group's pre-exceptional tax rates of 21% and 23% for FY 15 and FY 14 respectively.
4. Profit attributable to equity holders divided by the weighted average number of shares of 218.3m and 217.2m for FY 15 and FY 14 respectively.

KEY PERFORMANCE INDICATORS

ADJUSTED BASIC EARNINGS PER SHARE (p)[2]

61.0p



Summary

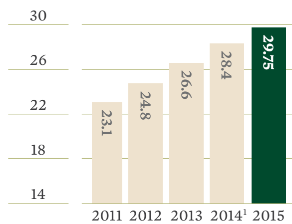
Strong underlying returns together with the impact of a reduction in the group's effective tax rate result in earnings per share of 61.0p, an increase of 1.3% compared to last year.

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)

29.75p



Summary

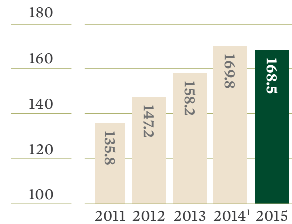
The board recommend a final dividend payment of 21.8p per share, 4.8% ahead of last year. The total dividend per share for the year of 29.75p is 4.8% ahead of last year.

Definition

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

PBTE (£m)[2]

£168.5m



Summary

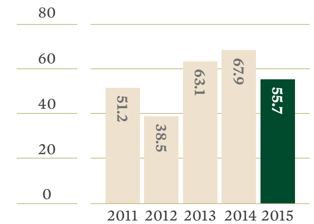
Profit before tax and exceptionals of £168.5m is down 0.8%[1] compared to last year. Operating profits decreased by 1.7%[1] with interest costs decreasing by 1.8%[1] compared to last year.

Definition

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

FREE CASH FLOW (£m)

£55.7m



Summary

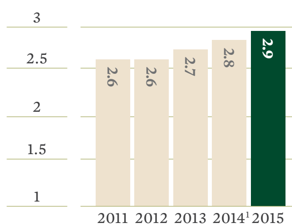
Operating cash flows remain strong and we generated free cash flow of £55.7m, down from £67.9m in the previous year, but comfortably ahead of our scheduled debt repayments of £31.1m.

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 (x)

2.9x



Summary

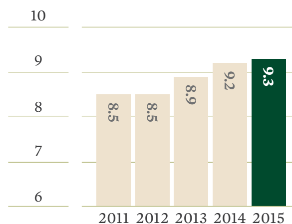
Our overall credit metrics remain strong with fixed charge cover improving to 2.9x from 2.8x last year.

Definition

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

RETURN ON CAPITAL EMPLOYED (%)

9.3%



Summary

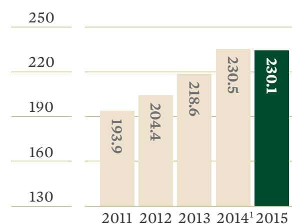
Strong capital disciplines, coupled with our consistent strategy of investing trading cash flows and disposal proceeds into expanding our retail estate, have resulted in our return on capital employed increasing by 0.1%pts to 9.3%.

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: RETAIL (£k)

£230.1k



Summary

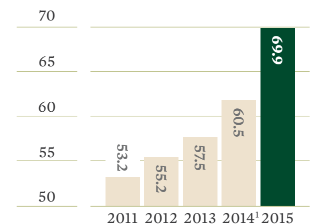
Greene King Retail's EBITDA per site declined by 0.1%[1], with lower sales growth and increased labour investment resulting in a lower operating margin.

Definition

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

EBITDA PER PUB: PUB PARTNERS (£k)

£69.9k



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 15.5%[1].

Definition

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

1. 2014 rebased on a 52 week basis.
2. 2010–2013 adjusted for the impact of IAS 19(R).

RISKS AND UNCERTAINTIES

We have 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 group'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 tasked with 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 evaluating current controls and drawing up plans to improve controls and manage new risks. Progress of these risk implementation plans is monitored by senior management on a regular basis. In addition, a group-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
Integration of Spirit Pub Company and delivery of anticipated synergies.	Reduced revenue, profitability and lower growth rates.	Integration steering committee established to oversee integration, with agreed guidelines as to the aims of the integration. Retention arrangements in place for key staff. Communication plan designed to keep all staff and other stakeholders informed of progress and changes impacting them. Synergy targets established and systems are in place to record synergies captured. Plans to deliver revenue synergies through rationalisation of brands and offers are being drawn up.
Failure to develop an appealing customer offer (including through diversification), to identify and respond to fast-changing consumer tastes and to maintain and grow market share.	Reduced revenue, profitability and lower growth rates.	Research conducted into consumer trends and plans developed to respond to key trends. Use of guest satisfaction tools and Net Promoter Scores to collect customer feedback and measure performance of our pubs. Greater investment in support and training for our employees to ensure service standards meet consumer expectations. Enhanced use of social media to communicate better with our customers and other consumers. Diversification options kept under constant review.

ECONOMIC AND MARKET RISKS

SPECIFIC RISK AREAS	POTENTIAL IMPACT	MITIGATION
Consumer confidence in the UK and increasing competitor activity.	Reduced revenue, profitability and lower growth rates.	Focus on value, service and quality to appeal to a broad range of consumers. Broad geographic spread of pubs including in London and the South-east. Ongoing agreement innovation, training and support for our tenants. Monitoring of competitor activity at strategic and tactical level.

OPERATIONAL AND PEOPLE RISKS

SPECIFIC RISK AREAS	POTENTIAL IMPACT	MITIGATION
Brand damage caused by poor service standards, food provenance issues or other factors could deter customers.	Loss of revenue and reputational damage.	Tight controls in place to protect and enhance our reputation and brand values. Staff training, mystery guest visits, product recall procedures and incident escalation systems are in place. Social media monitoring to facilitate responses to issues being raised online. Supplier assurance programme ensures we are able to verify food provenance. Third party audits on food take place regularly to ensure standards are being maintained.
Risk of major systems failure, cyber security breach and breach of the Payment Card Industry Data Security Standard regarding customer credit card data.	Potential impact on our ability to do business, impacting revenue and profitability. Reputational damage and financial damage from fines or compensation.	Networks are protected by firewalls and anti-virus protection systems with backup procedures also in place. Business continuity plan for critical business processes in place, which is regularly reviewed and tested. We have systems in place to ensure compliance with the necessary payment card industry standards and keep these under regular review. We have access to an off-site disaster recovery facility if required. Constant monitoring of threats to data protection by viruses, hacking and breach of access controls, with additional controls added during the year. Data governance committee drives improved behaviours and response management.
Risks associated with the recruitment and retention and development of employees and licensees.	Inability to execute our business plans and strategy. Potential impact on the profitability of our Pub Partners business where the risks relate to licensees.	A branded recruitment plan is in place with a strong pipeline of suitable candidates and we operate a range of apprenticeship programmes. Remuneration packages are benchmarked to ensure that they remain competitive and appropriate mechanisms are in place for managing pay progression. Career development programmes are in place to retain key employees and leadership training has been introduced for all levels of management. Our annual employee engagement survey is used to obtain direct feedback from employees on a range of issues. Exit interviews are conducted with all head office, Brewing & Brands and Retail managers to enable action plans to be developed to deal with key leaver reasons. The range of tenancy agreements, training programmes and support available is designed to attract and retain the best quality licensees.
Reliance on a number of key suppliers and third party distributors and on own ability to produce, package and distribute our own beers.	Supply disruption could impact customer satisfaction. Key supplier or distributor failure over the longer term could reduce revenues or lead to increased costs.	Backup plans are maintained in the event of the failure by or loss of a key supplier. Detailed risk management and mitigation plans exist in our internal production and distribution activities, which are tested regularly across the business. Key suppliers are expected to maintain disaster recovery plans, which we review on a regular basis.

RISKS AND UNCERTAINTIES CONTINUED

REGULATORY RISKS

SPECIFIC RISK AREAS	POTENTIAL IMPACT	MITIGATION
Risk of increased regulation, and failure to respond to recent changes in regulation, in relation to the sale or consumption of alcohol, including changes to drink driving laws, minimum pricing or other similar measures.	Potentially reduces demand leading to reduced revenue and profitability.	Use of price changes and promotions to encourage customers to drink responsibly, and education of our customers to ensure that they understand the legislation. Monitoring of legislative developments and active engagement with Government where necessary. Diversified offer to include soft drinks, coffee, food and accommodation to reduce our reliance on alcohol-based revenue.
Failure to comply with health and safety legislation, including in the areas of food safety and fire safety.	Serious illness, injury or even loss of life to one of our customers, employees or tenants could have a significant impact on our reputation, leading to financial loss too.	Comprehensive range of formally documented policies and procedures in place, including centrally managed system of compliance KPI tracking and internal and independent audits to ensure compliance with current legislation and approved guidance. Health & safety policies reviewed by our primary authority partner, Reading Borough Council, which has rated our safety management systems as very good. Safety measures are in place to ensure that product integrity is maintained and that all food and drink products are fully traceable. Compliance programme in place to ensure pubs are safely handed over to new tenants.
Compliance with the Pubs Code to be introduced under the Small Business, Enterprise and Employment Act 2015.	The mandatory 'market rent only' option to be introduced by the Pubs Code, and the other provisions thereof, could increase costs for Pub Partners (including the risk of fines) and reduce revenue.	New, innovative agreements are being introduced to minimise the impact of the Pubs Code. Arrangements to monitor compliance with the current voluntary code will continue under the new Pubs Code.

FINANCIAL RISKS

SPECIFIC RISK AREAS	POTENTIAL IMPACT	MITIGATION
Inability to meet the funding requirements of the enlarged group.	Reduced revenue, profitability and lower growth rates.	The group's debt structures and financing requirements are kept under regular review. The group has a £460m bank facility to support activities outside the securitisation vehicles, which was entered into in July 2013 and is available until July 2018.
Liquidity and covenant risk relating to the group's securitisation and other financing arrangements.	A breach of any financial covenants applicable to the group would impact our ability to pay dividends or reinvest cash, and impact our reputation and ongoing creditworthiness.	Long-term strategy and yearly business plans are formulated to ensure that financial covenants can be met and monitored on a regular basis. Working capital is carefully forecast, regularly reviewed by the finance teams and closely managed.
Failure to maintain sound systems of internal control to deal accurately with the large numbers of transactions undertaken by the business and ensure compliance with statutory obligations, including those relating to tax.	Fraud being perpetrated against us. Damage to our reputation caused by non-compliance with statutory obligations or a material mis-statement in the reported results of the company.	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 and there is regular board oversight of open tax positions and the group's tax policy.
Funding requirements of our defined benefit pension schemes, which are subject to the risk of changes in life expectancy, actual and expected price inflation and investment yields.	Increased deficit being recognised on our balance sheet, and volatility of the deficit makes longer-term planning more difficult.	All the schemes are now closed to future accrual to reduce volatility. There is regular monitoring of the schemes' investments and dialogue with the trustees on an ongoing basis regarding funding requirements.

CORPORATE RESPONSIBILITY

As a leading UK pub hospitality company, we understand the importance of operating a sustainable and responsible business. We are committed to being a good corporate citizen and delivering an effective social responsibility programme.

Our ambition is to offer our customers time, well spent, either in our pubs, restaurants or hotels or by enjoying our beers. We recognise we have an important role to play in being a responsible corporate citizen and have continued to develop our corporate social responsibility (CSR) with a focus on four key stakeholders: our customers, our people, our communities and our environment. If you would like to find out more about our CSR policies, please visit the social responsibility section of our website: www.greeneking.co.uk.

Following our recent acquisition of Spirit Pub Company, we are now looking forward to reporting on the CSR initiatives of the combined business next year.

Mainstream High Street menu has 10 under 500 calories dishes

OUR CUSTOMERS
PAGE 32

We have raised £1.6m for Macmillan Cancer Support

OUR COMMUNITIES
PAGE 33

We will again recruit 2,000 apprentices this year

OUR PEOPLE
PAGE 34

60% of our Retail sites have converted to LED lighting

OUR ENVIRONMENT
PAGE 35

CORPORATE RESPONSIBILITY CONTINUED

OUR CUSTOMERS

We want to deliver the best experience possible for our customers when they visit us. Our pubs have an important role to play in providing a safe, affordable and convenient experience for our customers, families and communities across the country.

To support our customers wishing to make healthier lifestyle decisions, we are committed to providing great quality and choice. We continue to focus on delivering industry-leading value, service and quality to our customers.

Healthy eating

This year, we have developed one of the industry's leading menus with 'under 500 calories' options. Our Mainstream High Street menu now offers a selection of ten under 500 calories dishes.

Our nutritional manager continues to support the development of healthier menu options for our customers and manages our continued commitment to the Government's Public Health Responsibility Deal food pledges.

We have also implemented a food management system, which will enable us to have greater visibility of the nutritional content of our products and dishes.

Allergens

In line with the allergen legislation that came into effect in December last year, we have increased awareness on the importance of allergens both internally and externally. We have developed and rolled out an allergen training module which gives our staff an understanding of allergens, and we now provide full allergen information across our retail estate to help customers make more informed decisions when dining with us.

Gluten

This year, we have continued to expand our range of non-gluten containing menu choices for our customers wishing to avoid gluten.

Our continued focus for the future is to expand our nutritional expertise along with developing our menus with lower calorie and healthier options for our customers.

Awards

We have won a number of awards this year, demonstrating our hard work and commitment to providing great value and choice to our customers, including:

- Flame Grill won the 2015 National Fish and Chips Awards for food quality, marketing activity, customer service and commercial awareness.
- Premium Locals won the Best Pub Menu award at Restaurant magazine's Development Chef Awards.

Food standards

We are committed to delivering and actively promoting excellent food and kitchen standards. In our Retail business, we set to do this by training, external audits, open dialogue with local authorities and operational incentive schemes.

Quality standards for our beers

Once again, the Westgate Brewery in Bury St Edmunds and the Belhaven Brewery in Dunbar both maintained an A grade rating with the British Retail Consortium. These awards confirm that our beer is produced to the highest quality and food safety standards.

Since launching the quality and dispense services department in our Brewing & Brands division, we have completed over 1,000 trade quality audits covering our entire Pub Partners and Inns estates. As a result, we have improved the quality standards in our cellars and dispense equipment which has led to improved standards in Pub Partners as the pass rate rose from 65% to 88%. We are now progressing with the auditing of the rest of our Retail estate.

This year, eight of our beers won awards at the Monde Selection, an independent stamp of approval for quality. The results included a grand gold and five gold awards, including Belhaven Scottish Ale receiving the highest honour and Greene King IPA, Old Hoppy Hen and East Coast IPA also receiving awards.

Responsible retailing

Tackling under-age sales

We train all new bar staff on our central online training tool, which provides learning on obligations and responsibilities of the employee to materials highlighting the impact of alcohol on children. The training course must be completed and passed before our staff can serve alcohol.

All of our Retail premises operate the 'Challenge 21' or 'Challenge 25' programmes.

We also support the principles laid out in the Portman Code of Practice on responsible retailing of alcohol. Not only are all retail managers and bar staff trained when they join us, we ensure this training is ongoing so they understand their role in promoting the responsible consumption of alcohol by our customers.

Best Bar None and Pub Watch schemes

We support National Best Bar None and, importantly, at a local level we work with a number of regions to promote and roll out the scheme. For example, Nottinghamshire County Council has opened up a Best Bar None scheme and all available Greene King venues are participating.

We are proud that a significant number of our Belhaven pubs achieved Best Bar None accreditations this year, including 36 golds, 41 silvers and 13 bronze awards.

In England, our Retail pubs belong to Pub Watch and Best Bar None where access to these schemes is available.

Limit awareness

We continue to support the Government's anti-drink drive Christmas campaign. For the sixth year running, we supported the Designated Driver Christmas Campaign in conjunction with Coca-Cola Enterprises Limited in the majority of our pub estate, where designated drivers were offered free soft drinks at Christmas.

Minimum unit pricing for alcohol

Greene King has long advocated the need for a minimum unit price (MUP) for alcohol in the UK in order to tackle the misuse of alcohol, which causes ill health and can lead to anti-social behaviour within communities. We remain committed to the introduction of minimum unit pricing.

Public Health Responsibility Deal

We are currently signed up to eight pledges in the Government's Public Health Responsibility Deal (PHRD) to make improvements which affect our customers, people and environment. We have again progressed with these during the last year. The PHRD aims to tap into our potential to make a significant contribution to improving public health by taking a joint approach to tackling the challenges caused by lifestyle changes. By signing up to these pledges we are committed to taking voluntarily action to improve public health. For details of our signed pledges and our progress visit the Department of Health PHRD website www.responsibilitydeal.dh.gov.uk.

OUR COMMUNITIES

Pubs have always played an important role in the community and they continue to do so. They provide a place where everyone can come together to relax or put the world to rights, to enjoy time with family or celebrate with friends. We understand that maintaining the presence of a pub in a community is essential and therefore we have developed a programme to support key organisations that address inequalities in our society.

Pub is the Hub

Once again, we have supported Pub is the Hub by providing £15,000 of central funding. This is the second year we have donated to this not-for-profit organisation that is dedicated to offering advice and support to licensees, rural pubs and community services.

Our funding supported the Community Services Fund, which aims to provide funds to licensees who are looking to broaden their services to the wider community and cannot find suitable funding from other sources. The fund has benefited over 40,000 people, supported 38 projects in England and helped offer more than 47 types of additional services, such as libraries or butchers.

Macmillan Cancer Support

Three years ago, we embarked on our first Greene King national charity partnership with Macmillan Cancer Support. Through the hard work, commitment, creativity and passion of our employees and the generosity and support of our customers, we were delighted to announce that we have raised £1.6m in those three years.

The partnership has brought unity to our business and generated positive local and trade press, and goodwill within our local communities.

We were delighted to be shortlisted for the Employee Engagement category of the Third Sector Business Charity Awards 2014, recognising our investment and commitment in launching our first charity partnership and the incredible success in engaging our employees.

Focus 12

We continue to support the charity Focus 12, based close to our head office and brewery in Bury St Edmunds, Suffolk. Focus 12 provides treatment for clients with drug and alcohol dependency, as well as guidance and counselling for affected family members.

We once again championed the annual charity ball this year, which took place in St Edmundsbury Cathedral, close to our brewery. The event and online auction raised more than £25,000, and we have now raised more than £80,000 for the charity.

ITV's Text Santa

More than 600 of our pubs took part in ITV's Text Santa fundraising appeal by hosting pub quizzes across the country in the lead up to Christmas. The money raised was split between the chosen charities Teenage Cancer Trust, Guide Dogs, WellChild, Marie Curie Cancer Care, Alzheimer's Society and Together for Short Lives.

Dementia Friends

This year, more than 1,000 of our employees got behind the Alzheimer's Society's initiative and signed up to become a Dementia Friend. As a pub, restaurant and hotel operator, our employees have the opportunity to make a difference to the lives of our customers with dementia and by learning more about the condition will be able to give greater understanding and support to those that live with the disease.

CASE STUDY

Reaching £1.6m

We are proud that our pubs and employees have made our partnership with Macmillan such a success. To raise £1.6m, they have engaged our customers, communities, shareholders and suppliers. They have been creative with fundraising, but most of all they have pushed themselves and each other. Some highlights from our partnership include:

- In May 2014, over 160 employees came together from across the whole business to take on the Yorkshire Three Peaks Challenge, raising over £80,000.
- We are one of the largest corporate supporters of Macmillan's World's Biggest Coffee Morning, raising over £342,000 in the past three years.
- The partnership has delivered a number of highly successful commercially focused activities, including promotions on selected desserts, which has raised over £150,000.
- A central donation to the Woolverstone fundraising appeal to build a cancer treatment centre in Ipswich, which will support people from our local community around our head office in Suffolk.
- And finally, our people. We have seen some inspired divisional fundraising events: Local Pubs' Macmillan May (fundraising during the whole month of May); Hungry Horse 'Tour de Horse' (a bespoke cycle challenge that followed the route of the Tour de France in the UK); Belhaven's month of fundraising; and the individuals who continue to challenge themselves to raise money by hiking through foreign countries, running marathons, climbing mountains, swimming lakes, and organising quizzes, cake sales and fun days.

OUR PEOPLE

Our people are our lifeblood and our greatest asset. With around 40,000 employees in total following the Spirit acquisition, attracting and retaining the best people and developing and nurturing talent is essential to our continued success and the future growth of our business.

Employee engagement

This year we have enhanced our employee engagement questionnaire in order to identify areas that are most important to our employees at work, as well as their experiences. This has given us greater insight into four key indicators: clarity, confidence, enablement and impact – all of which create a high performance environment. Change can be unsettling but we were pleased that our employee engagement remained level versus last year at 70%. We were also able to evaluate our Net Promoter Score (NPS) which resulted in 89% of employees saying they would recommend Greene King as a place to work.

The results are currently being cascaded throughout the business and detailed action plans for areas of improvement will be implemented.

Developing our talent

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

Apprenticeships

We believe in the value of apprenticeships and continue to invest in our employees but also to support young people to get that all-important first step on the career ladder. We signed up to the Government's apprenticeship scheme in February 2011 and, so far, more than 3,000 employees have achieved a qualification. For the second year running, we have committed to recruiting another 2,000 apprenticeships this year.

Our apprenticeship scheme has supported our ambition to combat the industry shortage of chefs and since last summer, more than 75% of all recruited apprentices have been for 'back of house' roles, including in the kitchen.

CASE STUDY

Apprenticeships – Mark Robinson, Masons Arms

Mark Robinson, 25, is a duty manager at one of our busiest pubs, the Masons Arms in Wickersley. He can see the career potential in hospitality and is using apprenticeships to get there.

With the goal of becoming a general manager, Mark is now working towards his fourth apprenticeship since he started working at Greene King seven years ago. He has completed Hospitality Services Level 2, Team Leading Level 2 and Customer Services Level 3 and has recently started ILM (Institute of Leadership and Management) Level 4 qualification.

Mark said: "They were right when they said the Level 4 leadership and management qualification would require a lot of effort but it is worth it as I know there will be so many benefits from completing the course. So far we've looked at management theories and learning styles. It is fascinating stuff and I hope this will stand me in good stead to become a strong general manager. Meeting and networking with managers from other brands has been eye opening too and has given me a fresh perspective on management."

Where we create new jobs when acquiring, refurbishing or building new businesses, we work closely with Job Centre Plus to provide opportunities through pre-employment training for young people and the long-term unemployed.

Creating jobs

Through the opening of new sites for Hungry Horse and Farmhouse Inns, we created 1,328 new jobs across the country in the last 12 months.

Diversity

We operate an equal opportunities policy to ensure that employees are recruited, developed, remunerated and promoted on the basis of their skills and suitability for the work performed. We are committed to making full use of the talents and resources of all our employees and to ensuring that no employee receives less favourable treatment on the grounds of their colour, nationality, race, religion/belief, ethnic or national origin, sex, marital or civil partnership status, gender reassignment (whether proposed, started or completed and under or not under medical supervision), disability or past disability, part-time or fixed-term status, pregnancy or maternity, parental responsibilities, sexual orientation or age (a protected characteristic).

Gender diversity

	Male	Female	Total	Percentage female
Directors	6	1	7	14%
Senior managers (excluding directors)	129	34	163	21%
All employees	12,107	12,890	24,997	52%

Zero hours

It is company policy not to operate 'zero hours' contracts.

Workplace pensions

We are fully compliant with Workplace Pensions Reform Regulations and enrol our employees automatically into a qualifying workplace pension.

Support for our tenants

Greene King Pub Partners has been successfully providing opportunities for self-employed entrepreneurs for over 200 years and continues to provide a variety of different agreement options for a high quality estate of pubs, ranging from Michelin-starred premium food pubs to the village local at the heart of the community. Our pubs are as individual as the people who run them, and often thrive on offering genuine local provenance and community activity. The level of support that we provide to our tenants and lessees is central to us being a preferred partner for the best licensees in the country.

Our support is tailored to meet the individual needs of our licensee partners and includes industry-leading training for them and their staff, expert business advice, and effective marketing support. In addition to this we have this year introduced a new range of initiatives, led by our Brewing & Brands dispense team, to enable our tenants and lessees to maintain consistently outstanding cellar quality ensuring that our beer brands are consistently being offered at their best.

This is all underpinned by our professionally qualified BDMs who are trained to the highest levels in the industry and who are dedicated to supporting all our licensee partners in making the most of their business opportunities.

OUR ENVIRONMENT

Our aim is to reduce the environmental impact of our business wherever we can. Particular areas of focus for us are reducing our energy and water consumption and reducing waste across on the business.

Energy

We have continued to convert the lighting in our pubs, restaurants and hotels to the latest low energy LED light bulbs, converting another 260 sites during the year. We now have 60% of our retail business converted to LED lighting.

A further 36 sites have been fitted with voltage optimisers which reduce the electricity used and prolong the life of electrical equipment in the premises.

Further gas efficiencies have been achieved by upgrading the boilers and heating control systems in another 55 sites.

Water

We have continued to observe water usage in the 200 sites with water monitors and have used this information to set benchmarks for the different types of outlets. Pubs selling mainly drinks, smaller restaurants, Hungry Horse, Farmhouse Inns, Loch Fyne restaurants and hotels now all have their own targets that allow us to spot significant usage variances and instigate remedies.

We continue to work with the 20 water companies that supply us nationally to ensure more frequent and accurate meter readings and to use their local teams to help us investigate leaks and implement best practice to make further savings.

In 980 comparable sites, we have used marginally less water than the previous year and helped offset the additional water use in kitchens as food sales grow.

The amount of water required to make a barrel of beer reduced at our Belhaven brewery last year. However, at our Bury St Edmunds brewery, this increased, largely as a result of the success of our take-home operations. The change in mix from cask and keg to bottle and can incorporates more processing and, therefore, more water is required. We are planning water saving projects during the next year to counterbalance this trend.

Waste

As a HaFSA signatory, we continue to work with WRAP to increase the overall rate of food and packaging waste being recycled, sent to anaerobic digestion (AD) or composted to at least 70% by the end of 2015.

Recycling over the past year has increased by over 6% as a result of bin optimisation, resulting in less waste going to landfill. We are currently exploring opportunities to further increase recycling by expanding our food collections throughout the estate.

Over 570 of retail sites divert more than 80% of their waste from landfill.

Mandatory greenhouse gas reporting

The table below, which has been produced in compliance with the requirements of the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013, shows the main greenhouse gas emissions in tonnes of CO_2 equivalent (CO_2e) for our scope 1 (direct) and scope 2 (indirect) CO_2 emissions.

Scope 1 relates to the direct emissions from the fuels we use in our breweries, pubs, restaurants, hotels and offices such as natural gas and liquid petroleum gas. It also includes emissions from owned vehicles (including company cars) but excludes logistics where we outsource this to third parties. Refrigerant gas and F-gas emissions in respect of our breweries, pubs and restaurants are also included.

We have used the UK Government's GHG Conversion Factors for Company Reporting for all scope 1 emissions (2013 for 2013/14 and 2014 for 2014/15). GHG emissions from refrigeration and air conditioning units for 2014/15 have been determined using the simplified material balance method (which is a more accurate method of calculating emissions) as described in the Environmental Reporting Guidelines 2013, whereas the emissions for 2013/14 were calculated using the screening method.

Scope 2 relates to the indirect emissions associated with the generation of electricity consumed in our sites. Emissions have been calculated using the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme factor (2013 for 2013/14 and 2014 for 2014/15).

Electricity and gas figures in the table below cover the CRC reporting period from 1 April to 31 March each year, whilst all other figures cover our respective financial years. The intensity ratio refers to turnover in our Retail and Brewing & Brands businesses as the vast majority of our CO_2 emissions relate to those businesses.

	Source of emissions	**2014/15 tonnes of CO_2e**	2013/14 tonnes of CO_2e
Direct emissions scope 1	Natural gas	**41,741**	41,414
	Gas oil	**806**	603
	Kerosene	**197**	2,052
	LPG	**2,624**	2,380
	Red diesel	**81**	277
	Refrigerants	**3,196**	1,634
	Owned vehicles	**7,486**	6,829
Total direct emissions scope 1		**56,131**	55,189
Indirect emissions scope 2	Electricity	**111,240**	109,292
Gross emissions		**167,371**	164,481
Turnover in Retail and Brewing & Brands (£'000)		**11,934**	11,519
Tonnes CO_2e per £100k turnover		**14.025**	14.28

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BOARD OF DIRECTORS

TIM BRIDGE, DL (66)

Chairman

N

Commenced role – 2005
(Appointed to the board in 1977)

Tim Bridge joined Greene King in 1970 and 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.

ROONEY ANAND (51)

Chief executive

Commenced role – 2005
(Appointed to 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, was at United Biscuits.

KIRK DAVIS (43)

Chief financial officer

Commenced role – 2014

Kirk Davis joined Greene King from JD Wetherspoon plc where he had been finance director since 2011. He has extensive retail experience having held senior finance roles at Tesco and Marks & Spencer and is a member of the Chartered Institute of Management Accountants.

MIKE COUPE (54)

Non-executive director

N A R

Commenced role – 2011

Mike Coupe is the chief executive of J Sainsbury plc and also brings knowledge and experience from working for other large, multi-site retail organisations, including Asda and Tesco, before that.

IAN DURANT (56)

Non-executive director

N A R

Commenced role – 2007

Ian Durant is a former finance director at Liberty International plc and has extensive financial experience. He is also chairman of Capital & Counties Properties PLC and Greggs plc and a non-executive director of Home Retail Group plc. Ian stood down as senior independent director at the end of the financial year.

ROB ROWLEY (65)

Senior independent non-executive director

N A R

Commenced role – 2014

Rob Rowley joined the board in July 2014 and has extensive board experience gained as a former finance director of the Reuters Group plc. He is currently a non-executive director and chairman of the audit committees at Taylor Wimpey plc, Moneysupermarket.com Group PLC and Morgan Advanced Materials plc. Rob was appointed senior independent director at the start of the financial year 2015–16.

LYNNE WEEDALL (48)

Non-executive director

N R

Commenced role – 2012

Lynne Weedall is currently group HR director for Dixons 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.

SENIOR MANAGEMENT

The senior management team comprises Rooney Anand, chief executive, Kirk Davis, chief financial officer, the managing directors of each of the group's business units and the heads of key functional areas, including retail, trading and marketing, HR and property. They meet once every four weeks under the chairmanship of the chief executive.

KEY TO COMMITTEES

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

CORPORATE GOVERNANCE STATEMENT

CHAIRMAN'S INTRODUCTION

I am pleased to have the opportunity once again to introduce the company's corporate governance report. It is vital to have a strong and effective governance system if the business is to be able to deliver its strategy, generate shareholder value and safeguard our shareholders' long-term interests. Well balanced and effective boards, strong oversight of risk management, alignment of remuneration policies with shareholder interests and sound shareholder relations are all key elements of our governance framework.

In our corporate governance report and the reports from the board committees, we describe the operation of the board and explain how we applied the principles of good governance set out in the code during the year.

One key priority this year has been the issue of board succession, with John Brady retiring at the end of July 2014 and the appointment of Rob Rowley as his successor.

We also had to respond to the illness of our group finance director, Matthew Fearn, who left the business in the autumn to focus on his health. Kirk Davis was appointed as our new chief financial officer and joined us in November 2014.

The audit committee continued to review key accounting and reporting matters and further details are set out in its report. Likewise, the remuneration committee report sets out more details of its activities during the year, whilst the directors' remuneration report includes details of the remuneration paid to directors during the year.

Two other areas of particular focus for the board this year have been the acquisition of Spirit Pub Company plc (Spirit) and board evaluation. For the Spirit acquisition the board was closely involved in the strategic considerations surrounding the proposed acquisition, as well as having oversight of the processes followed to put together the formal takeover documentation.

The board also followed best practice and undertook an externally facilitated board evaluation exercise, more details of which are set out on page 41. The evaluation will be very useful in guiding future ways of working for the board and its committees.

Tim Bridge
Chairman

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 September 2012 throughout the year. We will report against the revised version of the Code, which was published in September 2014, next year.

Board independence – current directors

Name	Independent	Nomination committee	Audit committee	Remuneration committee
Tim Bridge (chairman)	No	*		
Rooney Anand	No			
Mike Coupe	Yes	*	*	*
Kirk Davis	No			
Ian Durant	Yes	*	*	*
Rob Rowley	Yes	*	*	*
Lynne Weedall	Yes	*		*

The board

Board composition

As at the year end the board comprised the chairman, two executive directors and four non-executive directors. 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.

The non-executive chairman is Tim Bridge and the chief executive is Rooney Anand. The senior independent director during the year was Ian Durant.

John Brady, who was appointed to the board as a non-executive director in 2005, retired from the board in July 2014 and was succeeded by Rob Rowley, who also took over as senior independent director from the beginning of the current financial year.

Matthew Fearn, our chief financial officer, fell ill during the year and agreement was reached with him on 1 October 2014 that he should stand down as a director so that he and his family could focus on his health. The board appointed Kirk Davis as chief financial officer in his place and he joined the board on 3 November 2014. More details on the board changes can be found in the nomination committee report.

The directors' biographies are on page 37.

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. The board is satisfied that all of the non-executive directors were independent throughout the year, in that they satisfied the independence criteria of the code on their appointment and continue to satisfy those criteria.

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

Ian Durant was the senior independent non-executive director during the year. From the beginning of the current financial year this role was taken over by Rob Rowley, given Ian Durant's upcoming retirement from the board in March 2016. Neither has ever been employed by the company and both have diverse business interests. The board considers that Ian Durant remained independent in both character and judgment, that his performance was effective and that he demonstrated commitment to the role. The board considers that the same applies to Rob Rowley. As well as supporting the chairman and acting as a sounding board for the chairman and an intermediary for other directors, a key responsibility for the senior independent director is to be available for direct contact from shareholders should they require.

GREENE KING BOARD

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

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

Committees

NOMINATION

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

AUDIT

- reviews and monitors full year and interim results;
- monitors internal financial controls;
- oversees external audit relationship; and
- oversees risk management.

REMUNERATION

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

Members

Nomination	Audit	Remuneration
Tim Bridge (Chairman)	Ian Durant (Chairman)	Lynne Weedall (Chairman)
Mike Coupe	Mike Coupe	Mike Coupe
Ian Durant	Rob Rowley	Ian Durant
Rob Rowley		Rob Rowley
Lynne Weedall		

NOMINATION COMMITTEE REPORT PAGE 42

AUDIT COMMITTEE REPORT PAGE 43

DIRECTORS' REMUNERATION REPORT PAGE 46

CORPORATE GOVERNANCE STATEMENT CONTINUED

Leadership

Role of the board

The board has collective responsibility for the long-term success of the company and for its leadership, strategy, control and management.

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

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 managing 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.

Operation of the board

The board has a formal schedule of matters which are reserved for its consideration, including approval of the long-term objectives and strategy, approval of budgets and financial statements including the annual 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 on page 39. 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, business unit managing directors and certain key functional heads, who meet formally on a four-weekly 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 meeting for the board in February each year focusing on strategy, with the business unit managing directors and heads of the main functional areas, namely commercial, HR and property, 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 across all areas 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 also has a programme to review each business unit and main functional area in detail on a regular basis, with particular focus on the achievement of strategic objectives. The relevant managing director or functional head attends such meetings to present and answer questions.

The board has responsibility for determining whether the annual report, taken as a whole, is fair balanced and understandable to enable shareholders to assess the company's performance, business model and strategy. In coming to its view, the board took into account its own knowledge of the group, its strategy and performance in the year, the guidance given to all contributors to the annual report and a detailed review by senior management of the overall content.

A key matter considered during the year was the proposed acquisition of Spirit. The board determined initially that the proposed acquisition was consistent with the group's stated strategy. It then oversaw the offer process, reviewed the detailed documentation necessary to effect the acquisition, including the merger synergy estimate, and received regular reports on the regulatory process undertaken to obtain the necessary antitrust approval for the proposed acquisition. More recently the board has focused its attentions on the planned integration of the Spirit business, and it will continue to oversee the integration to ensure that planned synergies are effectively captured and that the business is appropriately managed both during the integration period and thereafter.

Other matters specifically considered during the year included property disposals, financing, taxation, risk management and key group risks, which are discussed on page 28.

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.

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

	Board	Nomination committee	Audit committee	Remuneration committee
Executive directors				
Rooney Anand	8/8	–	–	–
Kirk Davis[1]	4/4	–	–	–
Matthew Fearn[2]	0/3	–	–	–
Non-executive directors				
Tim Bridge	8/8	4/4	–	–
John Brady[3]	1/1	0/1	1/1	1/1
Mike Coupe[4]	7/8	4/4	2/3	3/3
Ian Durant	8/8	4/4	3/3	3/3
Rob Rowley[5]	7/7	3/3	2/2	–
Lynne Weedall	8/8	4/4	–	3/3

1. Kirk Davis was appointed to the board on 3 November 2014.
2. Matthew Fearn was granted leave of absence due to illness in March 2014 and stepped down from the board with effect from 29 September 2014. Matthew attended no meetings during his leave of absence.
3. John Brady retired from the board with effect from 27 July 2014.
4. Mike Coupe was unable to attend one board meeting and one audit committee meeting due to prior commitments with J Sainsbury plc.
5. Rob Rowley was appointed to the board on 18 July 2014.

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 areas 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

The board conducts an annual evaluation of its own performance and that of its committees and directors. This year, in line with the UK Corporate Governance Code, an externally facilitated evaluation has been undertaken. Nigel Davies of NJMD Corporate Services Limited was appointed to conduct the evaluation, which commenced towards the end of the financial year. The evaluation took the form of a detailed questionnaire that all directors were asked to complete. The questionnaire 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. This was followed up with a series of interviews of the directors by the external facilitator, who then produced a written report for the board. A number of observations (relating to matters including training for directors, the role of the senior independent director, diversity, succession plans and risk management) were made by the external facilitator which will be addressed in the coming months, but there were no areas of major concern identified for the board to consider, and the evaluator concluded that the board was effectively run and administered. In addition to the formal evaluation exercise there is an ongoing dialogue within the board to ensure that it operates effectively and that any matters raised are addressed in a timely manner.

An appraisal of the chairman's performance was undertaken by the senior independent director, Ian Durant, in conjunction with the other non-executive directors. 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

The training needs of the board and its committees are regularly reviewed and each director is responsible for ensuring that they remain up to date in their skills and knowledge of the company. Particular emphasis is placed on ensuring that directors are aware of proposed legislative changes in areas such as corporate governance, 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, which 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. Both Rob Rowley and Kirk Davis received appropriate inductions on joining the board.

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.

Commitment and conflicts of interest

All significant commitments which the directors have outside Greene King are disclosed prior to appointment and on an ongoing basis when there are any changes. The board is satisfied that each of the non-executive directors commits sufficient time to their duties and fulfils their obligations to the company.

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

Communication with shareholders

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

Institutional shareholders and analysts

There is a regular dialogue with institutional shareholders, including meetings after the announcement of the year end and interim results. Analysts are also invited to presentations at those times and separately to analyst trips to visit our premises and hear presentations on specific divisions of the business. The board receives regular reports and feedback on the meetings held between the executive directors and principal shareholders, and copies of analysts' reports on the company.

The senior independent non-executive director, Rob Rowley, is available to shareholders if they have concerns about governance issues which the normal channels of contact fail to resolve.

AGM

The AGM is fully utilised as a means of communicating directly with private shareholders, who receive a brief presentation on the business before the formal business 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.

The notice of the AGM is sent to shareholders at least twenty working days before the meeting. 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.

The next AGM will be held on 8 September 2015 at the Millennium Grandstand, Rowley Mile Racecourse Conference Centre, Newmarket, Suffolk CB8 0TF. Details can be found in the separate notice of meeting.

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.

DTR disclosure

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

REPORT OF THE NOMINATION COMMITTEE

"I am pleased to have the opportunity to introduce our nomination committee report for 2014/15 and to explain the focus and the activities of the committee during the year."

Tim Bridge Chairman of the nomination committee

The role of the committee is principally focused on the size, composition and structure of the board. To do that, its role is to propose appointments to the board following a formal, rigorous and transparent appointment process.

Membership

During the year the nomination committee was chaired by Tim Bridge. The other members of the committee were John Brady (until his retirement in July 2014), Mike Coupe, Ian Durant, Rob Rowley (who joined the board and the committee in July 2014) and Lynne Weedall. Apart from the chairman, all members were considered by the board to be independent.

Responsibilities

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 to 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.

Activities during the year

The committee held four meetings during the year. Attendance at these meetings by the committee members is shown in the table on page 40.

With John Brady retiring from the board in July 2014, a key activity for the committee was to find a suitable successor to him. 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.

For our new non-executive director, the Zygos Partnership, which has signed up to the voluntary code of conduct on matters such as diversity for executive search firms, was appointed to conduct the search, and produced a long-list of candidates for the role. The chairman and other members of the nomination committee interviewed a short-list of candidates and selected Rob Rowley based on objective criteria.

For the chief financial officer role, the search was conducted by Hoggett Bowers, which has also signed up to the voluntary code of conduct on matters such as diversity for executive search firms. A number of committee members met Kirk Davis prior to recommending him as the new chief financial officer, replacing Matthew Fearn who sadly had to leave us because of his ill health.

The committee also considered committee composition during the year. On the recommendation of the committee, Rob Rowley was appointed as a member of the nomination committee and of the audit committee when he joined the board. With his recent and relevant financial experience (as former finance director of Reuters Group plc) it is currently anticipated that he will take over the chairmanship of the audit committee in due course from Ian Durant, who is due to retire from the board in March 2016. No other changes were recommended to the composition of the board committees. Since the year end Rob Rowley has also been appointed as a member of the remuneration committee, again on the recommendation of the nomination committee.

The issues of succession planning and board structure will remain the ongoing focus of the committee during the course of the forthcoming year.

On the recommendation of the nomination committee, and taking into account the continuing effective performance of the directors, the board has decided once again this year to ask all directors to stand for re-election at the forthcoming AGM.

Other matters considered by the committee during the year included the board evaluation exercise, training requirements for directors and the committee's terms of reference.

Diversity

The board approves of the principle of trying to recruit more women into senior management and director roles. We currently have one female director on the board, Lynne Weedall, who is chairman of the remuneration committee. With a board of seven people, we believe the key is to ensure a suitable range of skills, experience and knowledge across the board members, and that the issues of gender and diversity are just two considerations to be taken into account when filling board vacancies.

REPORT OF THE AUDIT COMMITTEE

"I am pleased to introduce our audit committee report for 2014/15. The committee provides support to the board in performing its duties and, in particular, has responsibility for monitoring the integrity of the group's financial reporting, internal controls and risk management procedures."

Ian Durant Chairman of the audit committee

During the year the committee has focused on the following key areas: the year-end audit and interim audit review; the relationship with the external auditor; and the development of the internal audit function. During 2015/16 the committee is expecting to focus on the risk management and control internal control aspects of the integration of Spirit Pub Company plc and the changes to the UK Corporate Governance Code which will take effect next year.

Membership

The audit committee was chaired during the year by Ian Durant. The other members of the committee were Mike Coupe and Rob Rowley, following his appointment to the board in July 2014. John Brady was also a member of the committee prior to his retirement in July 2014. 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, and the current audit committee chairman at Home Retail Group plc.

Responsibilities

The audit committee has responsibility for reviewing financial reporting, controls and risk management processes across the group. As part of its role, the committee assesses the external audit conclusions on both the full year and interim results, in each case prior to their submission to the board. The board has continued to undertake the required assessment that the annual report is fair, balanced and understandable and consequently does not ask the audit committee to advise it on this. The committee reviews the company's internal control systems, advises the board on the appointment of external auditor, oversees the relationship with the external auditors, and reviews the quality and effectiveness of both the internal and the external audit. The committee is also responsible for considering the company's whistle blowing procedures and reviewing their effectiveness in practice. In relation to risk matters, the committee 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 and key functional areas. The committee receives regular updates on regulatory, accounting and reporting developments and their application to the company.

Operation of the committee

The committee met three times during the year. Attendance at these meetings by the committee members is shown in the table on page 40. On each occasion the chief financial officer (or interim finance director) and senior members of the finance function attended, as well as the company secretary, head of risk and members of the internal audit function. The external auditors attended all of the meetings. By rotation, operational managers present risk reports at audit committee 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. Details of the committee's specific responsibilities and how the committee exercised those responsibilities are set out in the remainder of this report. The committee's detailed terms of reference are available on the company's website and these are reviewed annually and updated to reflect changes in the responsibility and regulation of the committee, including as a result of regulatory changes. In addition, the committee conducts a review of its own performance on an annual basis, taking input from the members of the committee, the external auditor and senior members of the finance function, and assesses developments made over the course of the year and where improvements might be made in future.

Financial statements and audit

Before the start of the audit cycle, the committee reviewed the audit plan presented by the external auditor and agreed the scope of the audit work. In reviewing the financial statements the committee reviewed the accounting policies to ensure consistency on a year-to-year basis and across the group, and the methods used to account for significant or unusual transactions. Significant issues that the committee addressed in relation to the financial statements are set out in the table below. The committee also reviewed management's attestation paper setting out the information that had been provided to the auditor to enable it to form its 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.

REPORT OF THE AUDIT COMMITTEE CONTINUED

Significant issues considered by the audit committee in relation to the financial statements for 2014/15

Matter considered	What the committee did
Uncertain tax positions	A detailed review of several uncertain tax positions, which have not yet been agreed or are in dispute with HMRC, was undertaken by the committee. The current status of each item was noted by the committee and consideration was given to the views of the group's specialist advisers as to the most likely outcome for each. Particular attention was paid to the largest of these, an internal funding arrangement undertaken in 2003/4, known as Sussex. The committee satisfied itself that appropriate provisions were in place in respect of the uncertain tax positions following discussion with the external auditor and, in particular, that the increase in the year was appropriate.
Impairment of property, plant and equipment and goodwill	The committee considered two detailed reports, prepared by management, concerning the methodology used to determine the extent of any impairment required. Questions raised by the committee included those over the underlying growth rates (and the changes thereto as applied to the retail estate), the discount rate and the process for review. The committee also questioned management's reviews on a site by site basis and the expected timetable for disposals of non-core sites. Management's proposals were also discussed with the external auditors and the committee took into account their views on the questions raised. Following the review and discussions the committee concluded that an impairment of £27.4m was appropriate in relation to property, plant and equipment. As regards goodwill, it was determined that £2.9m should be written off in relation to disposals undertaken during the year.
Funding headroom and covenants	The committee reviewed the group's funding headroom and covenants in conjunction with the review of the use of the going concern assumption, and extended this to cover the enlarged group following the acquisition of Spirit Pub Company plc. As part of the review, the committee challenged management's projections, assumptions and stress testing, as well as the extent to which mitigating actions would achieve the desired outcomes. The committee took into account the external auditor's comments on its own work on this issue.
Accounting for supplier income and customer rebates	In light of recent market awareness of the issue, the committee requested a specific review by the group's internal audit function of the group's accounting for supplier income, including listing fees, performance fees and volume rebates. The committee noted that the annual value of such fees and rebates amounted to approximately £12m, and that such income is not recognised until it can be reliably estimated. A separate report on customer rebates was also considered by the committee. Such rebates amounted to £20m in the year. The committee was satisfied that the current controls in place provided reasonable assurance that the risks associated with these areas are being appropriately managed. On the recommendation of the internal audit function, the committee requested that enhanced documentation be maintained.

Effectiveness of external audit

After the 2013/14 audit was completed a review of the effectiveness of the auditor and of the audit service was undertaken, supported by a questionnaire completed by the audit committee chairman, the interim finance director, and a number of key members of the finance team involved in the preparation of the statutory accounts. The overall quality of the service, the audit partner and the audit team were all reviewed and matters such as the management of the audit team, the quality of its challenge, insight and communications and the cost-effectiveness of the audit were considered. Taking into account the internal review and the outcome of the Financial Reporting Council's (FRC) Audit Quality Review Team's review of Ernst & Young the committee was satisfied that the quality of the audit service provided by Ernst & Young was appropriate. The feedback from the review was also provided to Ernst & Young. The maintenance of audit independence was also considered and is covered in more detail below.

Ensuring external auditor independence

The audit committee is cognisant of the importance of auditor independence and objectivity and accordingly has an established policy in relation to the use of the auditor 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 and (if the audit firm is being considered) 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 p.a.), and the chairman of the audit committee may approve engagements up to £100,000 (in aggregate up to £200,000 p.a.), with fees in excess of those limits being subject to approval of the full committee.

During the year the company made use of specialist teams within Ernst & Young for non-audit work. Taxation advisory support was provided until 31 July 2014, in relation to tax matters on which Ernst & Young specialists had originally advised.

Ernst & Young were also appointed as reporting accountants on the acquisition of Spirit Pub Company plc. This is a role conventionally performed by the auditor. The board considered the appropriateness of appointing Ernst & Young for this work and the risks to Ernst & Young's independence and the committee assessed the steps taken by Ernst & Young to ensure the continuing independence of the audit partner and audit team. The board then concluded that there were significant benefits of using Ernst & Young, including the ability to proceed quickly, added efficiency from existing knowledge of the company, and tighter confidentiality by minimising the number of parties involved. Thus the board approved the appointment of Ernst & Young to the role of reporting accountants to this acquisition. This resulted in a high ratio of non-audit fees to audit fees. However the committee has noted that this level of fee is not material to Ernst & Young, and is not likely to recur regularly. The total fees paid to Ernst & Young during the year amounted to £1.63m, of which £1.30m related to non-audit work.

The committee has in place a policy in relation to the appointment of former partners or 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 they tender their resignation to the audit firm. No members of the audit team have joined Greene King in the period.

External auditor – tendering and re-appointment

The company last tendered the external audit contract in 1997 and Ernst & Young have been the auditor since then, with an annual rolling contract and subject to an annual shareholder vote at the AGM. Ernst & Young are required to rotate the audit partner responsible for the group every five years and the current audit partner's term will end after the 2015/16 audit. The committee continues to monitor legislative and best practice changes in this area. It remains the board's intention to put the audit of the group and subsidiary accounts out to tender with a view to any change taking effect for the 2016/17 statutory accounts, to coincide with the end of the current audit partner's five-year term.

The board, however, will consider the implications of the transitional provisions in the EU and Competition and Markets Authority regulation on audit matters, which would allow a further period until April 2024 before an audit tender and change would be required.

In light of the assessment described above, the committee was satisfied that auditor independence and objectivity was safeguarded and that it was appropriate to recommend to the board Ernst & Young's re-appointment as auditor. This resolution will be put to shareholders at the AGM.

Internal audit

The committee reviewed the company's internal audit function, which, during the year, extended its remit to cover central functions as well as the group's Retail division. Under the terms of reference for the function, the internal audit team has direct access to the audit committee chairman to enable it to raise any significant issues. Members of the internal audit team also attend the audit committee meetings to report on the progress and actions taken by the function. During the year, the internal audit function reported to the committee on a number of areas making recommendations for improvements in a number of areas, including supplier income, customer rebates and free trade loans.

Other matters

The committee reviewed, as it does on an annual basis, the group's whistle blowing policy and its application across the business. All whistle blowing reports were investigated and resolved satisfactorily, with no significant issues emerging.

The committee has continued to review the issue of cyber security and receives regular reports from the internal data governance committee with additional continuing dialogue when threats are identified. In addition, the committee reviewed the company's hedging strategy and use of derivatives including the accounting for derivatives.

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

The company completed the acquisition of Spirit Pub Company plc following the year end. The audit committee is mindful that there will be extensive work undertaken during the integration of the business and this will be one of the focuses of the committee during the 2015/16 financial year.

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 a number of business units and functional areas on their respective risk management processes and key risks. 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 to an acceptable level, 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 Financial Reporting Council's Internal Control: Guidance to Directors, 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 and that the group's internal controls are operating effectively. The committee acknowledges that the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting will replace the Internal Control: Guidance to Directors for the forthcoming year and will work with management to ensure compliance.

The key elements of the internal control framework are:

- the schedule of matters reserved for the board;
- the group's defined management structure with suitable authority limits and responsibilities, staffed by appropriate personnel;
- regular updates for the board on strategy;
- a comprehensive planning and financial reporting procedure including annual budgets and a three-year strategic plan, both of which are reviewed and approved by the board;
- ongoing monitoring by both the board and senior management of performance against budgets, through the periodic reporting of detailed management accounts and key performance indicators;
- ongoing monitoring by the board of compliance with financial covenants;
- a centralised financial reporting system 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;
- audits conducted by the group internal audit function of business and functional control environments; and
- documented policies to cover bribery and whistle blowing and regular updates on any incidents.

The previous group finance director stepped down from the board in September 2014 following a period of extended leave of absence for health reasons. The audit committee was satisfied that the arrangements put in place during his absence ensured the continued appropriate leadership of the finance function and maintained effective levels of internal control. Kirk Davis was appointed chief financial officer in November 2014.

DIRECTORS' REMUNERATION REPORT

"I am pleased to introduce our directors' remuneration report for the 2014/15 financial year and to summarise the company's remuneration strategy and the way in which it has been implemented during the year."

Lynne Weedall Chairman of the remuneration committee

ANNUAL STATEMENT

Shareholders approved the remuneration policy for the company's directors at the 2014 AGM, and this will apply until replaced by a new or amended policy. In line with the new regulations on directors' remuneration, the company will submit its policy to shareholders for approval once every three years, unless circumstances dictate otherwise. The remuneration committee is of the view that the policy continues to remain appropriate and should therefore continue to operate for 2015/16. Whilst the policy is not required to be presented this year, it has been set out in full in this report to assist you in reviewing the implementation of the policy in the 2014/15 financial year, details of which are set out in the annual report on remuneration on pages 50 to 57. This latter report is subject to an advisory shareholder vote at the forthcoming AGM.

The committee remains mindful of the need to ensure that remuneration policies and practices at Greene King drive behaviour that is in the long-term interests of the company and its shareholders.

Pay for performance

Bonus payouts for this year were 60% of salary for the chief executive and 74% of salary for the chief financial officer (pro-rated for time served to 37%), reflecting the very stretching targets set at the beginning of the year. The long-term incentive plan (LTIP), however, will vest in August this year at 100%. This is as a result of the company exceeding the adjusted free cash flow (accounting for 60% of the award) and EPS (accounting for 40% of the award) targets that were set by the remuneration committee in 2012.

Going forward

We continue to exercise restraint in executive pay levels and, notwithstanding the significant changes facing the business, executive directors will receive base salary increases of 2.5% for this year. Other benefits, including pension provision, will be maintained at existing levels or by reference to percentages of base salary as applicable.

As a clear focus of attention for the company will be the integration of the Spirit Pub Company plc (Spirit) business and recognising the importance of achieving the synergy targets, the annual bonus targets for the executive directors for 2015/16 will include a specific synergy target. The LTIP will continue to be based on EPS and ROCE targets and, while they do not take into account the potential impact of the Spirit Pub Company acquisition at this stage, given that it has only very recently completed, the committee will review what changes may be needed to those targets in due course.

Further, given the significant changes to the size and complexity of the group as a result of the Spirit acquisition, the committee intends to review the executive director base salary levels and other elements of the company's directors' remuneration policy during the forthcoming year. Major shareholders will be consulted if appropriate and any formal shareholder approval will be sought if necessary at next year's AGM.

Consistent with our aim of promoting share ownership widely across the company, we are putting forward at the AGM proposals for a new save as you earn scheme, for all employees of the group, to replace the existing scheme which expires this year.

We are happy to receive feedback from shareholders at any time in relation to our remuneration policies and hope to receive your support for the resolution referred to above at the forthcoming AGM.

Lynne Weedall
Chairman of the remuneration committee
30 June 2015

POLICY REPORT

This section of the report sets out Greene King's future remuneration policy. Details of actual remuneration paid, LTIP awards made and the associated performance conditions are set out in the annual report on remuneration which starts on page 50. This policy report was put to a shareholder vote at the 2014 AGM and approved by 96% of shareholders who voted. There is no requirement to vote on the policy this year, and the policy is set out below for information only.

Policy overview

The key objective of the company's remuneration policy is to provide a remuneration structure that is aligned with shareholder interests and that enables us to attract, motivate and retain talented and high quality individuals able to deliver continued growth of the business and achieve the group's strategic aims. The remuneration package is designed to be competitive but not excessive and to contain an appropriate balance between fixed and variable remuneration and, for the variable remuneration, between short-term and longer-term performance.

The committee has considered whether there are any aspects of the policy 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.

Details of each element of remuneration, their purpose, link to strategy and their operation and performance metrics are set out below.

Policy table

Element of remuneration	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Salary	To recruit, reward and retain high calibre executives with an appropriately competitive base salary.	Base salaries are reviewed annually or when a change in responsibility occurs, to reflect the executive's responsibilities, market value and sustained performance level. In setting pay levels, the committee considers current market practice and makes comparisons against a selection of other companies determined by reference to turnover, market capitalisation and operational details. 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.	There is no prescribed maximum annual increase. The committee is guided by the general increase for the broader employee population but on occasions may need to recognise, for example, an increase in the scale, scope or responsibility of the role.	—
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. Performance measures and targets are designed to reinforce strategic priorities for the year.	Performance measures and targets are set at the beginning of each financial year to ensure that the measures and weightings are appropriate and support the business strategy. Bonuses are payable after the end of each financial year, based on performance against those targets. Bonuses are non-pensionable. A clawback mechanism applies in the event of a material misstatement of the group's accounts, error or gross misconduct.	A maximum of 100% of salary can be earned by the executive directors, with no bonus payable for below threshold performance and up to 75% of salary for target levels of performance. Payment of bonuses is dependent on a mixture of financial targets and specific personal targets. In relation to the financial targets, awards are made on a straight-line basis for performance between threshold and target and on a separate straight-line basis for performance between target and maximum.	Performance is measured relative to challenging targets in key financial measures. Details of measures and weightings for the 2014/15 financial year and of the proposed measures and weightings for next year's annual bonus, are set out in the annual report on remuneration which starts on page 50. An explanation of how the performance measures were chosen is given in the notes on the next page.

Policy table continued

Element of remuneration	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Long-term incentive plan (LTIP)	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 long-term shareholders.	The committee normally makes an annual LTIP award, usually in the form of nil-cost options. The awards are subject to suitably stretching performance conditions set by the committee, which are reviewed annually. Awards normally vest on the third anniversary of grant, subject to performance, and will be exercisable until the tenth anniversary of grant. A clawback mechanism applies in the event of a material misstatement of the group's accounts, error or gross misconduct.	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.	The core LTIP will be subject to a suitably stretching EPS target and the growth LTIP to a suitably stretching ROCE target. Performance will normally be measured over a three year period. Vesting will generally be subject to continued employment. The committee retains the discretion to scale back the vesting levels of the growth LTIP award in appropriate circumstances.
Shareholding policy	To align the interests of the executive directors with shareholders and to promote a long-term approach.	Executive directors are required to build and retain a shareholding of at least 100% of salary. To the extent that the shareholding requirement has not been met, executives will be expected to retain at least 50% of the net exercised LTIP awards until the requirement is met.		
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 company contribution levels are 25% for the chief executive and 20% for the chief financial officer.	—
Benefits	To be appropriately competitive with those offered at comparator companies.	Benefits comprise the provision of company cars (or cash allowances in lieu thereof), fuel for company cars, life assurance, permanent health insurance and private medical insurance.	Benefits are reviewed periodically in line with market practice and are not pensionable.	—
All-employee share schemes	All employees, including executive directors, have the opportunity to build their shareholding in a tax-efficient way by participating in the company's HMRC approved sharesave scheme.	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 will be no more than HMRC approved limits, allowing employees to buy company shares at up to a 20% discount at the end of a three or five-year savings period.	—

Notes:

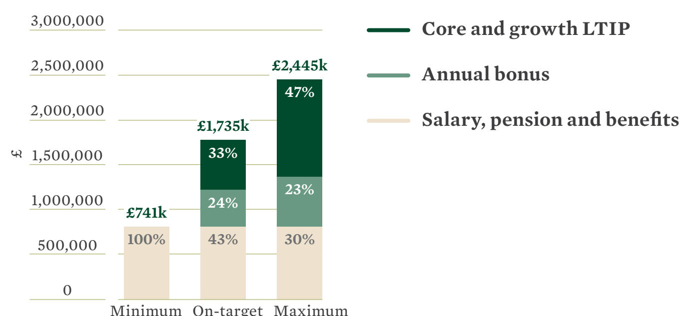
1. A description of how the company intends to implement the policy set out in this table for 2015/16 is set out in the annual report on remuneration which starts on page 50.
2. The choice of performance metrics applicable to the annual bonus scheme reflect the committee's belief that the compensation should be appropriately stretching, but achievable, and tied to both the delivery of profit growth, key financial metrics and specific individual objectives.
3. The EPS performance condition underpinning the core LTIP award was selected by the committee on the basis that it would reward the delivery of long-term financial growth and is the most widely understood profit-based measure across the business. ROCE was chosen as the performance condition to apply to the growth LTIP award as it will ensure that management focuses on generating the necessary returns in excess of the cost of capital and because it provides a more strategic measure of long term performance, where capital needs to be re-deployed in order to focus on Retail. The performance targets are set by the committee following a detailed review of the company's projections and are believed to be appropriately stretching.
4. The policy and practice for the remuneration of employees generally differs from that for the executive directors as follows:
   - A lower level of maximum annual bonus opportunity (or zero bonus opportunity) may apply to employees other than the executive directors and certain senior executives and targets may differ by business unit and by employee.
   - Other employees may receive fewer or lower levels of benefits than those for executive directors. Company car benefits are only offered where required for the role or to meet market norms.
   - Pension contribution levels may be lower for employees generally compared with those for the executive directors.
   - Participation in the core LTIP is limited to the executive directors and around 40 senior managers. Participation in the growth LTIP is limited to an even smaller senior management population.

   These differences generally arise from the development of remuneration arrangements that are market competitive for various categories of employees. They also reflect the fact that, in the case of executive directors and senior executives, there is a greater emphasis on performance related pay.
5. Subject to the achievement of the applicable performance conditions, executive directors are eligible to receive payment from any award made prior to the approval and implementation of the remuneration policy detailed in this report.

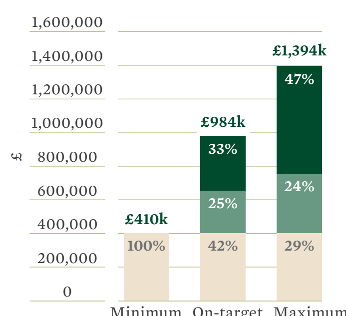
Indicative total remuneration levels

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



Chief financial officer



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 chief financial officer.
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.

Approach to recruitment and promotions

The remuneration package for a new executive director would be set in accordance with the terms of the company's prevailing approved remuneration policy at the time of recruitment. In particular, the annual bonus potential will be limited to 100% of salary and awards under the LTIP will be limited to 200% of salary.

In the case of an external hire, if required to secure an individual, the committee may offer additional cash and or share-based elements when it considers them to be in the best interests of the company, to take account of deferred remuneration forfeited by the new hire when leaving their former employer. Any such additional payments would be one-off in nature, would reflect where possible the nature, time horizons and performance requirements attaching to that forfeited remuneration and would be limited to the value of the forfeited remuneration.

For an internal promotion to executive director level, any variable pay element awarded in respect of the prior role may be allowed to pay out in accordance with its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue, provided that they are put to shareholders for approval at the earliest opportunity.

For both external and internal appointments, the committee may agree that the company may meet certain relocation and/or incidental expenses as appropriate.

Service agreements and exit payment policy

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 take into account the commercial interests of the company, pay due regard to best practice and apply usual common law and contractual principles, including 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, which may determine that an annual bonus is payable with respect to the period of the financial year served, but pro-rated for time served, and not paid until the normal due date for the payment of bonuses.

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 death, injury, ill health, disability approved by the committee, 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 terms of employment do 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.

Kirk Davis's employment, which commenced on 3 November 2014, is subject to the terms of a contract dated 29 September 2014. His employment may be terminated by the company on giving one year's notice, without any additional terms relating to compensation for termination of employment.

There are no obligations on the company contained within the existing directors' contracts which would give rise to payments not disclosed in this report.

Non-executive director policy table

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	30 Apr 17
Mike Coupe	26 Jul 11	25 Jul 17
Ian Durant	16 Mar 07	15 Mar 16
Rob Rowley	18 Jul 14	17 Jul 17
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.

DIRECTORS' REMUNERATION REPORT CONTINUED

Non-executive director policy table continued

The table below summarises each of the components of the remuneration package for the non-executive directors. The non-executive directors are not entitled to receive any pension, bonus or long-term incentive benefits from the company in respect of their roles as non-executive directors.

Element of remuneration	Purpose and link to strategy	Operation	Reward	Performance metrics
Fee	To recruit and retain appropriately qualified non-executive directors.	The chairman and non-executive director fees are typically reviewed every two years. Fees are benchmarked against similar roles in the sector and in other similar sized companies and reflect the time commitments and responsibilities of each role.	Non-executive director fees may include a basic fee and a fee for acting as a committee chairman. They are set at a level that is considered appropriately competitive in the light of market practice.	—
Benefits	To be appropriately competitive with those offered at comparator companies.	The chairman's benefits include private healthcare and the provision of a company car.	Benefits are reviewed periodically in line with market practice. The value of the chairman's benefits will be comparable with those offered to the executive directors.	—

External directorships

The company's policy is to allow executive directors to take up one or more non-executive directorships in an external company, subject to board approval. Fees received for serving as a non-executive director of an external company are retained by the executive director.

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 and it is the committee's policy to consult with major shareholders prior to making any major changes to its executive remuneration structure.

Consideration of conditions elsewhere in the group

The committee does not consult with employees when deciding remuneration policy, although it does receive information on salary increases and long-term incentives for employees across the group.

ANNUAL REPORT ON REMUNERATION

This section of the report explains how Greene King's remuneration policy has been implemented during the year.

The remuneration committee

The remuneration committee is appointed by the board. The members are Lynne Weedall (chairman), Mike Coupe, and Ian Durant. John Brady was a member of the committee until his retirement in July 2014 and, following the year end, Rob Rowley was appointed as an additional member of the committee on 5 May 2015. All of the committee members are 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 certain members of senior management. 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 certain senior executives.

It approves the service contracts of the executive directors 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 three scheduled meetings of the committee. Attendance at these meetings is shown in the table on page 40.

Advisers to the remuneration committee

The committee seeks advice on general remuneration matters and comparator information from New Bridge Street, part 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. Fees paid during the year to New Bridge Street in respect of advice to the committee were £23k.

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. The chairman of the board also attends meetings of the committee.

Shareholder voting at the 2014 AGM

The table below shows the results of the binding vote on the directors' remuneration policy and the advisory vote on the 2013/14 directors' remuneration report at the AGM held on 10 September 2014.

	Votes for	Percentage	Votes against	Percentage	Votes withheld
Approval of the directors' remuneration policy	138,964,449	95.83%	6,047,870	4.17%	2,105,782
Approval of the remuneration report	139,950,012	99.54%	653,750	0.46%	6,070,028

Audited information

Single figure of remuneration

The tables below show the details of the total remuneration paid to each director in 2014/15 and 2013/14. A large proportion of the remuneration paid to Rooney Anand has resulted from the vesting of awards under the LTIP and specifically from the share price growth since the original date of grant, from which all shareholders have benefited.

	Salary or fees £'000	**Taxable benefits £'000**	**Pension-related benefits[1] £'000**	**Annual bonus £'000**	**Long-term incentives[2] £'000**	**Total £'000**
2014/15 (52 weeks) (audited)						
Executive directors						
Rooney Anand	**554**	**22**	**139**	**332**	**1,088**	**2,135**
Kirk Davis	**160**	**6**	**32**	**118**	**—**	**316**
Matthew Fearn	**134**	**11**	**45**	**—**	**550**	**740**
Non-executive directors						
Tim Bridge	**174**	**33**	**—**	**—**	**—**	**207**
John Brady	**10**	**—**	**—**	**—**	**—**	**10**
Mike Coupe	**44**	**—**	**—**	**—**	**—**	**44**
Ian Durant	**51**	**—**	**—**	**—**	**—**	**51**
Rob Rowley	**35**	**—**	**—**	**—**	**—**	**35**
Lynne Weedall	**51**	**—**	**—**	**—**	**—**	**51**

	Salary or fees £'000	Taxable benefits £'000	Pension-related benefits[1] £'000	Annual bonus £'000	Long-term incentives[2] £'000	Total £'000
2013/14 (53 weeks) (audited)						
Executive directors						
Rooney Anand	551	19	138	525	1,284	2,517
Matthew Fearn	348	13	70	257	—	688
Non-executive directors						
Tim Bridge	178	32	—	—	—	210
John Brady	45	—	—	—	—	45
Mike Coupe	45	—	—	—	—	45
Ian Durant	52	—	—	—	—	52
Lynne Weedall	52	—	—	—	—	52

Notes:

1. Pension benefits for the executive directors comprised cash in lieu of pension contributions.
2. Long-term incentives in 2014/15 comprised the value of the awards granted in August 2012, which will vest in August 2015 and which were subject to performance targets measured over the three years to May 2015. The value of the award has been calculated using 849p, being the average share price for the last three months of the 2014/15 financial year, and also takes into account the dividend equivalent payable on the award. 100% vesting of the 2012 awards has been assumed. For the long-term incentives in 2013/14 the actual share price on the date of vesting has been used (restated from the estimated value of £1,422 disclosed in the 2013/14 report). The original value of Rooney Anand's 2012 and 2011 awards were £700k and £684k respectively. The remaining value of the awards has resulted from the share price growth and dividend equivalent payments from which all shareholders have benefited.

Details of the elements included in the table above are as follows:

DIRECTORS' REMUNERATION REPORT CONTINUED

Audited information continued

Base salary

The base salaries for 2014/15 for Rooney Anand and Kirk Davis were £554,115 and £320,000 respectively. Prior to his departure from the company, Matthew Fearn's base salary was £348,000. The base fee for the chairman was £174,250, whilst the base fees for the non-executive directors were £44,100 for John Brady, Mike Coupe and Rob Rowley and £51,250 for Ian Durant and Lynne Weedall (due to their roles as chairmen of the audit and remuneration committees respectively).

Taxable benefits

Taxable benefits were provided to directors in line with the policy table set out on page 48.

Pension-related benefits

Cash in lieu of pension contributions were in line with the policy table set out on page 48.

Annual bonus

Executive directors may earn bonuses depending on the company's performance and their own individual performance. Awards for the chief executive were based 90% on financial performance and 10% on individual performance, whilst for the chief financial officer the respective percentages were 65% on financial performance and 35% on individual performance.

For the chief executive, the financial performance measures were based on PBTE and free cash flow, whilst the chief financial officer had an additional financial target based on return on investments. The committee has decided that it will not disclose specific short-term financial targets as these are still considered to be commercially sensitive although they will be disclosed next year. Both PBTE and free cash flow are among the group's KPIs, details of which are on page 27.

The awards to be made are as follows:

Bonus outcome

	Maximum percentage of bonus	Actual percentage of bonus
Rooney Anand		
PBTE	75.0	35.0
Free cash flow	15.0	15.0
Personal targets[1]	10.0	10.0
Total	100.0	60.0
Kirk Davis		
PBTE	50.0	24.0
Free cash flow	15.0	15.0
Personal targets[2]	35.0	35.0
Total	100.0	74.0

Notes:

1. The personal targets for Rooney Anand included targets relating to succession planning and corporate reputation and the amount payable in respect thereof were decided at the discretion of the committee.
2. The personal targets for Kirk Davis included targets relating to corporate reputation and certain financial targets which have not been disclosed on grounds of commercial sensitivity.

Performance against the combined financial and individual targets resulted in bonuses being paid at £332k (60% of salary) for the chief executive and at £118k (74% of salary pro-rated down to 37% for six months' service) for the chief financial officer. No bonus was paid to Matthew Fearn in respect of his term as chief financial officer during the year.

Disclosure of 2013/14 bonus targets

The financial targets and the company's performance against those targets for the 2013/14 financial year are set out below. The group delivered a strong financial result for the year, achieving record sales and profit, with revenue up 8.9%, operating profit before exceptional items up 7.0%, profit before tax and exceptional items up 9.4% and adjusted earnings per share up 10.4%. Operating cash flows also continued to be strong.

Performance measure	Target range	Actual performance	Percentage of bonus opportunity awarded
PBTE	£164.5m–£174.0m	£173.1m	96%
Free cash flow	£46.8m–£52.8m	£64.6m	100%
Return on investment	19.2%–21.2%	22.7%	100%

Long-term incentive plans

The LTIP award granted on 6 August 2012 was based on a three year performance period ended 3 May 2015. A maximum of 60% of each award vests if an adjusted free cash flow target has been met and the remaining 40% vests if an EPS target has been met. The target ranges, calculated on a straight-line basis from 0% to 100%, are set out below.

Performance measure	Performance target	Actual performance	Threshold vesting of award	Maximum percentage of award	Actual percentage of award
Earnings per share[1]	52.4p–60.4p	61.0p	0%	40%	40%
Free cash flow	£262.0m–£302.0m	£362.7m	0%	60%	60%
Outcome			0%	100%	100%

Notes:

1. The earnings per share target was adjusted last year to take account of the disposal of 275 pubs which completed in June 2014. The prior target range was 56.4p–64.4p. The committee is satisfied that the adjustment was appropriate and that the revised target was a fairer measure of performance and was no more or less difficult to achieve than the previous range.

The award details for the executive directors are therefore as follows:

Director	Number of shares at grant	Number of shares to vest	Number of shares to lapse	Estimated value[1] £'000	Dividend equivalent on shares to vest[2] £'000	Total estimated value £'000
Rooney Anand	117,000	117,000	—	993	95	1,088
Matthew Fearn[3]	74,000	59,611	14,389	506	44	550

Notes:

1. The estimated value of the vested shares is based on the average share price during the three months to 3 May 2015 (849 pence). As explained in the single remuneration table above, a significant proportion of the estimated value of the LTIP award derives from the increase in the share price from which all shareholders have benefited.
2. The LTIP enables award holders to benefit from the payment of dividend equivalents but only to the extent that the underlying share awards vest.
3. Matthew Fearn's LTIP award was pro-rated to reflect time served prior to his departure from the company.

Board changes – chief financial officer

Matthew Fearn stepped down from the board and from his role as chief financial officer on 29 September 2014 in order to focus on his health. He will remain an employee of the company until 24 August 2016 ('date of cessation'). During that time he will not be entitled to any remuneration other than as set out below and will not be required to perform any work for the company.

In accordance with the company's remuneration policy, an amount equal to £234,802 was paid to Matthew Fearn based on six months' salary, the value of his company car and the anticipated cost of private medical cover until his date of cessation. The company also maintained Matthew's private medical insurance cover until he was able to procure alternative cover on comparable terms at his own cost.

Life assurance cover will be provided until the date of cessation and any permanent health insurance payments will not be paid until after the date of cessation. The company also agreed to pay £15,650 plus VAT towards the costs of Matthew's legal fees incurred in connection with the agreement.

No payments in respect of annual bonus for the 2014/15 or any future financial years was or will be paid.

Awards granted in 2012 and 2013 under the Greene King LTIP will vest at the normal vesting date subject to performance and time pro-rating.

Kirk Davis was appointed as chief financial officer on 3 November 2014. A summary of the main components of his package, which are in accordance with the company's remuneration policy, is as follows:

- Base salary: £320,000 (subsequently increased by 2.5% for the 2015/16 financial year)
- Annual bonus: maximum award of 100% of salary
- LTIP: maximum award of 200% of salary
- Pension: 20% of salary

DIRECTORS' REMUNERATION REPORT CONTINUED

Audited information continued

Interests under the LTIP

A summary of the directors' interests under the LTIP at the beginning and end of the year, and changes during the year, is below:

	Date of grant	Type of award	Exercise price	Outstanding as at 4 May 2014	Granted during the period	Vested during the period	Lapsed during the period[1]	Outstanding as at 3 May 2015	Performance period
Rooney Anand	4 Aug 2011	restricted forfeitable shares	nil	147,000	—	147,000	—	—	—
	6 Aug 2012	restricted forfeitable shares	nil	117,000	—	—	—	117,000	May 2012 – May 2015
	4 Oct 2013	Core LTIP	nil	68,630	—	—	—	68,630	May 2013 – May 2016
	4 Oct 2013	Growth LTIP	nil	68,630	—	—	—	68,630	May 2013 – May 2016
	24 Jul 2014	Core LTIP	nil	—	66,361	—	—	66,361	May 2014 – May 2017
	24 Jul 2014	Growth LTIP	nil	—	66,361	—	—	66,361	May 2014 – May 2017
Matthew Fearn	6 Aug 2012	restricted forfeitable shares	nil	74,000	—	—	14,389	59,611	May 2012 – May 2015
	4 Oct 2013	Core LTIP	nil	43,290	—	—	22,396	20,894	May 2013 – May 2016
	4 Oct 2013	Growth LTIP	nil	43,290	—	—	22,395	20,895	May 2013 – May 2016

Notes:

1. The awards granted to Matthew Fearn were scaled back on a time-apportioned basis when terms were agreed for his departure from the company and the additional shares lapsed.

For the 2013 core LTIP award, there will be no vesting for EPS growth of 16% or less above a base of 51.5p, increasing on a straight-line basis to full vesting for growth of 28% during the performance period above that base.

For the 2013 growth LTIP award, 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% at the end of the performance period.

For the 2014 core LTIP award, there will be no vesting for EPS growth of 22% or less above a base of 56.1p, increasing on a straight-line basis to full vesting for growth of 31% during the performance period above that base.

For the 2014 growth LTIP award, there will be no vesting for ROCE of 9.4% or less, increasing on a straight-line basis to full vesting for ROCE of 10.0% at the end of the performance period.

The committee is mindful of the potential impact of the recent acquisition of Spirit on the existing targets and will consider, during the course of this year, whether any adjustments should be made to the targets as a result. Details of any adjustments will be disclosed in next year's report.

Details of the awards granted to the directors on 24 July 2014 are as follows:

Director	Scheme	Type of award	Basis of award granted	Share price used for award purposes[1]	Number of shares over which award was granted	Face value of award	Performance period	Exercisable between
Rooney Anand	Core LTIP	nil-cost option	100% of salary of £554,115	835.0p	66,361	£554,114	May 2014 – May 2017	24 July 2017 – 22 July 2024
Rooney Anand	Growth LTIP	nil-cost option	100% of salary of £554,115	835.0p	66,361	£554,114	May 2014 – May 2017	24 July 2017 – 22 July 2024

Note:

1. The share price used for award purposes was determined by reference to the average closing share price on the three days immediately prior to the date of the award.

Interests under the executive share option scheme

A summary of the directors' outstanding interests under the group's executive share option scheme (under which no awards have been made since September 2008) at the beginning and end of the year, and changes during the year, is below:

	Date of grant	Option price	Outstanding as at 4 May 2014	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 3 May 2015	Exercise period
Rooney Anand	4 Aug 2005	528p	74,751	—	74,751	—	—	4 Aug 2008 – 3 Aug 2015

The gain on sale of the shares on the exercise date of 10 April 2015 amounted to £235k.

Interests under the sharesave scheme

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

	Outstanding as at 4 May 2014	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 3 May 2015	Option price (p)	Exercise period
Kirk Davis	—	3,050	—	—	3,050	580	1 April – 30 Sept 2018
Matthew Fearn	2,325	—	2,325	—	—	387	1 April – 30 Sept 2015

Matthew Fearn's gain on the exercise date of 28 April 2015 amounted to £8k.

Directors' shareholdings and share interests

Under the shareholding guidelines executive directors are required to build and retain a shareholding of at least 100% of salary and must retain 50% of the net exercised value of vested LTIP awards until the requirement is met.

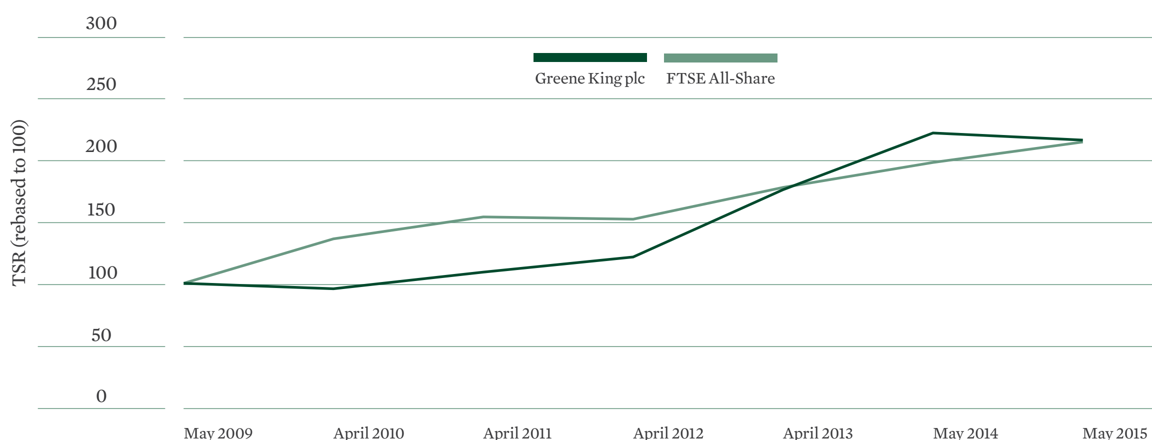
Details of the directors' shareholdings are set out in the table below.

	At 4 May 2014	At 3 May 2015			
Director	Legally owned	Legally owned	Subject to performance under the LTIP	Total	Shareholding as percentage of salary as at 3 May 2015
Rooney Anand	381,782	467,265	386,982	854,247	687%
Kirk Davis	—	—	—	—	—
Tim Bridge	1,389,998	1,438,531	—	1,438,531	—
Mike Coupe	2,000	2,000	—	2,000	—
Ian Durant	22,320	22,320	—	22,320	—
Rob Rowley	—	—	—	—	—
Lynne Weedall	2,000	2,000	—	2,000	—

Other information (unaudited)

Performance graph and chief executive pay

A graph showing the total shareholder return of Greene King relative to the FTSE All-Share Index over the last six 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' REMUNERATION REPORT CONTINUED

Other information (unaudited) continued

Performance graph and chief executive pay continued

The table below shows the total remuneration for the chief executive over each of the last six years.

	2009/10	2010/11	2011/12	2012/13	2013/14	**2014/15**
CEO single figure (£'000)	1,096	1,406	1,248	2,689	2,517	**2,135**
Annual bonus percentage of maximum	97%	100%	75%	72%	97%	**60%**
LTIP percentage of maximum	0%	0%	0%	100%	100%	**100%**

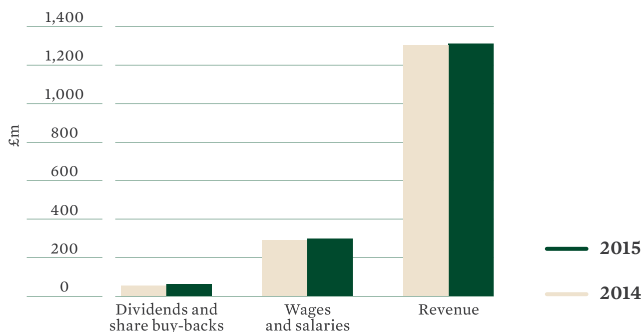
Percentage increase in the chief executive's remuneration

The table below shows the percentage change in the chief executive's remuneration from the prior year compared to the average percentage change in remuneration for all four-weekly paid employees (which include pub and restaurant managers but exclude colleagues working for them in those pubs and restaurants), who have been selected as the comparator as they participate in similar remuneration arrangements to the executive directors.

	Chief executive % change	Employees % change
Salary	2.5%	5.5%
Taxable benefits	18.7%	3.8%
Annual bonus	-36.7%	-22.8%

Relative importance of spend on pay

The following table shows the company's actual spend on pay (for all employees) relative to dividends and group revenue.



Remuneration from other company directorships

Rooney Anand is non-executive chairman of JB Drinks Holdings Limited, which is unconnected with the group, and received and retained £45k (2014: £30k) from that company by way of fees.

Implementation of remuneration policy in 2015/16

Salary

The executive directors' salaries are reviewed annually and the base salaries of the executive directors with effect from 4 May 2015 will be as follows:

Name	Position	2014/15 base salary	2015/16 base salary	Percentage increase
Rooney Anand	Chief executive	£554,115	£567,970	2.5%
Kirk Davis	Chief financial officer	£320,000	£328,000	2.5%

These increases compare with average pay rises for the group's four-weekly paid employees (which include pub and restaurant managers but exclude colleagues working for them in those pubs and restaurants) of 2.0%.

Pension and benefits

The pension contributions and benefits will continue in line with the policy table on pages 48.

Annual bonus

The annual bonus opportunity will remain unchanged for 2015/16. The chief executive's financial performance targets will continue to be based primarily on group PBTE (although the weighting of this will be reduced from 75% to 62.5%) and free cash flow (maximum weighting remains at 15%). In addition the chief executive will have a financial target relating to the achievement of synergies from the acquisition of Spirit Pub Company plc (maximum weighting 12.5%) and a further 10% of his bonus will be based on individual targets relating to succession planning.

The chief financial officer's main financial performance targets will be based on PBTE (maximum weighting 50%) and free cash flow (maximum weighting 12.5%). There will also be a financial target relating to the achievement of synergies from the acquisition of Spirit (maximum weighting 12.5%) and two other individual targets (maximum weighting 25%) which are commercially sensitive.

The committee has decided that the bonus targets should not be disclosed prospectively due to commercial sensitivity. The committee expects to publish the performance targets once they have ceased to be commercially sensitive, in the 2016/17 annual report.

LTIP

The awards to be made in 2015 will be based on 200% of the executive director's base salary (100% for the core LTIP and 100% for the growth LTIP), calculated by reference to the average closing prices on the three business days immediately prior to the date of the award.

The awards will vest three years after the date of the award, subject to continued employment within the group and dependent on performance over the three financial years to May 2018. There will be no vesting under the core LTIP award for EPS growth (from a base of 61.0p) of 7.5% or less, increasing on a straight-line basis to full vesting for growth of 16.5%. For the growth LTIP award, there will be no vesting for ROCE of 9.2% or less, increasing on a straight-line basis to full vesting for ROCE of 9.7%. The committee retains the discretion to scale back the vesting levels of the growth LTIP awards in appropriate circumstances.

These targets were set without taking into account the potential impact of the recent acquisition of Spirit Pub Company plc. The committee will consider, during the course of this year, whether any adjustments should be made to the targets as a result thereof and details of any adjustments will be disclosed in next year's report.

Chairman and non-executive directors' fees

The fees payable to the chairman and the non-executive directors in 2015/16 are as set out below. There will be no changes to the benefits receivable by the chairman. Fees for the chairman and the non-executive directors will be reviewed again in 2016 in the light of the recent acquisition of Spirit Pub Company.

Name	Position	2014/15 base fee	2015/16 base fee	Percentage increase
Tim Bridge	Chairman	£174,250	£183,000	5.0
Mike Coupe	Non-executive director	£44,100	£46,000	4.3
Ian Durant	Non-executive director	£51,300	£53,400	4.1
Rob Rowley	Non-executive director	£44,100	£46,000	4.3
Lynne Weedall	Non-executive director	£51,300	£53,400	4.1

DIRECTORS' REPORT AND DISCLOSURES

The directors present their annual report together with the audited financial statements of the company and the group for the 52 weeks ended 3 May 2015.

Profits and dividends

The group's profit before taxation and exceptional items for the period amounted to £168.5m (2014 (53 weeks: £173.1m). An interim dividend of 7.95p per share (2014: 7.60p) was paid on 23 January 2015. The directors recommend a final dividend of 21.80p per ordinary share (2014: 20.80p), making a total dividend for the year of 29.75p per share (2014: 28.40p). Subject to the approval of shareholders at the AGM, the final dividend will be paid on 14 September 2015 to shareholders on the register at the close of business on 14 August 2015.

Directors

Details of the current directors are given on page 37. Rob Rowley and Kirk Davis were appointed to the board on 18 July 2014 and 3 November 2014 respectively. During the year Matthew Fearn stepped down from the board with effect from 29 September 2014 due to his illness, and John Brady retired from the board on 27 July 2014, having served as a non-executive director for nine years.

The board has recommended that all of the 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 3 May 2015 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:

	4 May 2014	3 May 2015
Rooney Anand	381,782	467,265
Tim Bridge	1,389,998	1,438,531
Mike Coupe	2,000	2,000
Kirk Davis	—	—
Ian Durant	22,320	22,320
Rob Rowley	—	—
Lynne Weedall	2,000	2,000

At 3 May 2015, Tim Bridge had a non-beneficial interest in 87,900 (2014: 87,900) shares, in addition to the holding shown above.

There have been no changes in the interests of the directors between 3 May 2015 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:

	3 May 2015	30 June 2015
Standard Life Investments Limited	13.94%	8.06%
Capital Research Global Investors	11.34%	9.17%
UBS Investment Bank	5.95%	<3%
Royal London Asset Management[1]	3.02%	3.02%

1. Formal notification of a change to shareholding not received before 30 June 2015. We have assumed that the shareholding remains unchanged.

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 25 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 668k ordinary shares, with an aggregate nominal value of £83.5k were allotted, for cash, during the period in connection with the company's sharesave and executive option schemes. In addition a further 111k shares were acquired by the company to satisfy awards under the company's deferred share option scheme.

The company makes regular use of the employee benefit trust (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 July 2014, the EBT purchased a total of 500k shares at a total price of £4.206m. The average share price was 841.1p per share.

Purchase of own shares

In accordance with the company's articles of association, authority was sought at the last AGM to purchase up to 10% of the company's shares in issue as at 21 July 2014. The authority, which has not been exercised, was approved and remains exercisable until the next annual general meeting or 8 February 2017, whichever is earlier. The directors have again sought approval for the authority to purchase the company's own shares.

Allotment of shares

In connection with the proposed acquisition of Spirit Pub Company plc, on 13 January 2015, at a general meeting of the company and pursuant to section 551 of the Companies Act 2006, the shareholders approved the authority of the directors to allot shares up to an aggregate nominal value of £11.25m. This authority, which is in addition to the authority to allot shares granted at the last AGM, shall expire on 31 December 2015.

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.

No voting rights will be exercised in respect of any own shares held by the company.

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 Conduct Authority, directors of the company and persons discharging managerial responsibility are required to obtain prior approval from the company to deal in the company's securities, and are prohibited from dealing during closed periods.

Change of control

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

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

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

Articles of association

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

Appointment and replacement of directors

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

The articles provide that at each AGM all those directors who were elected, or last re-elected, at the AGM held in the third calendar year before the current year shall retire from office and may stand for re-election. In practice directors submit themselves for annual re-election in accordance with the provisions of the UK Corporate Governance Code.

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.

Directors' ordinary remuneration

The ordinary remuneration of the directors refers to the remuneration of the non-executive directors who are paid by way of directors' fees and does not relate to the salaries of the executive directors. Approval will be sought at the upcoming AGM to increase the level of the ordinary remuneration of the directors to £600,000 per annum in aggregate. It is not proposed that the non-executive directors' fees will be increased materially from the levels which are stated in the annual report.

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

The group continues to support community initiatives and charitable causes, in particular Macmillan Cancer Support, full details of which are given in the corporate social responsibility section of this annual report. The group makes no political donations.

Employment and recruitment policies

It is the company's policy to ensure that employees are recruited, selected, developed, remunerated and promoted on the basis of their skills and suitability for the work performed. The company is committed to treating all colleagues fairly and equally and will endeavour to provide workplace adaptations and training for colleagues or candidates who have a disability and colleagues who become disabled during their employment.

The company values colleague engagement across the business and produces a monthly publication that is circulated to all employees containing company news and articles, which is circulated to all colleagues. In addition, the company provides regular briefings and presentations to staff on the company's performance and strategy as well as annual and interim results. The company operates an HMRC approved share save scheme open to all employees which helps to align employees with the performance of the company. The current scheme is due to expire later in the year and a resolution to approve a new scheme will be proposed at the AGM.

We are a people business so it is vitally important that we recruit and train the right people to deliver value, service and quality to our customers. The company works in partnership with local communities to promote and provide opportunities for all.

Human rights

Even though the company does not have a formal human rights policy, it is committed to conducting business with integrity and fairness.

Corporate responsibility

Disclosure of the group's greenhouse gas emissions is contained within the corporate responsibility statement on page 35.

Directors' and officers' indemnity insurance

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

Financial instruments

The group's policy on the use of financial instruments is set out in note 23.

Post balance sheet events

Details of events occurring after the year end are set out in note 31.

DIRECTORS' REPORT AND DISCLOSURES CONTINUED

Directors' statement as to disclosure of information to the auditor

The directors who were members of the board at the time of approving the directors' report are listed on page 37. 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 23 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, which take account of reasonably possible changes in trading performance, and its stress testing to take account of expected payments in respect of uncertain tax positions 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 8 September 2015 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
30 June 2015

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 IFRS 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 IFRS, 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 strategic report, the directors' report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with 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 not 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 parent company and undertakings included in the consolidation taken as a whole;
- that the annual report, including the strategic report, 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; and
- having taken into account all matters considered by the board and brought to the attention of the board during the year, the directors consider that the annual report, taken as a whole, is fair, balanced and understandable. The directors believe that the disclosures set out in this annual report provide the information necessary for shareholders to assess the company's performance, business model and strategy.

The directors of Greene King plc are listed on page 37.

T J W Bridge
Director
30 June 2015

R Anand
Director

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INDEPENDENT AUDITOR'S REPORT (GROUP)

To the members of Greene King plc

We present our audit report on the group financial statements (as defined below) of Greene King plc, which comprise the group primary statements and related notes set out on pages 67 to 101.

Opinion on financial statements

In our opinion Greene King plc's group financial statements:

- give a true and fair view of the state of the group's affairs as at 3 May 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards 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.

Overview

Materiality	Overall group materiality of £7.8m (2014: £8.8m) which represents approximately 5% of pre-tax profit before exceptional items.
Audit scope	We performed an audit of the complete financial information of all of the trading components and the corporate centre which together contribute to the group's results for the year. We have obtained an understanding of the entity-level controls of the group which assisted us in identifying and assessing risks of material misstatement due to fraud or error, as well as assisting us in determining the most appropriate audit strategy.
Areas of focus	Asset impairment considerations in relation to the trading estate and associated goodwill. Risks relating to uncertain tax positions. Funding headroom and compliance with debt covenants. Revenue recognition in relation to beer and liquor sales and the associated retrospective discounts.
What has changed	Our assessment of the above risks of material misstatement is consistent with the prior year.

Our application of materiality

The scope of our work is influenced by materiality. We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

As we develop our audit strategy, we determine materiality at the overall level and at the individual account level (referred to as our 'performance materiality').

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements.

We determined materiality for the group to be £7.8m (2014: £8.8m), which is approximately 5% (2014: 5%) of pre-tax profit before exceptional items. Our materiality amount provides a basis for determining the nature and extent of our risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature and extent of further audit procedures. Materiality is assessed on both quantitative and qualitative grounds. With respect to disclosure and presentational matters, amounts in excess of the quantitative thresholds above may not be adjusted if their effect is not considered to be material on a qualitative basis.

Rationale for basis

We used pre-tax profit before exceptional items of £168.5m because it is a key performance indicator used in communications with investors, it is more reflective of underlying trading profitability and it is a key metric used by the group in the assessment of the performance of management. We also note that market and analyst commentary on the group uses pre-tax profit before exceptional items as a key metric. Therefore, in our view, we consider that pre-tax profit before exceptional items to be the most appropriate performance metric on which to base our materiality calculation as we considered this to be the most relevant performance measure to the stakeholders of the group. This provided the basis for determining the nature, timing and extent of our audit procedures, and identifying and assessing the risk of material misstatement.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our assessments of risk and the group's overall control environment, our judgment was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the group should be 75% (2014: 75%) of planning materiality, namely £5.9m (2014: £6.6m), due to the low level of historic uncorrected misstatements. Our objective in adopting this approach was to ensure that the total of any detected (but unadjusted) and undetected audit differences was unlikely to exceed our assessment of materiality for the financial statements as a whole. Full scope audit procedures are completed for all trading divisions and the corporate centre which together contribute to the group's results for the year. Audit work on individual components is undertaken using a percentage of our total performance materiality. This percentage is based on the size of the component relevant to the group as a whole and our assessment of risk of misstatement at that component. In the current period the range of performance materiality allocated to components was £2.3m to £5.3m.

INDEPENDENT AUDITOR'S REPORT (GROUP) CONTINUED

To the members of Greene King plc

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the audit committee that we would report to the committee all audit differences in excess of £390,000 (2014: £400,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the group which, when taken together, enable us to form an opinion on the group financial statements under International Standards on Auditing (UK and Ireland). We take into account size, risk profile, changes in the business environment and other factors when assessing the level of work to be performed at each entity.

The group's operations are based solely in the United Kingdom and therefore all audit procedures are completed by one audit team based in the head office location working across both the group and subsidiary financial statement audits.

Our assessment of focus areas

We identify below the risks of material misstatement which had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. This is not a complete list of all the risks identified in our audit. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the group financial statements as a whole and should be read in this context. This is not a complete list of all the procedures we performed in respect of these areas.

Changes from the prior year

Our audit approach and assessment of areas of focus changes in response to changes in circumstances affecting the Greene King business and impacting the group financial statements.

Our assessment of the risks of material misstatement below is consistent with the prior year.

Area of focus	How our audit addressed the area of focus
Asset impairment considerations in relation to the trading estate and associated goodwill	
The group had property, plant and equipment balances of £2,235.4m relating to its trading estate and £700.9m of goodwill as at the period end. For the trading estate, impairments are considered on a site by site basis when an impairment indicator has been identified through reduced profit performance. Goodwill is assessed at an operating segment level (i.e. Retail, Pub Partners and Brewing & Brands), being the lowest cash generating units (CGU) at which goodwill is monitored. In assessing impairment, management estimates the recoverable value of each site by reference to the higher of its value in use (based on management's key assumptions relating to discount rate, growth in profits and cash forecasts) and fair value less costs to sell (based on management's estimates). The recoverable value is compared to the carrying value of each site to determine any impairment. For goodwill management performs its impairment analysis by considering the value in use of the operating segment, based on forecast cash flows for that segment. These processes have a high degree of judgment and therefore carry a higher level of inherent risk of material error.	We performed a walk-through of the process employed to identify indicators of impairment and to estimate appropriate impairments of individual sites at individual CGU level or of goodwill at segment level. We then tested key elements of those processes. In particular for both the trading estate and goodwill: – we compared assumed profit growth rates in cash flow forecasts to the budget, external market growth estimates and recent actual profit growth rates, and corroborated explanations for anomalies; – we utilised our valuation specialists to determine the reasonableness of the discount rate applied to cash flows through benchmarking to comparator companies and market expectations; and – we reperformed management's sensitivities applied to the cash flows and considered management's judgment of how a reasonably possible change in assumptions would lead to impairment based upon our knowledge of the group's activities and factors in the sector. For the trading estate, additionally: – where the fair value less costs of sale (FVLCS) was required to support the recoverable value of a site, we assessed the reasonableness of management's estimate of FVLCS, using our own property valuation specialists, who utilised their knowledge of property valuation and comparator transactions; – where impairment indicators existed but no impairment had been booked, we sought and corroborated explanations from management on individual pubs to assess whether an impairment charge was required; and – we checked a sample of sites to ensure that the site's recoverable value used in the impairment model is the higher of value in use and FVLCS.

Area of focus	How our audit addressed the area of focus
Risks relating to uncertain tax positions	
The group has implemented a number of intra-group arrangements to finance third party acquisitions and to effect other intra-group transactions. A number of the arrangements are in dispute with HMRC or have yet to be agreed. The uncertainty over resolution of these arrangements has required the directors to make judgments on the level of tax benefit that is likely to be realised compared to the level previously recorded. The directors obtain opinions from third party independent advisers to help them assess the level of tax liability required against the benefit previously recorded in prior periods. Estimated liabilities for uncertain tax positions are included within Income tax payable of £50.8m (2014: £46.5m).	We used our tax audit specialists to assess the reasonableness of management's judgments in relation to the uncertain tax positions, including the following steps: – we inspected correspondence with HMRC on the issues under dispute or not yet agreed; – in making our own assessment of the technical merits of each arrangement, we applied our own technical expertise and considered advice to management from third party specialists on the likely outcome of each arrangement; – we discussed management's options for resolution of each issue in isolation and as a whole, and assessed the likely outcome of management's strategies; – we employed our understanding as a firm of HMRC dispute resolution to test management's assumptions on certain cases; and – we tested that the basis for estimation of the tax liability was consistently applied across all of the arrangements, but taking account of new facts and developments.
Funding headroom and compliance with debt covenants	
The group utilises two key sources of debt financing: (1) corporate bonds issued through the ring-fenced securitisation vehicle; and (2) a bank revolving credit facility of £460m. Both of these debt facilities require the group to comply with certain key covenants. Management prepare monthly covenant and headroom calculations and periodic investor reports and compliance certificates. Management's assessment of funding headroom and covenant compliance involves significant forecast estimation, principally relating to revenue and profitability growth, and the quantum and timing of tax payments.	– We performed a walk-through of the process employed by the group and related controls to ensure its compliance with debt covenants and sufficiency of funding; – We checked that the models used were consistent with the assumptions adopted by the group in the impairment models, tested by the audit team as described above; – We checked management's stress testing of the forecasting model to determine whether reasonably foreseeable issues could result in a shortage of funds or a breach of covenants in the forecast period; – We considered whether the forecast model adequately addressed the funding needs and covenant compliance of the enlarged group following the acquisition of Spirit, taking into account the information made available by Spirit in the acquisition process; – We checked key covenant terms included in the forecast model to copies of the executed bank agreements and re-performed covenant calculations to ensure that management's covenant forecasts were correctly performed; and – We assessed all of the group's work in this area to determine whether the directors had an appropriate basis for concluding on going concern.
Revenue recognition in relation to beer and liquor sales and the associated retrospective discounts	
In accordance with International Standards on Auditing (UK and Ireland) there is a presumed fraud risk relating to revenue recognition. We consider that there is a higher level of risk associated with the appropriate recognition of sales in the correct accounting period on beer and liquor sales in the Brewing & Brands and Pub Partners divisions. There is also a higher level of risk associated with the accuracy and completeness of retrospective discounts due to the area being more susceptible to management override.	We performed a walk-through of the processes for the recognition of beer and liquor sales in the Brewing & Brands and Pub Partners divisions and separately for the recognition of retrospective discounts by the group as a whole. For beer and liquor sales: – we performed detailed transaction testing by agreeing a sample of individual revenue items to sales invoices, evidence of delivery and subsequent cash receipt; – we performed sales cut-off testing immediately before and after period end by testing sales invoices to evidence of delivery to ensure that revenue had been recognised in the correct accounting period; additionally we have performed similar detailed testing on credit notes to confirm that the credit note has been recognised in the appropriate accounting period; and – we conducted specific analytical procedures on revenue and credit notes recognised either side of the year-end to test management's conclusion that the related revenue had been recognised in the correct accounting period. For retrospective customer discounts: – we agreed the nature and terms of certain significant discount arrangements to contracts or other supporting documentation; – we performed specific analytical procedures to compare discounts by customer relative to expectations, taking into account the terms of the discount arrangements and prior period amounts; and corroborated explanations for anomalies; and – we tested a sample of recognised rebates to the terms of the rebate, subsequent invoice and settlement to ensure the amounts accrued were reasonable.

Refer to audit committee report (page 43) and the accounting policies section of the group financial statements (page 72) for discussion of the related issues.

INDEPENDENT AUDITOR'S REPORT (GROUP) CONTINUED

To the members of Greene King plc

What we have audited

We have audited the group financial statements of Greene King plc for the 52 weeks ended 3 May 2015 which comprise the group primary statements, being the group income statement, group statement of comprehensive income, group balance sheet, group cash flow statement and group statement of changes in equity; and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement set out on page 61, 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the strategic report and the directors' report for the financial year for which the group financial statements are prepared is consistent with the group financial statements; and
- the information given in the corporate governance statement set out on pages 38 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 group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

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 60, in relation to going concern; and
- the part of the corporate governance statement relating to the company's compliance with the ten provisions of the UK Corporate Governance Code specified for our review.

Other matter

We have reported separately on the parent company financial statements of Greene King plc for the 52 weeks ended 3 May 2015 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
30 June 2015

GROUP INCOME STATEMENT

For the fifty-two weeks ended 3 May 2015

		2015			2014		
	Note	**Before exceptional items £m**	**Exceptional items (note 5) £m**	**Total £m**	Before exceptional items £m	Exceptional items (note 5) £m	Total £m
Revenue	2,3	**1,315.3**	**—**	**1,315.3**	1,301.6	—	1,301.6
Operating costs	4	**(1,059.1)**	**(43.9)**	**(1,103.0)**	(1,036.0)	(66.2)	(1,102.2)
Operating profit	2,4	**256.2**	**(43.9)**	**212.3**	265.6	(66.2)	199.4
Finance income	7	**0.3**	**—**	**0.3**	0.4	—	0.4
Finance costs	7	**(88.0)**	**(6.4)**	**(94.4)**	(92.9)	(1.7)	(94.6)
Profit before tax		**168.5**	**(50.3)**	**118.2**	173.1	(67.9)	105.2
Tax	10	**(35.3)**	**6.4**	**(28.9)**	(39.8)	30.7	(9.1)
Profit attributable to equity holders of parent		**133.2**	**(43.9)**	**89.3**	133.3	(37.2)	96.1

		2015		2014	
	Note	**Before exceptional items**	**Total**	Before exceptional items	Total
Earnings per share					
– basic	12		**40.9p**		44.2p
– adjusted basic	12	**61.0p**		61.4p	
– diluted	12		**40.6p**		44.0p
– adjusted diluted	12	**60.6p**		61.1p	
Dividends per share (paid and proposed in respect of the period)	11	**29.75p**		28.4p	

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the fifty-two weeks ended 3 May 2015

	Note	**2015 £m**	2014 £m
Profit for the period		**89.3**	96.1
Other comprehensive (loss)/income to be reclassified to the income statement in subsequent periods:			
Cash flow hedges:			
– (Losses)/gains taken to equity	23	**(93.4)**	32.0
– Transfers to income statement on cash flow hedges	23	**29.7**	32.1
Tax on cash flow hedges	10	**12.7**	(19.9)
		(51.0)	44.2
Items not to be reclassified to the income statement in subsequent periods:			
Actuarial (losses)/gains on defined benefit pension schemes	9	**(11.9)**	6.8
Tax on actuarial losses/gains	10	**2.4**	(3.3)
		(9.5)	3.5
Other comprehensive (expense)/income for the period, net of tax		**(60.5)**	47.7
Total comprehensive income for the period, net of tax		**28.8**	143.8

GROUP BALANCE SHEET

As at 3 May 2015

	Note	**As at 3 May 2015 £m**	As at 4 May 2014 £m
Non-current assets			
Property, plant and equipment	14	**2,235.4**	2,169.7
Goodwill	13	**700.9**	703.8
Financial assets	15	**21.3**	24.2
Deferred tax assets	10	**62.0**	51.3
Prepayments		**0.4**	0.3
Trade and other receivables	18	**0.1**	0.1
		3,020.1	2,949.4
Current assets			
Inventories	17	**32.1**	30.5
Financial assets	15	**9.1**	8.6
Trade and other receivables	18	**58.9**	60.2
Prepayments		**18.0**	13.3
Cash and cash equivalents	19	**210.3**	216.2
		328.4	328.8
Property, plant and equipment held for sale	20	**0.4**	81.7
		328.8	410.5
Current liabilities			
Borrowings	22	**(189.9)**	(202.0)
Derivative financial instruments	23	**(28.1)**	(9.4)
Trade and other payables	21	**(294.1)**	(256.5)
Income tax payable		**(50.8)**	(46.5)
Provisions	24	**(0.5)**	(0.5)
		(563.4)	(514.9)
Non-current liabilities			
Borrowings	22	**(1,389.1)**	(1,449.8)
Trade and other payables	21	**(1.0)**	–
Derivative financial instruments	23	**(208.8)**	(163.0)
Deferred tax liabilities	10	**(91.1)**	(110.0)
Post-employment liabilities	9	**(60.5)**	(53.5)
Provisions	24	**(6.1)**	(6.0)
		(1,756.6)	(1,782.3)
Total net assets		**1,028.9**	1,062.7
Issued capital and reserves			
Share capital	25	**27.5**	27.4
Share premium		**259.3**	256.6
Capital redemption reserve		**3.3**	3.3
Hedging reserve		**(167.0)**	(116.0)
Own shares		**(4.9)**	(6.3)
Retained earnings		**910.7**	897.7
Total equity		**1,028.9**	1,062.7
Net debt	28	**1,368.7**	1,435.6

Signed on behalf of the board on 30 June 2015

T J W Bridge
Director

R Anand
Director

GROUP CASH FLOW STATEMENT

For the fifty-two weeks ended 3 May 2015

	Note	2015 £m	2014 £m
Operating activities			
Operating profit		**212.3**	199.4
Operating exceptional items		**43.9**	66.2
Depreciation		**62.8**	64.1
EBITDA[1]	2	**319.0**	329.7
Working capital and other movements	27	**4.6**	(4.5)
Interest received		**0.3**	0.4
Interest paid		**(86.0)**	(83.6)
Tax paid		**(40.6)**	(37.7)
Net cash flow from operating activities		**197.3**	204.3
Investing activities			
Purchase of property, plant and equipment		**(160.5)**	(169.6)
Advances of trade loans	15	**(5.5)**	(5.4)
Repayment of trade loans	15	**7.9**	6.7
Sales of property, plant and equipment		**94.0**	38.4
Net cash flow from investing activities		**(64.1)**	(129.9)
Financing activities			
Equity dividends paid	11	**(62.8)**	(58.7)
Issue of shares		**2.8**	2.9
Purchase of own shares		**(4.2)**	(1.9)
Financing costs		**—**	(2.6)
Repayment of borrowings	28	**(61.1)**	(89.4)
Advance of borrowings	28	**—**	100.0
Advance of liquidity facility	28	**—**	157.5
Net cash flow from financing activities		**(125.3)**	107.8
Net increase in cash and cash equivalents		**7.9**	182.2
Opening cash and cash equivalents	19	**202.4**	20.2
Closing cash and cash equivalents	19	**210.3**	202.4

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

GROUP STATEMENT OF CHANGES IN EQUITY

For the fifty-two weeks ended 3 May 2015

	Note	Share capital (note 25) £m	Share premium (note 26) £m	Capital redemption (note 26) £m	Hedging reserve (note 26) £m	Own shares (note 26) £m	Retained earnings (note 26) £m	Total £m
At 28 April 2013		**27.3**	**253.8**	**3.3**	**(160.2)**	**(9.1)**	**856.4**	**971.5**
Profit for the period		—	—	—	—	—	96.1	96.1
Other comprehensive income:								
Actuarial gains on defined benefit pension schemes (net of tax)		—	—	—	—	—	3.5	3.5
Net loss on cash flow hedges (net of tax)		—	—	—	44.2	—	—	44.2
Total comprehensive income		**—**	**—**	**—**	**44.2**	**—**	**99.6**	**143.8**
Issue of ordinary share capital	25	0.1	2.8	—	—	—	—	2.9
Release of shares		—	—	—	—	4.7	(4.7)	—
Repurchase of shares		—	—	—	—	(1.9)	—	(1.9)
Share-based payments	8	—	—	—	—	—	4.4	4.4
Tax on share-based payments	10	—	—	—	—	—	0.7	0.7
Equity dividends paid	11	—	—	—	—	—	(58.7)	(58.7)
At 4 May 2014		**27.4**	**256.6**	**3.3**	**(116.0)**	**(6.3)**	**897.7**	**1,062.7**
Profit for the period		—	—	—	—	—	89.3	89.3
Other comprehensive income:								
Actuarial losses on defined benefit pension schemes (net of tax)		—	—	—	—	—	(9.5)	(9.5)
Net loss on cash flow hedges (net of tax)		—	—	—	(51.0)	—	—	(51.0)
Total comprehensive income		**—**	**—**	**—**	**(51.0)**	**—**	**79.8**	**28.8**
Issue of ordinary share capital	25	0.1	2.7	—	—	—	—	2.8
Release of shares		—	—	—	—	5.6	(5.6)	—
Repurchase of shares		—	—	—	—	(4.2)	—	(4.2)
Share-based payments	8	—	—	—	—	—	3.1	3.1
Tax on share-based payments	10	—	—	—	—	—	(1.5)	(1.5)
Equity dividends paid	11	—	—	—	—	—	(62.8)	(62.8)
At 3 May 2015		**27.5**	**259.3**	**3.3**	**(167.0)**	**(4.9)**	**910.7**	**1,028.9**

NOTES TO THE ACCOUNTS

For the fifty-two weeks ended 3 May 2015

1 Accounting policies

Corporate information

The consolidated financial statements of Greene King plc for the 52 weeks ended 3 May 2015 were authorised for issue by the board of directors on 30 June 2015. 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 3 May 2015 (prior year 53 weeks ended 4 May 2014) 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. As Greene King plc has full control over the entity it is fully consolidated. 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, apart from the changes arising from the adoption of new accounting standards set out below:

Amendment to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. Disclosures in note 14 have been amended accordingly.

The Group has also adopted the following standards and interpretations which have been assessed as having no financial impact or disclosure requirements at this time:

- IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements (as revised in 2011)
- IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures (as revised in 2011)
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 32 Offsetting Financial Assets and Financial Liabilities (Amendment)
- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (Amendment)

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 acquire. The choice of measurement of non-controlling interests, either at fair value or at the proportionate share of the acquiree's identifiable net assets, is determined on a transaction by transaction basis. Acquisition costs incurred are taken to the income statement.

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 vendor 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.

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

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

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

Impairment

Property, plant and equipment

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

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

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

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

Details of the impairment losses recognised in respect of property, plant and equipment 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.

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.

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.

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.

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.

NOTES TO THE ACCOUNTS CONTINUED

For the fifty-two weeks ended 3 May 2015

1 Accounting policies continued

Significant accounting policies continued

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 of disposal 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 two 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.

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

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset and is recorded 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.

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 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 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.

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.

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.

NOTES TO THE ACCOUNTS CONTINUED

For the fifty-two weeks ended 3 May 2015

1 Accounting policies continued

Significant accounting policies continued

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 the date of approval of the financial statements 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:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was first issued in November 2009 and has since been amended several times. A complete version of the standard was issued in July 2014 and is a replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 covers the classification, measurement and derecognition of financial assets and financial liabilities, together with a new hedge accounting model and the new expected credit loss model for calculating impairment. The new standard becomes effective for annual periods beginning on or after 1 January 2018, subject to EU adoption. The group is currently considering the impact of IFRS 9 on its consolidated results and financial position.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 Revenue from contracts with customers in May 2014. The new standard provides a single, five-step revenue recognition model, applicable to all sales contracts, which is based upon the principle that revenue is recognised when the control of goods or services is transferred to the customer. This standard replaces all existing revenue recognition guidance under current IFRS and becomes effective for annual period beginning on or after 1 January 2017, subject to EU adoption. The group is currently considering the impact of IFRS 15 on its consolidated results and financial position.

Other standards and interpretations that are relevant to the group have been assessed as having no financial impact or additional disclosure requirements at this time.

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 judgments 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 and fair value less costs of disposal 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.

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, distribution channels and profile of customers:

Retail: Managed pubs and restaurants

Pub Partners: Tenanted and leased pubs

Brewing & Brands: Brewing, marketing and selling beer

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.

2015	Retail £m	Pub Partners £m	Brewing & Brands £m	Corporate £m	Total operations £m
Revenue	1,000.7	121.9	192.7	–	1,315.3
Operating costs	(809.9)	(67.9)	(162.9)	(18.4)	(1,059.1)
Segment operating profit	190.8	54.0	29.8	(18.4)	256.2
Exceptional items					(43.9)
Net finance costs					(94.1)
Income tax expense					(28.9)
					89.3
Balance sheet					
Segment assets	2,058.2	608.7	358.7	51.0	3,076.6
Unallocated assets[1]					272.3
	2,058.2	608.7	358.7	51.0	3,348.9
Segment liabilities	(110.0)	(14.1)	(73.7)	(103.9)	(301.7)
Unallocated liabilities[1]					(2,018.3)
	(110.0)	(14.1)	(73.7)	(103.9)	(2,320.0)
Net assets	1,948.2	594.6	285.0	(52.9)	1,028.9
Other segment information					
Capital expenditure – tangible assets	139.4	18.9	4.7	2.6	165.6
Goodwill disposed	(0.8)	(2.1)	–	–	(2.9)
Impairment of property, plant and equipment	(21.1)	(6.3)	–	–	(27.4)
Depreciation	(49.0)	(7.6)	(5.1)	(1.1)	(62.8)
EBITDA[2]	239.8	61.6	34.9	(17.3)	319.0

1. Unallocated assets/liabilities comprise cash, borrowings, pensions, net deferred tax, net current tax and derivatives.
2. 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.

NOTES TO THE ACCOUNTS CONTINUED

For the fifty-two weeks ended 3 May 2015

2 Segment information continued

2014	Retail £m	Pub Partners £m	Brewing & Brands £m	Corporate £m	Total operations £m
Revenue	963.0	149.6	189.0	—	1,301.6
Operating costs	(775.3)	(84.3)	(158.6)	(17.8)	(1,036.0)
Segment operating profit	187.7	65.3	30.4	(17.8)	265.6
Exceptional items					(66.2)
Net finance costs					(94.2)
Income tax expense					(9.1)
					96.1
Balance sheet					
Segment assets	1,991.1	697.2	361.1	43.0	3,092.4
Unallocated assets[1]					267.5
	1,991.1	697.2	361.1	43.0	3,359.9
Segment liabilities	(96.6)	(10.0)	(67.5)	(88.9)	(263.0)
Unallocated liabilities[1]					(2,034.2)
	(96.6)	(10.0)	(67.5)	(88.9)	(2,297.2)
Net assets	1,894.5	687.2	293.6	(45.9)	1,062.7
Other segment information					
Capital expenditure – tangible assets	146.3	20.1	4.9	4.3	175.6
Goodwill disposed	(0.3)	(6.1)	—	—	(6.4)
Impairment of property, plant and equipment	(3.5)	(18.5)	—	—	(22.0)
Impairment of disposal group	—	(34.2)	—	—	(34.2)
Depreciation	(48.8)	(9.6)	(5.7)	—	(64.1)
EBITDA[2]	236.5	74.9	36.1	(17.8)	329.7

1. Unallocated assets/liabilities comprise cash, borrowings, pensions, net deferred tax, net current tax and derivatives.
2. 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:

	2015 £m	2014 £m
Goods	**1,224.4**	1,204.7
Services	**90.9**	96.9
	1,315.3	1,301.6

4 Other income and expenses

Operating profit is stated after charging:

	2015			2014		
	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	**66.8**	**—**	**66.8**	65.4	—	65.4
Cost of products sold recognised as an expense	**448.4**	**—**	**448.4**	451.7	—	451.7
Employment costs (note 6)	**336.8**	**0.9**	**337.7**	323.4	—	323.4
Depreciation of property, plant and equipment	**62.8**	**—**	**62.8**	64.1	—	64.1
Operating lease rentals						
– minimum lease rentals	**17.0**	**—**	**17.0**	17.9	—	17.9
Other operating charges	**127.3**	**43.1**	**170.4**	113.5	59.8	173.3
Net loss on disposal	**—**	**(0.1)**	**(0.1)**	—	6.4	6.4
	1,059.1	**43.9**	**1,103.0**	1,036.0	66.2	1,102.2

Fees paid to the auditor during the period consisted of:

	2015 £m	2014 £m
Audit of the consolidated financial statements	**0.2**	0.2
Audit of subsidiaries	**0.1**	0.1
Other services relating to acquisition	**1.2**	—
Tax advisory services	**0.1**	0.1
Included in other operating charges	**1.6**	0.4

Fees paid in respect of tax advisory services are shown net of amounts recharged to third parties.

5 Exceptional items

	2015 £m	2014 £m
Included in operating profit		
Legal and professional fees	**15.8**	—
Impairment of disposal group (note 20)	**—**	34.2
Impairment of property, plant and equipment (note 14)	**27.4**	22.0
Exceptional VAT	**—**	7.0
Employee costs	**1.5**	—
Share-based payment credit	**(0.6)**	—
Insurance proceeds	**(0.1)**	(3.4)
Net (profit)/loss on disposal of property, plant and equipment and goodwill	**(0.1)**	6.4
	43.9	66.2
Included in financing costs		
Interest on tax adjustment in respect of prior periods	**4.0**	1.1
Ineffective cash flow hedges – fair value losses/(gains)	**2.4**	(1.1)
Interest on exceptional VAT	**—**	1.7
Total exceptional items before tax	**50.3**	67.9
Tax impact of exceptional items	**(7.0)**	(10.5)
Tax credit in respect of the licensed estate	**(2.3)**	(6.5)
Tax credit in respect of rate change	**—**	(18.8)
Adjustment in respect of prior periods – income tax	**9.5**	3.9
Adjustment in respect of prior periods – deferred tax	**(6.6)**	1.2
Total exceptional tax	**(6.4)**	(30.7)
Total exceptional items after tax	**43.9**	37.2

NOTES TO THE ACCOUNTS CONTINUED

For the fifty-two weeks ended 3 May 2015

5 Exceptional items continued

Exceptional operating costs

During the period, the group recognised £15.8m (2014: £nil) of exceptional legal and professional fees that related to the acquisition of Spirit Pub Company plc and other potential acquisitions and defending uncertain tax provisions. These amounts include £10.6m of fees that were contingent on the completion of the acquisition of Spirit Pub Company plc which have been recognised in accordance with IAS 32 and will be settled in financial year ending 1 May 2016.

During the period the group recognised an impairment loss of £27.4m (2014: £22.0m) in respect of its licensed estate. The impairment has been recognised in respect of pubs where the higher of value-in-use and fair value less costs of disposal has fallen below the net book value.

In the period, the group received further insurance compensation to meet the costs of restoring sites damaged by fire in a previous period totalling £0.1m (2014: £3.4m).

During the period ended 2 May 2010 the group received a refund of £7.0m from HMRC in respect of VAT on gaming machines following a ruling involving the Rank Group plc that the application of VAT contravened the EU's principal of fiscal neutrality. HMRC appealed the ruling issuing protective assessments to recover the VAT in the event their appeal was successful. On 30 October 2013 the decision was overturned and the group was therefore required to repay the VAT of £7.0m and associated interest of £1.7m. On 16 April 2014 the Supreme Court granted Rank permission to appeal and the case was heard on 21 April 2015. A decision is expected during 2015.

The group incurred £1.5m (2014: £nil) of exceptional employee costs, which included restructuring costs and costs associated with changes to key management.

A share-based payment credit of £0.6m results from the reversal of charges recognised in previous years following a reassessment of expected scheme performance.

The net profit on disposal of property plant and equipment of £0.1m (2014: £6.4m loss) comprises a total profit on disposal of £10.2m (2014: £8.0m) and a total loss on disposal of £10.1m (2014: £14.4m).

On 1 May 2014 the group announced the disposal of 275 non-core pubs from our Pub Partners' estate; this disposal completed on 2 June 2014. In the prior period, an impairment charge totalling £34.2m was recognised as a result of this disposal: £19.6m in respect of the carrying value of the assets and a charge of £14.6m relating to the impairment of goodwill allocated to these sites.

Exceptional finance costs

The £2.4m fair value loss (2014: £1.1m gain) is the mark-to-market movement on the ineffective element of cash flow hedges resulting from changes in the LIBOR yield curve.

Exceptional tax

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

The Finance Act 2013 reduced the rate of corporation tax from 21% to 20% from 1 April 2015. The effect of the reduced rate was included in the accounts for the previous period.

The adjustment in respect of prior periods' income tax arises from finalising the tax returns for earlier periods including the reversal of tax relief previously taken on intra-group transactions.

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

6 Employment costs

	2015			2014		
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Wages and salaries	**307.4**	**1.5**	**308.9**	293.3	—	293.3
Other share-based payments (note 8)	**3.7**	**(0.6)**	**3.1**	4.4	—	4.4
Total wages and salaries	**311.1**	**0.9**	**312.0**	297.7	—	297.7
Social security costs	**21.1**	**—**	**21.1**	21.3	—	21.3
Other pension costs (note 9)						
– defined contribution	**4.6**	**—**	**4.6**	4.4	—	4.4
	336.8	**0.9**	**337.7**	323.4	—	323.4

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

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

	2015	2014
Retail	**22,709**	21,263
Pub Partners	**56**	55
Brewing & Brands	**875**	829
Corporate	**485**	430
	24,125	22,577

The figures above include 15,256 (2014: 12,132) part-time employees.

Details of directors' emoluments are shown in the directors' remuneration report on page 50.

7 Finance (costs)/income

	2015			2014		
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Bank loans and overdrafts	**(10.6)**	**—**	**(10.6)**	(11.6)	—	(11.6)
Other loans	**(76.2)**	**—**	**(76.2)**	(79.8)	—	(79.8)
Ineffective element of cash flow hedges	**1.6**	**(2.4)**	**(0.8)**	1.6	1.1	2.7
Interest on tax adjustment in respect of prior period	**—**	**(4.0)**	**(4.0)**	—	(2.8)	(2.8)
Unwinding of discount element of provisions	**(0.8)**	**—**	**(0.8)**	(0.6)	—	(0.6)
Net finance cost from pensions	**(2.0)**	**—**	**(2.0)**	(2.5)	—	(2.5)
Total finance costs	**(88.0)**	**(6.4)**	**(94.4)**	(92.9)	(1.7)	(94.6)
Bank interest receivable	**0.3**	**—**	**0.3**	0.4	—	0.4
Total finance income	**0.3**	**—**	**0.3**	0.4	—	0.4
Net finance costs	**(87.7)**	**(6.4)**	**(94.1)**	(92.5)	(1.7)	(94.2)

8 Share-based payment plans

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

The general terms of each plan are detailed in the directors' remuneration report starting on page 46. All are equity settled.

The total charge recognised for the period arising from share-based payment transactions including National Insurance contributions is £3.4m (2014: £6.0m). A corresponding credit of £3.1m (2014: £4.4m) has been recognised in equity.

The fair value of the LTIP/growth LTIP issued since 2014 is considered to be equal to the share price on the date of issue. For 2015 issue the fair value was 8.40p (2014: 7.81p). Future dividend payments have not been factored into the valuation as participants are entitled to dividend payments.

The fair value of previous issued equity-settled options and LTIP were estimated using the Black-Scholes model.

The fair value of other equity-settled options is 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:

2015	**SAYE**
Weighted average share price	**857p**
Exercise price	**590p**
Expected dividend yield	**3.6%**
Risk-free rate of return	**0.7%**
Volatility	**20.1%**
Expected life (years)	**3.3**
Weighted average fair value of grants in the year	**215p**

2014	SAYE
Weighted average share price	865p
Exercise price	701p
Expected dividend yield	3.3%
Risk-free rate of return	0.6%
Volatility	21.6%
Expected life (years)	3.3
Weighted average fair value of grants in the year	163p

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. The 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.

NOTES TO THE ACCOUNTS CONTINUED

For the fifty-two weeks ended 3 May 2015

8 Share-based payment plans continued

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

ESOS

	Number of options		Weighted average exercise price	
	2015 m	2014 m	**2015 p**	2014 p
Outstanding at the beginning of the period	**0.3**	0.6	**506**	472
Forfeited	**—**	—	**528**	493
Exercised	**(0.2)**	(0.3)	**500**	444
Outstanding at the end of the period	**0.1**	0.3	**528**	506
Exercisable at the end of the period	**0.1**	0.3	**528**	506

SAYE

	Number of options		Weighted average exercise price	
	2015 m	2014 m	**2015 p**	2014 p
Outstanding at the beginning of the period	**1.6**	1.8	**502**	400
Granted	**1.1**	0.4	**590**	701
Forfeited	**(0.3)**	(0.2)	**586**	446
Exercised	**(0.5)**	(0.4)	**375**	329
Outstanding at the end of the period	**1.9**	1.6	**570**	502
Exercisable at the end of the period	**0.2**	0.2	**378**	349

LTIP

	Number of shares	
	2015 m	2014 m
Outstanding at the beginning of the period	**2.5**	2.7
Granted	**0.7**	0.9
Forfeited	**(0.3)**	(0.2)
Vested	**(0.8)**	(0.9)
Outstanding at the end of the period	**2.1**	2.5
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 (2014: £nil).

ESOS, SAYE and LTIP

Options were exercised on a range of dates. The weighted average share price through the period was 809p in 2015 and 841p in 2014.

The rights outstanding at 3 May 2015 under the LTIP had an exercise price of £nil (2014: £nil) and a weighted average remaining contractual life of 1.3 years (2014: 1.3 years).

The outstanding options for the ESOS scheme had an exercise price of 528p (2014: between 408p and 528p) and for the SAYE scheme between 349p and 701p (2014: between 274p and 701p).

The weighted average remaining contractual life was 0.3 years for the ESOS (2014: 1.1 years) and 3.4 years for the SAYE scheme (2014: 2.8 years).

Deferred share bonus scheme

In the prior period selected senior executives participated in a deferred share bonus scheme. Awards made under this scheme were based on a percentage of salary and were paid in shares. Awards were made to eligible employees on the achievement of corporate targets and vested once required service periods were completed. During the year no shares (2014: 0.04m) were purchased to fulfil awards made in 2013/14 (2012/13) under this scheme.

9 Pensions

The group maintains two defined contribution schemes, which are open to all new employees, and two defined benefit schemes.

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

Defined contribution pension scheme

Member funds for the defined contribution schemes are held and administered by the Friends Life Group. The total cost recognised in operating profit for the period was £4.6m (2014: £4.4m).

Defined benefit pension schemes and post-employment benefits

The group maintains the following defined benefit schemes which are both closed to new entrants and were closed to future accrual during 2013. Both schemes have had full actuarial valuations in the last three years: Greene King Pension Scheme (last valued as at 5 April 2012) and Belhaven Pension Scheme (last valued as at 4 May 2011).

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 the earlier of retirement or closure to future accrual and their length of service.

Since the pension liability is adjusted for the changes to the consumer price index, the pension plan is exposed to inflation, interest rate risks and changes in the life expectancy for pensioners. As the plan assets include significant investments in quoted equity shares of entities in manufacturing and consumer product sector, the group is also exposed to equity market risk arising in the manufacturing and consumer products sector.

The total cost recognised in the income statement was:

	Pension schemes		Post-employment benefits	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Net interest on net defined liability	**(2.0)**	(2.5)	**—**	—

The values of the schemes' liabilities have been determined by a qualified actuary based on the results of the last actuarial valuation, updated to 3 May 2015 using the following principal actuarial assumptions:

	2015	2014
Discount rate	**3.4%**	4.1%
Expected pension payment increases	**3.2%**	3.3%
Rate of inflation (RPI)	**3.3%**	3.6%
Rate of inflation (CPI)	**2.3%**	2.7%
The mortality assumptions imply the following expectations of years of life from age 65:		
Man currently aged 40	**24.5**	24.6
Woman currently aged 40	**26.7**	27.0
Man currently aged 65	**22.3**	22.4
Woman currently aged 65	**24.4**	24.5

Mortality assumptions are based on standard tables adjusted for scheme experience and with an allowance for future improvement in life expectancy.

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' value		Post-employment benefits	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Investment quoted in active markets				
Equities	**257.0**	225.7	**—**	—
With profits	**3.0**	2.8	**—**	—
Bonds	**62.7**	63.4	**—**	—
Unquoted investments				
Cash	**1.7**	3.6	**—**	—
Total fair value of assets	**324.4**	295.5	**—**	—
Present value of scheme liabilities				
Funded plans	**(383.6)**	(347.7)	**—**	—
Unfunded plans	**—**	—	**(1.3)**	(1.3)
Non-current liability recognised	**(59.2)**	(52.2)	**(1.3)**	(1.3)

NOTES TO THE ACCOUNTS CONTINUED

For the fifty-two weeks ended 3 May 2015

9 Pensions continued

Defined benefit pension schemes and post-employment benefits continued

The movements in the pension schemes' net liability during the period are as follows:

	Pension assets		Pension liabilities		Net pension liability	
	2015 £m	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m
At beginning of period	**295.5**	280.3	**(347.7)**	(344.1)	**(52.2)**	(63.8)
Pension costs charged to income statement						
Net interest	**12.0**	10.9	**(14.0)**	(13.4)	**(2.0)**	(2.5)
	12.0	10.9	**(14.0)**	(13.4)	**(2.0)**	(2.5)
Benefits paid	**(10.6)**	(10.1)	**10.6**	10.1	**–**	–
Re-measurement gains/(losses) in other comprehensive income						
Return on plan assets (excluding amounts included in net interest expenses)	**20.6**	7.1	**–**	–	**20.6**	7.1
Actuarial changes arising from changes in demographic assumptions	**–**	–	**2.1**	2.1	**2.1**	2.1
Actuarial changes arising from changes in financial assumptions	**–**	–	**(35.0)**	(1.4)	**(35.0)**	(1.4)
Experience adjustments	**–**	–	**0.4**	(1.0)	**0.4**	(1.0)
	20.6	7.1	**(32.5)**	(0.3)	**(11.9)**	6.8
Contributions paid – employers	**6.9**	7.3	**–**	–	**6.9**	7.3
At end of period	**324.4**	295.5	**(383.6)**	(347.7)	**(59.2)**	(52.2)

	Post-employment benefits liability	
	2015 £m	2014 £m
At beginning of period	**(1.3)**	(1.5)
Settlements and curtailments	**–**	0.2
At end of period	**(1.3)**	(1.3)

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

	Decrease/(increase) in liability	
	2015 £m	2014 £m
0.25% points increase in discount rate	**16.8**	15.0
0.25% points increase in inflation assumption	**(13.8)**	(12.3)
Additional one year increase to life expectancy	**(12.5)**	(12.4)

The following payments, which are also the minimum funding requirements, are the expected contributions to the defined benefit plan in future years:

	2015 £m	2014 £m
Within 1 year	**6.9**	6.9
Between 2 and 5 years	**27.5**	27.5
Between 5 and 10 years	**17.4**	24.8
	51.8	59.2

The average duration of the defined benefit plan obligation at the end of the reporting period is 18 years (2014: 17 years).

10 Taxation

Consolidated income statement	2015 Before exceptional items £m	2015 Exceptional items £m	2015 Total £m	2014 Before exceptional items £m	2014 Exceptional items £m	2014 Total £m
Income tax						
Corporation tax before exceptional items	**38.5**	**—**	**38.5**	43.6	—	43.6
Recoverable on exceptional items	**—**	**(1.2)**	**(1.2)**	—	(2.6)	(2.6)
Current income tax	**38.5**	**(1.2)**	**37.3**	43.6	(2.6)	41.0
Adjustment in respect of prior periods	**—**	**9.5**	**9.5**	—	3.9	3.9
	38.5	**8.3**	**46.8**	43.6	1.3	44.9
Deferred tax						
Origination and reversal of temporary differences	**(3.2)**	**(8.1)**	**(11.3)**	(3.8)	(14.4)	(18.2)
Adjustment in respect of prior periods	**—**	**(6.6)**	**(6.6)**	—	1.2	1.2
Tax credit in respect of rate change	**—**	**—**	**—**	—	(18.8)	(18.8)
	(3.2)	**(14.7)**	**(17.9)**	(3.8)	(32.0)	(35.8)
Tax charge in the income statement	**35.3**	**(6.4)**	**28.9**	39.8	(30.7)	9.1

Group statement of comprehensive income	2015 £m	2014 £m
Deferred tax		
(Loss)/gain on actuarial valuation of pension liability	**(2.4)**	1.3
Net (loss)/gain on revaluation on cash flow hedges	**(12.7)**	12.9
Tax charge in respect of rate change	**—**	9.0
	(15.1)	23.2

Group statement of changes in equity	2015 £m	2014 £m
Deferred tax		
Share-based payment – future taxable benefit	**3.4**	0.5
Tax charge in respect of rate change	**—**	0.7
Deferred tax reported in equity	**3.4**	1.2
Income tax		
Share-based payments – current taxable benefit	**(1.9)**	(1.9)
Total tax reported in equity	**1.5**	(0.7)

Reconciliation of income tax expense for period

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

	2015 £m	2014 £m
Profit before tax	**118.2**	105.2
Profit before tax multiplied by standard rate corporation tax 20.9% (2014: 22.8%)	**24.7**	24.0
Effects of:		
Expenses not deductible for tax purposes	**3.6**	5.3
Exceptional deferred tax credit in respect of licensed estate	**(2.3)**	(6.5)
Exceptional tax credit in respect of rate change	**—**	(18.8)
Adjustment in respect of prior periods – income tax	**9.5**	3.9
Adjustment in respect of prior periods – deferred tax (credit)/charge	**(6.6)**	1.2
Income tax expense reported in the income statement	**28.9**	9.1

NOTES TO THE ACCOUNTS CONTINUED

For the fifty-two weeks ended 3 May 2015

10 Taxation continued

Income tax payable

The income tax liability of £50.8m (2014: £46.5m) includes an assessment of the expected payments on uncertain tax positions which have yet to be agreed or are in dispute with HMRC.

Deferred tax

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

	2015 £m	2014 £m
Deferred tax liability		
Accelerated capital allowances	**33.7**	38.0
Rolled over gains and property revaluation	**57.4**	72.0
	91.1	110.0
Deferred tax asset		
Pensions and post-employment medical benefits	**(12.1)**	(10.6)
Other accruals and deferred income	**(0.9)**	(2.1)
Derivatives	**(47.1)**	(33.9)
Share-based payment	**(1.9)**	(4.7)
	(62.0)	(51.3)
Net deferred tax liability	**29.1**	58.7

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

	2015			2014		
	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	**(3.5)**	**(0.8)**	**(4.3)**	(4.0)	(7.7)	(11.7)
Rolled over gains and property revaluations	**—**	**(14.6)**	**(14.6)**	—	(24.8)	(24.8)
Pensions and post-employment medical benefit	**0.9**	**—**	**0.9**	1.0	—	1.0
Other accruals and deferred income	**—**	**1.2**	**1.2**	—	0.3	0.3
Derivatives	**—**	**(0.5)**	**(0.5)**	—	0.2	0.2
Share-based payments	**(0.6)**	**—**	**(0.6)**	(0.9)	—	(0.9)
Tax losses carried forward	**—**	**—**	**—**	0.1	—	0.1
Deferred tax expense	**(3.2)**	**(14.7)**	**(17.9)**	(3.8)	(32.0)	(35.8)

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

Deferred tax liabilities	Accelerated capital allowances £m	Rolled over gains and property revaluation £m	Total £m
At 28 April 2013	49.7	96.8	146.5
Credit to the income statement	(11.7)	(24.8)	(36.5)
At 4 May 2014	38.0	72.0	110.0
Credit to the income statement	(4.3)	(14.6)	(18.9)
At 3 May 2015	**33.7**	**57.4**	**91.1**

Deferred tax assets	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
At 28 April 2013	(14.9)	(2.4)	(54.0)	(5.0)	(0.1)	(76.4)
Charge to equity/comprehensive income	3.3	—	19.9	1.2	—	24.4
Charge/(credit) to the income statement	1.0	0.3	0.2	(0.9)	0.1	0.7
At 4 May 2014	(10.6)	(2.1)	(33.9)	(4.7)	—	(51.3)
(Credit)/charge to equity/comprehensive income	(2.4)	—	(12.7)	3.4	—	(11.7)
Charge/(credit) to the income statement	0.9	1.2	(0.5)	(0.6)	—	1.0
At 3 May 2015	**(12.1)**	**(0.9)**	**(47.1)**	**(1.9)**	**—**	**(62.0)**

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

The Finance Act 2013 reduced the rate of corporation tax from 21% to 20% from 1 April 2015. The effect of the reduced rate was included in the accounts for the previous period.

11 Dividends paid and proposed

	2015 £m	2014 £m
Declared and paid in the period		
Interim dividend for 2015: 7.95p (2014: 7.6p)	**17.4**	16.6
Final dividend for 2014: 20.8p (2013: 19.45p)	**45.4**	42.1
	62.8	58.7
Proposed for approval at AGM		
Final dividend for 2015: 21.8p (2014: 20.8p)	**67.1**	45.4
Total proposed dividend for 2015: 29.75p (2014: 28.4p)	**84.5**	62.1

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 £89.3m (2014: £96.1m) by the weighted average number of shares in issue during the period (excluding own shares held) of 218.3m (2014: 217.2m).

Diluted earnings per share has been calculated on a similar basis taking account of 1.6m (2014: 1.1m) dilutive potential shares under option, giving a weighted average number of ordinary shares adjusted for the effect of dilution of 219.9m (2014: 218.3m). There were no (2014: nil) anti-dilutive share options excluded from the diluted earnings per share calculation. The performance conditions for share options granted over 1.5m (2014: 2.6m) 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 diluted basis.

	Earnings		Basic earnings per share		Diluted earnings per share	
Adjusted earnings per share	**2015 £m**	2014 £m	**2015 p**	2014 p	**2015 p**	2014 p
Profit attributable to equity holders	**89.3**	96.1	**40.9**	44.2	**40.6**	44.0
Exceptional items	**43.9**	37.2	**20.1**	17.2	**20.0**	17.1
Profit attributable to equity holders before exceptional items	**133.2**	133.3	**61.0**	61.4	**60.6**	61.1

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

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For the fifty-two weeks ended 3 May 2015

13 Goodwill

	£m
Cost	
At 28 April 2013	724.8
Disposal	(6.4)
Transfer to assets held for sale	(14.6)
At 4 May 2014	703.8
Disposal	(2.9)
At 3 May 2015	**700.9**
Impairment	
At 28 April 2013	–
Impairment of disposal group (note 5)	(14.6)
Transfer to assets held for sale	14.6
At 4 May 2014 and 3 May 2015	**–**
Net book value	
At 3 May 2015	**700.9**
At 4 May 2014	703.8
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 £352.7m (2014: £353.5m) to Retail, £133.7m (2014: £135.8m) to Pub Partners, and £214.5m (2014: £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 sales prices, volumes, business mix and margin, based on the current estate and committed capital expenditures.

Cash flows are discounted at 9.0% (2014: 9.0%) which is used as an approximation for the risk-adjusted discount rate of the relevant operating segment. A growth rate of 1.0% (2014: 2.0%) has been used to extrapolate cash flows. The growth rate is below the long-term average growth rate for the industry and reflects trends in trading performance.

Sensitivity to changes in assumptions
The calculation is most sensitive to changes in the assumptions used for budgeted cash flow, pre-tax discount rate and growth rate. Management considers that reasonable possible changes in assumptions would be an increase in discount of 1% point, a reduction in growth rate of 1% point or a 10% reduction in budgeted cash flow. As an indication of sensitivity, when applied to the value-in-use calculation neither a 1% reduction in growth rate or a 10% reduction in cash flow would have resulted in an impairment of goodwill in the period, a 1% increase in the discount rate would have resulted in a £4.6m (2014: £nil) impairment to the goodwill allocated to Pub Partners, with the carrying amount equalling the recoverable amount at a discount rate of 9.9%.

14 Property, plant and equipment

	Licensed estate		Other		
	Land and buildings £m	Plant and equipment £m	Land and buildings £m	Plant and equipment £m	Total £m
Cost					
Balances at 28 April 2013	2,094.0	597.1	61.8	119.1	2,872.0
Additions during period	98.8	67.6	2.4	6.8	175.6
Transfer to property, plant and equipment held for sale	(87.5)	(26.9)	—	—	(114.4)
Disposals during period	(45.2)	(6.0)	(0.8)	—	(52.0)
Balances at 4 May 2014	2,060.1	631.8	63.4	125.9	2,881.2
Additions during period	99.1	59.3	2.8	4.4	165.6
Transfer to property, plant and equipment held for sale	(0.8)	(0.1)	—	—	(0.9)
Disposals during period	(28.1)	(9.7)	(0.1)	—	(37.9)
Balances at 3 May 2015	**2,130.3**	**681.3**	**66.1**	**130.3**	**3,008.0**
Depreciation and impairment					
Balances at 28 April 2013	145.3	429.6	10.8	75.2	660.9
Provided during the year	8.5	49.9	2.4	3.3	64.1
Written back on disposals	(19.5)	(2.8)	(0.1)	—	(22.4)
Impairment (see below)	41.6	—	—	—	41.6
Transfer to property, plant and equipment held for sale	(8.8)	(23.9)	—	—	(32.6)
Balances at 4 May 2014	167.1	452.8	13.1	78.5	711.5
Provided during the year	7.5	49.1	1.8	4.4	62.8
Written back on disposals	(23.1)	(5.5)	—	—	(28.6)
Impairment (see below)	27.4	—	—	—	27.4
Transfer to property, plant and equipment held for sale	(0.4)	(0.1)	—	—	(0.5)
Balances at 3 May 2015	**178.5**	**496.3**	**14.9**	**82.9**	**772.6**
Net book value					
At 3 May 2015	**1,951.8**	**185.0**	**51.2**	**47.4**	**2,235.4**
At 4 May 2014	1,893.0	179.0	50.3	47.4	2,169.7
At 28 April 2013	1,948.7	167.5	51.0	43.9	2,211.1

The licensed estate relates to properties, and assets held within those properties, licensed to trade (i.e. managed, tenanted and leased houses). Other assets relate to property, plant and equipment associated with unlicensed properties (i.e. brewing, distribution, and central assets).

The net book value of land and buildings comprises:

	2015 £m	2014 £m
Freehold properties	**1,895.9**	1,842.8
Leasehold properties >50 years unexpired term	**64.7**	60.3
Leasehold properties <50 years unexpired term	**42.4**	40.2
	2,003.0	1,943.3

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 £1,425.2m (2014: £1,422.1m) over which there is a first charge in favour of the securitised debt holders as detailed in note 22.

NOTES TO THE ACCOUNTS CONTINUED

For the fifty-two weeks ended 3 May 2015

14 Property, plant and equipment continued

Future capital expenditure

	2015 £m	2014 £m
Contracted for	**7.0**	9.0

Impairment of property, plant and equipment

During the year £27.4m of impairment losses (2014: £41.6m) were recognised in the income statement as exceptional costs. The prior year impairment charge includes a £19.6m charge in relation to the sale of the disposal group as discussed in note 5.

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

	2015 £m	2014 £m
Retail	**21.1**	3.5
Pub Partners	**6.3**	18.5
Pub Partners in respect of disposal group (note 5)	**—**	19.6
	27.4	41.6

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 of disposal 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% (2014: 9%) and the projected cash flows extrapolated using an average growth rate of 1% (2014: 2%) which is below the long-term average growth rate for the industry and reflects trends in trading performance. Cash-flow projections 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 of disposal are based on valuations undertaken by in-house property experts. The valuation considers assumptions such as current, and future projected income levels, which take account of the location and quality of the pub. In addition recent market transactions in the sector and potential alternative use values have been considered.

The valuation techniques applied are consistent with the principles in IFRS 13 Fair Value Measurement. As they use significant unobservable inputs they are classified within Level 3 of the fair value hierarchy; this hierarchy is further explained in note 23.

The impairment charge recognised in relation to a small number of pubs was driven by changes in the local competitive and trading environment at their respective sites, and decisions taken to exit some sites where current market values are lower than book values.

The prior year impairment in respect of the disposal group was calculated based on expected net disposal proceeds.

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 less cost of disposal:

	2015 £m	2014 £m
Retail	**10.5**	0.9
Pub Partners	**2.3**	2.8
	12.8	3.7

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

	2015 £m	2014 £m
Retail	**5.0**	0.6
Pub Partners	**1.0**	1.9
	6.0	2.5

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

	2015 £m	2014 £m
Retail	**5.0**	0.6
Pub Partners	**1.0**	1.9
	6.0	2.5

15 Financial assets

	2015 £m	2014 £m
Trade loans (net of provision)	**9.1**	8.6
Total current	**9.1**	8.6
Trade loans (net of provision)	**20.8**	23.7
Other financial assets	**0.5**	0.5
Total non-current	**21.3**	24.2

Trade loans are net of provisions of £4.1m (2014: £4.1m). During the year £0.2m (2014: £0.2m) of the provision was utilised and £0.2m (2014: £0.2m) of new provision created. All trade loans that are neither past due nor impaired are expected to be fully recoverable.

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 £20.7m (2014: £21.7m) and variable rate trade loans amounted to £13.3m (2014: £14.7m). Included in fixed rate loans are £17.5m of loans with settlement related to purchase levels (2014: £14.2m). 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 0.64% (2014: 0.73%) and a weighted average period of 4.55 years (2014: 5.20 years). Interest rates on variable rate trade loans are linked to base rate.

Trade loans	2015 £m	2014 £m
Balance at beginning of period	**32.3**	33.6
Advances	**5.5**	5.4
Repayments	**(7.9)**	(6.7)
Balance at end of period	**29.9**	32.3

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	Property	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%
Greene King Developments Limited	Property	Parent	Ordinary shares	100%
Premium Dining Restaurants and Pubs Limited	Retailing	Subsidiary	Ordinary shares	100%

17 Inventories

	2015 £m	2014 £m
Raw materials and work in progress	**4.5**	4.8
Finished goods and goods for resale	**25.4**	23.9
Consumable stores	**2.2**	1.8
	32.1	30.5

NOTES TO THE ACCOUNTS CONTINUED

For the fifty-two weeks ended 3 May 2015

18 Trade and other receivables

	2015 £m	2014 £m
Other receivables	**0.1**	0.1
Total non-current	**0.1**	0.1
Trade receivables	**50.5**	54.2
Other receivables	**8.4**	6.0
Total current	**58.9**	60.2

Trade and other receivables are non-interest bearing.

The ageing analysis of trade receivables is as follows:

	2015 £m	2014 £m
Neither past due nor impaired	**47.5**	51.7
Past due but not impaired		
– Less than 30 days	**2.2**	0.7
– 30–60 days	**0.5**	1.4
– Greater than 60 days	**0.3**	0.4
	50.5	54.2

Trade receivables are shown net of a provision of £4.0m (2014: £4.6m).

19 Cash and cash equivalents

	2015 £m	2014 £m
Cash at bank and in hand	**50.0**	31.3
Short-term deposits	**2.8**	27.4
Liquidity facility reserve (note 22)	**157.5**	157.5
Cash and cash equivalents for balance sheet	**210.3**	216.2
Bank overdrafts	**—**	(13.8)
Cash and cash equivalents for cash flow	**210.3**	202.4

Included in cash at bank and in hand and short-term deposits is £34.3m (2014: £16.1m) 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.

The liquidity facility reserve is restricted cash as explained in note 22.

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.

20 Property, plant and equipment held for sale

	2015 £m	2014 £m
Property, plant and equipment held for sale	**0.4**	81.7

At the period end, property plant and equipment held for sale of £0.4m (2014: £81.7m) represents pubs that are being actively marketed for sale with expected completion dates within one year. The value of property plant and equipment held for sale represents the expected net disposal proceeds, further details on the valuation of fair value less costs of disposal are held in note 14. The impairment charge on reclassification to assets held for sale for these sites was £nil (2014: £19.6m) and is included as an exceptional item.

21 Trade and other payables: current

	2015 £m	2014 £m
Trade payables	**107.2**	90.8
Other payables		
– Other taxation and social security costs	**49.5**	55.2
– Accruals and deferred income	**114.9**	90.6
– Interest payable	**22.5**	19.9
Total current	**294.1**	256.5
Other payables	**1.0**	—
Total non-current	**1.0**	—

Trade payables and other payables are non-interest bearing. Interest payable is mainly settled monthly, quarterly or semi-annually throughout the year, in accordance with the terms of the related financial instrument.

22 Borrowings

		2015			2014		
	Repayment date	Current £m	Non-current £m	Total £m	Current £m	Non-current £m	Total £m
Bank overdrafts	On demand	—	—	—	13.8	—	13.8
Liquidity facility loan	On demand	**157.5**	—	**157.5**	157.5	—	157.5
Bank loans – floating rate	2018	—	**248.3**	**248.3**	—	276.6	276.6
Securitised debt	2005 to 2036	**32.4**	**1,140.8**	**1,173.2**	30.7	1,173.2	1,203.9
		189.9	**1,389.1**	**1,579.0**	202.0	1,449.8	1,651.8

Bank overdrafts

Overdrafts are utilised for the day to day management of cash. The group has facilities of £25.0m (2014: £25.0m) available with interest linked to base rate.

Bank loans – unsecured

In the prior period the group increased and extended a 5-year revolving credit facility of £460m, of which £248.2m (2014: £276.6m) 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 and, immediate renewal is available under the £460m facility until June 2018. Final repayment of the total drawn-down balance is due as one payment on the agreement repayment date.

Liquidity facility

During the prior period the standby liquidity facility provider had its short-term credit rating downgraded below the minimum prescribed in the facility agreement and as such the group exercised its entitlement to draw the full amount of the facility and hold it in a designated bank account. The corresponding balance of £157.5m (2014: £157.5m) held in this bank account is included within cash and cash equivalents. The amounts drawn down can only be used for the purpose of meeting the securitisation's debt service obligations should there ever be insufficient funds available from operations to meet such payments. As such these amounts are considered to be restricted cash.

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)[1] 2015	Carrying value (£m)[1] 2014	Interest	Interest rate[2] (%)	Principal repayment period	Average life[3]
A1	123.2	**122.0**	131.1	Floating	6.11%[2]	2031	6.8 years
A2	242.7	**240.4**	244.3	Fixed	5.32%	2031	10.8 years
A3	84.9	**84.0**	94.8	Floating	6.09%[2]	2021	3.5 years
A4	258.9	**257.4**	257.4	Fixed	5.11%	2034	13.4 years
A5	250.2	**250.2**	257.2	Floating	7.76%[2]	2033	11.3 years
B1	120.9	**119.9**	119.8	Fixed/floating	6.54%	2034	18.2 years
B2	99.9	**99.3**	99.3	Floating	6.92%[2]	2036	20.3 years
	1,180.7	**1,173.2**	1,203.9				

1. Carrying value is net of related deferred finance fees.
2. Includes the effect of interest rate swaps and future rate step-ups.
3. This assumes notes are held until final maturity.

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.

NOTES TO THE ACCOUNTS CONTINUED

For the fifty-two weeks ended 3 May 2015

22 Borrowings continued

Securitised debt continued

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 B bonds. The Class B1 and B2 bonds rank pari passu in point of security, principal repayment and interest payment.

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.

23 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 interest rate risk, liquidity risk, credit risk and cash flow 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 3 May 2015 and 4 May 2014. 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.
- 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 £0.6m (2014: £0.6m) and the group's equity by £87.6m (2014: £81.0m).

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 group has with its suppliers is 60 days following month end (2014: 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 3 May 2015 and 4 May 2014 based on contractual undiscounted payments including interest.

Period ended 3 May 2015	**Within 1 year £m**	**1–2 years £m**	**2–5 years £m**	**>5 years £m**	**Total £m**
Interest-bearing loans and borrowings:					
– Capital	**190.4**	**34.8**	**366.7**	**996.3**	**1,588.2**
– Interest	**55.2**	**57.4**	**160.0**	**416.1**	**688.7**
	245.6	**92.2**	**526.7**	**1,412.4**	**2,276.9**
Interest rate swaps settled net	**28.2**	**23.7**	**53.7**	**162.5**	**268.1**
	273.8	**115.9**	**580.4**	**1,574.9**	**2,545.0**
Trade payables and accruals	**222.1**	**—**	**—**	**—**	**222.1**
Provisions in respect of financial liabilities	**0.5**	**0.5**	**1.5**	**6.9**	**9.4**
	496.4	**116.4**	**581.9**	**1,581.8**	**2,776.5**

Period ended 4 May 2014	Within 1 year £m	1–2 years £m	2–5 years £m	>5 years £m	Total £m
Interest-bearing loans and borrowings:					
– Capital	202.4	32.9	390.4	1,037.3	1,663.0
– Interest	56.2	61.2	193.2	532.0	842.6
	258.6	94.1	583.6	1,569.3	2,505.6
Interest rate swaps settled net	29.8	23.8	43.7	99.3	196.6
	288.4	117.9	627.3	1,668.6	2,702.2
Trade payables and accruals	181.4	—	—	—	181.4
Provisions in respect of financial liabilities	0.5	0.5	1.5	6.2	8.7
	470.3	118.4	628.8	1,674.8	2,892.3

Credit risk

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

Other financial assets includes trade loans and cash. Credit risk is the risk of default by the counterparty to discharge their obligation and the maximum exposure of the group is the carrying amount of these instruments.

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

Cash flow hedging

At 3 May 2015 the group held 3 (2014: 4) interest rate swap contracts for a nominal value of £135m (2014: £170m), designated as a hedge of the cash flow interest rate risk of the £248.3m (2014: £276.6m) draw-down from the revolving credit facility in the year. The interest rate swaps are held on the balance sheet as a fair value liability of £32.8m (2014: £23.4m). The cash flows occurred semi-annually based a variable rate of interest based on LIBOR.

At 3 May 2015 the group held 5 (2014: 5) interest rate swap contracts for a nominal value of £558.1m (2014: £585.1m), entered into as part of the securitisation and subsequent securitisation taps. A fair value liability of £204.1m (2014: £149.0m) has been recognised on the balance sheet in respect of these contracts which are designated cash flow hedges against £558.1m (2014: £585.1m) of variable rate bonds, receiving a variable rate of interest based on LIBOR and paying a weighted average fixed rate of 7.3% (2014: 7.3%). The contract maturity dates are December 2034 and March 2036. The bonds and interest rate swaps have the same critical terms excluding credit risk.

Changes in cash flow hedge fair values are recognised in the hedging reserve to the extent that the hedges are effective. The interest rate swaps have been assessed as highly effective during the period and are expected to remain highly effective over their remaining contract lives. The ineffectiveness amounting to £0.8m loss (2014: £2.7m gain) have been recognised with finance costs/income.

The percentage of debt that was fixed as at the year end was 95.5% (2014: 95.5%), in line with the group's policy of fixing at least 95% of all debt.

NOTES TO THE ACCOUNTS CONTINUED

For the fifty-two weeks ended 3 May 2015

23 Financial instruments continued

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.

3 May 2015	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	**4.4**	**5.1**	**5.9**	**6.8**	**7.7**	**587.8**	**617.7**
Financial asset	**(6.9)**	**(4.4)**	**(2.9)**	**(2.2)**	**(1.6)**	**(2.7)**	**(20.7)**
Variable rate							
Securitised debt	**28.0**	**29.2**	**30.4**	**31.7**	**32.9**	**403.3**	**555.5**
Bank loans	**—**	**—**	**—**	**248.2**	**—**	**—**	**248.2**
Overdraft	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Financial asset	**(2.1)**	**(1.8)**	**(1.7)**	**(1.6)**	**(1.6)**	**(4.5)**	**(13.3)**
Cash and short-term deposits	**(52.8)**	**—**	**—**	**—**	**—**	**—**	**(52.8)**
Interest rate swap liabilities	**28.1**	**23.4**	**19.4**	**16.7**	**14.4**	**134.9**	**236.9**

4 May 2014	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	3.8	4.4	5.1	5.9	6.7	595.6	621.5
Financial asset	(6.2)	(4.2)	(3.4)	(2.5)	(1.9)	(3.5)	(21.7)
Variable rate							
Securitised debt	26.9	28.0	29.2	30.4	31.6	436.3	582.4
Bank loans	—	—	—	—	276.6	—	276.6
Overdraft	13.8	—	—	—	—	—	13.8
Financial asset	(2.5)	(2.2)	(2.1)	(2.0)	(1.9)	(4.0)	(14.7)
Cash and short-term deposits	(58.7)	—	—	—	—	—	(58.7)
Interest rate swap liabilities	9.4	9.1	8.3	8.3	8.3	129.0	172.4

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. Other financial assets, 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 on page 97 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 – calculated by discounting all future cash flows by the market yield curve at the balance sheet date and adjusting for, where appropriate, the group's and counterparty's credit risk. The changes in credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships.

	Hierarchical classification	**Fair value 2015 £m**	**Carrying value 2015 £m**	Fair value 2014 £m	Carrying value 2014 £m
Financial liabilities					
Overdraft	Level 2	**—**	**—**	13.8	13.8
Interest-bearing loans and borrowings					
– securitised debt	Level 1	**1,247.0**	**1,173.2**	1,234.7	1,203.9
– floating rate bank loans	Level 2	**248.3**	**248.3**	276.6	276.6
– liquidity facility loan	Level 2	**157.5**	**157.5**	157.5	157.5
Interest rate swaps	Level 2	**236.9**	**236.9**	172.4	172.4
Financial assets					
Cash	Level 2	**(52.8)**	**(52.8)**	(58.7)	(58.7)
Liquidity facility reserve	Level 2	**(157.5)**	**(157.5)**	(157.5)	(157.5)
Financial assets	Level 3	**(29.9)**	**(29.9)**	(32.3)	(32.3)

Carrying values are stated net of any deferred finance fees which amounted to £9.2m (2014: £11.4m).

Hierarchical classification of financial assets and liabilities measured at fair value

IFRS 13 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive fair value.

The classification uses the following three-level hierarchy:

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

During the periods ending 3 May 2015 and 4 May 2014 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 3 May 2015 interest cover was 3.0x (2014: 3.0x). The board's dividend policy is to maintain a minimum dividend cover of two times adjusted basic earnings per share.

24 Provisions

	Property leases £m
At 28 April 2013	7.7
Reclassification from trade and other payables	—
Unwinding of discount element of provisions	0.6
Provided for during the period	0.3
Utilised during the period	(2.1)
At 4 May 2014	6.5
Unwinding of discount element of provisions	0.4
Provided for during the period	0.5
Utilised during the period	(0.8)
At 3 May 2015	**6.6**

NOTES TO THE ACCOUNTS CONTINUED

For the fifty-two weeks ended 3 May 2015

24 Provisions continued

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

	3 May 2015 £m	4 May 2014 £m
Current	**0.5**	0.5
Non-current	**6.1**	6.0
	6.6	6.5

The provision for property leases has been set up to cover operating costs of vacant or loss making premises. The provision covers the expected shortfall between operating income and rents payable. Payments are expected to be ongoing on these properties for an average of 15 years.

25 Share capital

	2015		2014	
	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	**219.0**	**27.4**	218.3	27.3
Issue of share capital – share options exercised	**0.7**	**0.1**	0.7	0.1
At end of period	**219.7**	**27.5**	219.0	27.4

Details of options granted and outstanding are included in note 8.

26 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 3 May 2015 0.13m shares (2014: 0.53m) were held in treasury, 0.61m shares (2014: 0.55m) were held by the employee benefit trust and nil (2014: 0.04m) were held to fulfil awards under the deferred share bonus scheme. The market value at 3 May 2015 of the treasury shares was £1.1m (2014: £4.6m), of the shares held by the employee benefit trust was £5.0m (2014: £4.8m) and of the shares held for the deferred share bonus scheme was nil (2014: £0.3m).

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 nil (2014: 0.39m) treasury shares and 0.31m (2014: 0.31m) shares in the employee benefit trust were allocated to meet awards under the long-term incentive plan.

A transfer of £5.6m (2014: £4.7m) 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 nil (2014: 0.04m) shares were repurchased at a cost of nil (2014: £0.3m) to fulfil awards made under the deferred share bonus scheme with 0.04m (2014: 0.04m) shares transferred to individuals to satisfy awards. The employee benefit trust purchased 0.5m shares (2014: 0.2m) at a cost of £4.2m (2014: £1.6m) and 0.82m (2014: 0.70m) 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.

27 Working capital and non-cash movements

	2015 £m	2014 £m
Increase in inventories	**(1.6)**	(3.5)
(Increase)/decrease in trade and other receivables	**(1.4)**	12.9
Increase/(decrease) in trade and other payables	**16.8**	(3.8)
Decrease in provisions	**(0.3)**	(1.7)
Share-based payment expense	**3.7**	4.4
Difference between defined benefit pension contributions paid and amounts charged	**(7.0)**	(7.5)
Exceptional items	**(5.6)**	(5.3)
Working capital and other movements	**4.6**	(4.5)

28 Analysis of and movements in net debt

	2015 £m	2014 £m
Cash in hand, at bank[1]	**52.8**	58.7
Liquidity facility reserve[1]	**157.5**	157.5
Overdrafts	**—**	(13.8)
Current portion of borrowings	**(32.4)**	(30.7)
Liquidity facility loan	**(157.5)**	(157.5)
Non-current portion of borrowings	**(1,389.1)**	(1,449.8)
Closing net debt	**(1,368.7)**	(1,435.6)

1. Included in cash on the balance sheet.

Movement in net debt	2015 £m	2014 £m
Net increase in cash and cash equivalents	**7.9**	182.2
Proceeds – advances of borrowings	**—**	(100.0)
Proceeds – advance of liquidity facility (note 22)	**—**	(157.5)
Repurchase of securitised debt	**—**	60.0
Repayment of principal – securitised debt	**31.1**	29.4
Repayment of principal – loans and loan notes	**30.0**	—
Finance issue costs	**—**	2.6
Decrease in net debt arising from cash flows	**69.0**	16.7
Other non-cash movements	**(2.1)**	(1.9)
Decrease in net debt	**66.9**	14.8
Opening net debt	**(1,435.6)**	(1,450.4)
Closing net debt	**(1,368.7)**	(1,435.6)

NOTES TO THE ACCOUNTS CONTINUED

For the fifty-two weeks ended 3 May 2015

29 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:

	2015 £m	2014 £m
Within 1 year	**12.9**	13.9
Between 1 and 5 years	**43.9**	46.9
After 5 years	**134.2**	141.5
	191.0	202.3

The group leases part of 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 3 year or 5 year basis.

Future minimum lease rentals receivable under non-cancellable operating leases are as follows:

	2015 £m	2014 £m
Within 1 year	**28.5**	30.4
Between 1 and 5 years	**81.8**	79.7
After 5 years	**54.6**	65.8
	164.9	175.9

Future minimum lease rentals include £2.9m receivable in respect of non-cancellable subleases.

30 Related party transactions

No transactions have been entered into with related parties during the period.

Greene King Finance plc is a structured 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

	2015 £m	2014 £m
Short-term employee benefits (including national insurance contributions)	**4.6**	4.0
Post-employment pension and medical benefits	**0.6**	0.5
Termination benefits	**0.4**	–
Share-based payments	**2.1**	1.7
	7.7	6.2

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.

31 Post balance sheet events

Final dividend

A final dividend of 21.8p per share (2014: 20.8p) amounting to a dividend of £67.1m (2014: £45.5m) was proposed by the directors at their meeting on 30 June 2015. These financial statements do not reflect the dividend payable.

Acquisition of Spirit Pub Company plc

On 23 June 2015 the group completed the acquisition of Spirit Pub Company plc creating the UK's leading managed pub company.

The group acquired 100% of the share capital of Spirit Pub Company plc for an estimated consideration of £763.1m, made up of 89,095,959 shares of Greene King plc.

In accordance with the findings of the Competition and Markets Authority review the group is committed to the sale of 16 pubs from the combined estate, of which 9 are from the current Greene King estate, to ensure a fair level of competition within all our local markets.

As part of the deal Greene King has incurred legal and profession fees of £15.2m, all recognised in this financial year. A further £2.1m legal and professional fees have been incurred for the issuance of shares as mentioned above.

Given the proximity of the acquisition date to the date of issue of these financial statements management are yet to conclude an assessment of the fair value of the assets and liabilities acquired.

32 Contingent liabilities

The group has provided guarantees totalling £1.0m at 3 May 2015 (2014: £1.1m) in respect of free trade customers' bank borrowings.

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 3 May 2015 which comprise the parent company balance sheet and the related notes 33 to 42. 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 61, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 3 May 2015;
- 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 strategic report and 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 3 May 2015.

Bob Forsyth (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Cambridge
30 June 2015

Notes:

1. The maintenance and integrity of the Greene King plc website is the responsibility of the directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts 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 3 May 2015

	Note	As at 3 May 2015 £m	As at 4 May 2014 £m
Fixed assets			
Investments	37	**2,597.9**	2,618.0
Current assets			
Amounts due from subsidiaries		**68.3**	–
Prepayment		**2.1**	–
Cash		**11.7**	27.3
Creditors: due within one year			
Derivative financial instruments	39	**(1.0)**	(1.1)
Income tax payable		**(1.5)**	–
Other creditors	38	**(1,722.9)**	(1,825.5)
Net current liabilities		**(1,643.3)**	(1,799.3)
Total assets less current liabilities		**954.6**	818.7
Creditors: due after more than one year			
Medium and long-term debt	39	**(248.2)**	(276.6)
Derivative financial instruments	39	**(0.2)**	(0.8)
Net assets		**706.2**	541.3
Capital and reserves			
Called-up share capital	40	**27.5**	27.4
Share premium account	41	**259.3**	256.6
Revaluation reserve	41	**2.5**	2.5
Hedging reserve	41	**(1.2)**	(1.9)
Other reserve	41	**93.9**	93.9
Own shares	41	**(4.9)**	(6.3)
Profit and loss account	41	**329.1**	169.1
Shareholders' funds		**706.2**	541.3

Signed on behalf of the board on 30 June 2015.

T J W Bridge
Director

R Anand
Director

NOTES TO THE COMPANY ACCOUNTS

For the fifty-two weeks ended 3 May 2015

33 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.

– 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.

NOTES TO THE COMPANY ACCOUNTS CONTINUED

For the fifty-two weeks ended 3 May 2015

33 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.

Related party transactions

In accordance with FRS 8 Related Party Disclosures the company is not required to disclose transactions with its wholly owned subsidiaries.

34 Profit for the period

No profit or loss account is presented for the company as permitted by section 408 of the Companies Act 2006. The profit after tax for the period is £225.3m (2014: £10.6m).

35 Auditor's remuneration

Auditor's remuneration in respect of the company audit was £16,500 (2014: £16,300).

36 Directors' remuneration and employee costs

Details of directors' remuneration is contained in the directors' remuneration report on page 50. 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.

37 Investments

	Investments in subsidiaries £m	Loans to subsidiaries £m	Total £m
Cost at 4 May 2014	1,579.8	1,038.2	2,618.0
Share-based payment awards to employees of subsidiaries	3.1	—	3.1
Cost at 3 May 2015	**1,582.9**	**1,038.2**	**2,621.1**
Impairment			
Impairment of non-trading subsidiaries	(23.2)	—	(23.2)
Impairment at 3 May 2015	**(23.2)**	**—**	**(23.2)**
NBV at 3 May 2015	**1,559.7**	**1,038.2**	**2,597.9**
NBV at 4 May 2014	1,579.8	1,038.2	2,618.0

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	Company	100%
Greene King Pubs Limited	Property	Company	100%
Greene King Investments Limited	Holding company	Company	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	Company	100%
Greene King Developments Limited	Property	Company	100%
Premium Dining Restaurants and Pubs Limited	Retailing	Subsidiary	100%

The country of incorporation for all companies is the United Kingdom.

38 Other creditors

	2015 £m	2014 £m
Accruals and deferred income	**16.7**	4.3
Amounts owed to subsidiaries	**1,706.2**	1,821.2
	1,722.9	1,825.5

39 Borrowings

	2015			2014		
	Within one year £m	**After one year £m**	**Total £m**	Within one year £m	After one year £m	Total £m
Bank loans – floating rate	**—**	**248.2**	**248.2**	—	276.6	276.6

At 3 May 2015 the company held 2 (2014: 3) interest rate swap contracts to hedge cash flow interest rate risk related to floating rate debt. The swaps had nominal value of £75m (2014: £110m) and are held on the balance sheet as a net fair value liability of £1.2m (2014: £1.9m). The details of terms and interest rates are included as part of the group's portfolio in note 23.

Bank loans due after one year are repayable as follows:

	2015 £m	2014 £m
Due between two and five years	**248.2**	276.6

Although the draw-down is repayable within 12 months of the balance sheet date, immediate renewal is available until June 2018 (2014: June 2018) for the facility.

40 Allotted and issued share capital

Allotted, called-up and fully paid	2015 £m	2014 £m
Ordinary shares of 12.5p each		
219.7m shares (2014: 219.0m)	**27.5**	27.4

Further information on share capital is given in note 25 of the group accounts.

NOTES TO THE COMPANY ACCOUNTS CONTINUED

For the fifty-two weeks ended 3 May 2015

41 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 28 April 2013	27.3	253.8	2.5	(4.0)	93.9	(9.1)	217.5	581.9
Cash flow hedges – loss taken to equity	—	—	—	2.1	—	—	—	2.1
Issue of share capital	0.1	2.8	—	—	—	—	—	2.9
Release of shares (note 26)	—	—	—	—	—	4.7	(4.7)	—
Repurchase of shares	—	—	—	—	—	(1.9)	—	(1.9)
Share-based payment credit in respect of subsidiaries	—	—	—	—	—	—	4.4	4.4
Profit for the period	—	—	—	—	—	—	10.6	10.6
Dividends	—	—	—	—	—	—	(58.7)	(58.7)
At 4 May 2014	27.4	256.6	2.5	(1.9)	93.9	(6.3)	169.1	541.3
Cash flow hedges – loss taken to equity	—	—	—	0.7	—	—	—	0.7
Issue of share capital	0.1	2.7	—	—	—	—	—	2.8
Release of shares (note 26)	—	—	—	—	—	5.6	(5.6)	—
Repurchase of shares	—	—	—	—	—	(4.2)	—	(4.2)
Share-based payment credit in respect of subsidiaries	—	—	—	—	—	—	3.1	3.1
Profit for the period	—	—	—	—	—	—	225.3	225.3
Dividends	—	—	—	—	—	—	(62.8)	(62.8)
At 3 May 2015	**27.5**	**259.3**	**2.5**	**(1.2)**	**93.9**	**(4.9)**	**329.1**	**706.2**

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 (2014: £3.3m) capital redemption reserve arising from the purchase of own share capital and £90.6m (2014: £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 33.

Own shares

Own shares relates to shares held in treasury and by the employee benefit trust. Movement in own shares is described in note 26 to the group accounts.

42 Post balance sheet events

Final dividend

A final dividend of 21.8p per share (2014: 20.8p) amounting to a dividend of £67.1m (2014: £45.5m) was proposed by the directors at their meeting on 30 June 2015. These financial statements do not reflect the dividend payable.

Acquisition of Spirit Pub Company plc

On 23 June 2015 the group completed the acquisition of Spirit Pub Company plc, creating the UK's leading managed pub company.

The company acquired 100% of the share capital of Spirit Pub Company plc for an estimated consideration of £763.1m, made up of 89,095,959 shares of Greene King plc.

GROUP FINANCIAL RECORD

Income statement	2015 (52 weeks) £m	2014 (53 weeks) £m	2013[3] (52 weeks) £m	2012[3] (52 weeks) £m	2011[3] (52 weeks) £m
Revenue	**1,315.3**	1,301.6	1,194.7	1,140.4	1,042.7
Operating profit before exceptionals	**256.2**	265.6	248.2	236.2	222.0
Profit before taxation and exceptionals	**168.5**	173.1	158.2	147.2	135.8
Profit before taxation	**118.2**	105.2	111.0	125.1	116.8
Basic earnings per share[1]	**40.9p**	44.2p	44.1p	46.0p	48.3p
Adjusted basic earnings per share[1]	**61.0p**	61.4p	55.6p	51.3p	46.8p
Adjusted dividend per share[1]	**29.75p**	28.4p	26.6p	24.8p	23.1p
Adjusted operating profit/revenue	**19.5%**	20.4%	20.8%	20.7%	21.3%
Adjusted tax expense/profit before tax	**20.9%**	23.0%	24.0%	25.0%	26.0%
Adjusted interest cover (times)	**2.9**	3.0	2.9	2.7	2.7
Adjusted dividend cover (times)[2]	**2.1**	2.1	2.1	2.1	2.0

Balance sheet	£m	£m	£m	£m	£m
Property, plant and equipment	**2,235.4**	2,169.7	2,211.1	2,191.3	2,094.9
Goodwill	**700.9**	703.8	724.8	729.3	705.8
Financial assets	**30.4**	32.8	34.1	39.0	40.4
Property, plant and equipment held for sale	**0.4**	81.7	8.4	6.2	3.7
Working capital	**(236.4)**	(198.6)	(174.2)	(168.6)	(164.5)
Derivatives	**(236.9)**	(172.4)	(239.2)	(200.8)	(116.3)
Provisions	**(96.2)**	(118.7)	(143.1)	(157.9)	(172.9)
Net debt	**(1,368.7)**	(1,435.6)	(1,450.4)	(1,493.2)	(1,410.2)
Net assets	**1,028.9**	1,062.7	971.5	945.3	980.9
Gearing	**133%**	135%	149%	158%	144%

Cash flow and investment	£m	£m	£m	£m	£m
EBITDA before exceptionals	**319.0**	329.7	306.5	292.0	276.6
Cash inflow from operations	**323.6**	325.2	312.5	282.0	279.2
Interest, tax and dividends	**(189.1)**	(179.6)	(170.7)	(167.1)	(163.5)
Capital expenditure	**(160.5)**	(169.6)	(123.6)	(126.8)	(96.2)
Proceeds from sales of property, plant and equipment	**94.0**	38.4	28.0	29.9	27.8
Trade loans and investments	**2.4**	1.3	3.0	2.2	1.5
Acquisitions	**—**	—	(0.9)	(70.8)	(60.5)
Other	**(3.5)**	(0.9)	(5.5)	(32.4)	(50.4)
Decrease/(increase) in debt	**66.9**	14.8	42.8	(83.0)	(62.1)

1. Adjusted earnings per share, operating profit, taxation, interest cover and dividend cover exclude the effect of exceptional items.
2. 2014 assumes adjusted basic earnings per share on a 52 week basis.
3. 2011–2013 restated for the impact of IAS 19.

SHAREHOLDER INFORMATION

Financial calendar

Ex-dividend date	13 August 2015
Record date for final dividend	14 August 2015
Annual general meeting	8 September 2015
Payment of final dividend	14 September 2015
Announcement of interim results	2 December 2015
Payment of interim dividend	January 2016
Preliminary announcement of the 2014/15 results	June 2016

Registrars

Capita Asset Services

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Website: www.capitaassetservices.com

1. 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 Asset Services, 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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1. Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the UK are charged at the applicable international rate. Lines are open 8.00am to 4.30pm, Monday to Friday.

Capital gains tax

For the purpose of computing capital gains tax, the market value of the ordinary shares on 31 March 1982, after adjustment for the capitalisation issues in 1980 and 1982 was 72.5625 pence. After take-up of the rights issue in July 1996, the March 1982 value becomes 129.6875 pence. With the take-up of the rights issue in May 2009, the March 1982 value becomes 182.3046875p.

Shareholder vouchers

We are pleased to offer shareholders with 100 or more shares in the company, a booklet of discount vouchers for use across our retail pubs and restaurants. Those holding shares in their own name will receive the vouchers directly. If you hold shares in a nominee account please contact your nominee provider to obtain a set of vouchers. Unfortunately, we are not able to deal with individual requests for vouchers from underlying beneficiaries. Please visit www.findaproperpub.co.uk for details of the participating outlets.

Unsolicited communication

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 advises that if it sounds too good to be true, it probably is.

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