TIME WELL SPENT

Annual report 2016

17 99

GREENE KING

BURY ST EDMUNDS

Greene King is the

LEADING PUB COMPANY AND BREWER IN BRITAIN

Greene King is the country's leading integrated pub retailer and brewer. In June 2015 we acquired Spirit Pub Company. At our year end we operated 3,035 managed, tenanted, leased and franchised pubs, restaurants and hotels, including well known brands such as Hungry Horse, Chef & Brewer, Flaming Grill, Farmhouse Inns and our Greene King locals estate. We also have a proud history of brewing award-winning ales for more than 200 years and our leading ale brand portfolio includes Old Speckled Hen, Greene King IPA, Abbot Ale and Belhaven Best.

3,035

PUBS, RESTAURANTS AND HOTELS

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

SHAREHOLDER INFORMATION

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Investment case

Our overall vision is to

BUILD THE BEST PUBS BUSINESS IN BRITAIN

- A compelling blend of growth and dividends
- Significant and exciting opportunities following the acquisition of Spirit Pub Company
  - Synergy, scale and reinvestment
  - Brand optimisation
- Award-winning teams
- A high quality, well positioned estate
- A strong and flexible balance sheet

Our overall vision is to build the best pubs business in Britain; best for our customers, best for our teams, best for our shareholders and best for our communities.

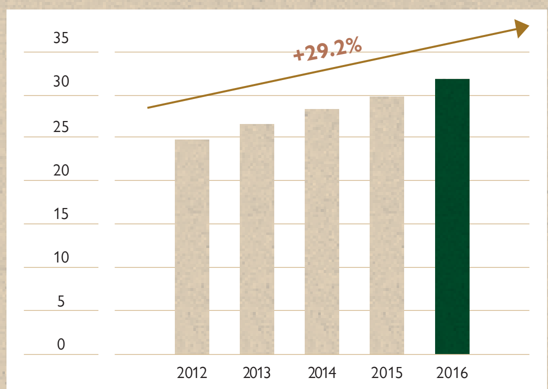
Within this, our aim is to offer customers experiences that they will value, remember and want to share. We will achieve this aim principally through the delivery of our five strategic priorities that will ensure we offer compelling brand propositions, in high quality pubs, with unrivalled value, service and quality delivered by our award-winning teams.

1 COMPELLING BLEND OF GROWTH AND DIVIDENDS

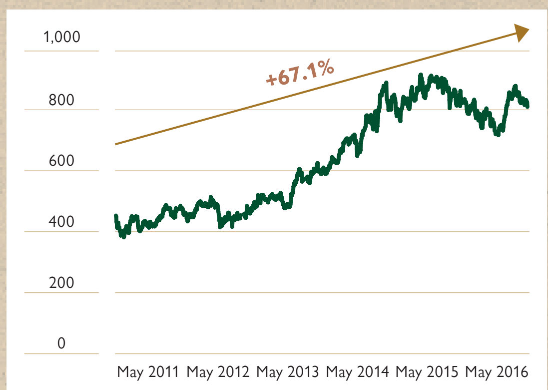
Over the last five years our proven growth strategy, combined with our attractive dividend policy, has delivered a total shareholder return of 104% compared with a total return for the FTSE All-Share of 29%. This includes 29.2% growth in Greene King dividends and 67.1% share price appreciation.[1]

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

TOTAL DIVIDEND PER SHARE 2012–2016 (p)



GREENE KING SHARE PRICE 2011–2016 (p)



2 SIGNIFICANT OPPORTUNITIES FOLLOWING THE ACQUISITION OF SPIRIT PUB COMPANY

Synergy, scale and reinvestment

The acquisition of Spirit Pub Company was an important step towards achieving our vision to be the best pub company in Britain. In addition to enhanced brand reach and recognition, we have the opportunity to realise significant cost synergies. We have announced a target of £35m annualised cost savings and we will reinvest synergies in excess of this target in our people, our systems and our brands.

Brand optimisation

Greene King acquired a strong portfolio of brands and formats with Spirit – one that it would have been very difficult to replicate organically – and we have embarked on an exciting journey to optimise the combined brand portfolio. The brand optimisation programme will be an important driver of future growth and value creation.

We have identified five growth brands – Hungry Horse, Flaming Grill, Farmhouse Inns, Chef & Brewer and the Greene King brand.

The portfolio of growth brands and formats covers a wide range of consumer occasions.

We estimate profit upside from investment in over 300 of our existing pubs to reposition them into these growth brands over the next three years. In 2016/17 we expect to spend £40–50m on converting around 100 sites to a growth brand.

3 AWARD-WINNING TEAMS

Our people are fundamental to the success of our business and being the first choice for people who want to work in the hospitality sector is important to us.

Key to this is our strategy to engage employees through learning and, having exceeded our target of offering 2,000 apprenticeships last year, we have committed to employing a further 10,000 apprentices across the business over the next three years.

During the year, we were recognised by the Sunday Telegraph as a Top 50 Apprenticeship Employer and following our investment in people and training we were named as the Macro Apprenticeship Employer of the Year 2016 by Apprenticeships 4 England.

4 A HIGH QUALITY, WELL POSITIONED ESTATE

As at 1 May 2016 we operated 3,035 managed and tenanted pubs. The acquisition of Spirit Pub Company, completed in the year, has increased our national presence while maintaining a focus on the South East (including London) and the East, where around half of our estate is situated.

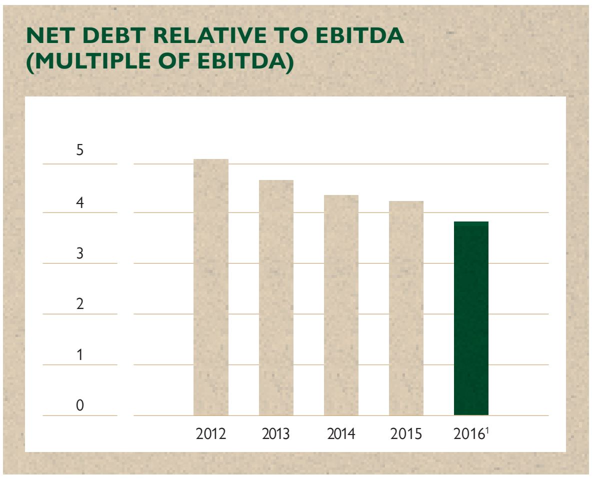
We own the freehold title on 83% of our estate. This gives us more freedom to renovate our pubs as we see fit and to buy and sell pubs when we want to in order to optimise growth and returns from the estate. It also removes the ongoing requirement to use a proportion of the cash that we generate to pay rent. We believe that these benefits, among others, outweigh the initial capital outlay associated with purchasing the freehold title of a pub.

Our preference is to hold the freehold title of our assets and, where it makes sense to do so, we will look to acquire the freehold title of leasehold pubs that we currently operate.

5 A STRONG AND FLEXIBLE BALANCE SHEET

Our aim is to maximise the strength and the flexibility of our balance sheet, and through a relentless focus on cash generation we will continue to cover our debt service obligation, our core capital expenditure and our dividend through internally generated cash flow.

As at 1 May 2016, our net debt relative to EBITDA stood at 3.9x.[1] We have successfully reduced this ratio in each of the last five years from 5.1x in 2012.



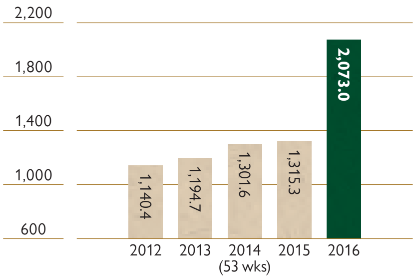
1. Pro-forma.

Performance highlights

GROWTH IN ALL AREAS

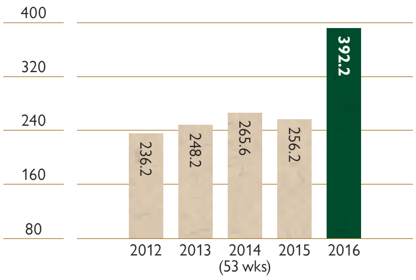
REVENUE
(£m)

£2,073.0m +57.6%



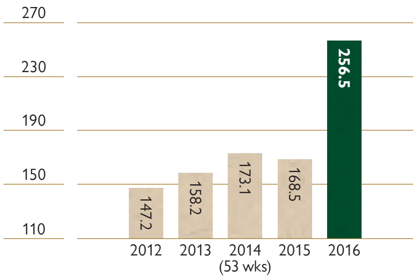
OPERATING PROFIT BEFORE EXCEPTIONALS (£m)

£392.2m +53.1%



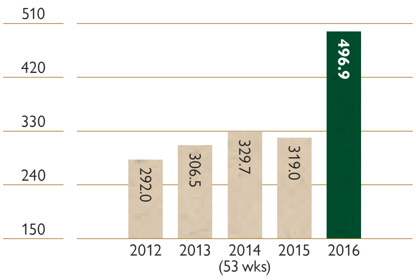
PROFIT BEFORE TAX AND EXCEPTIONALS[3] (£m)

£256.5m +52.2%



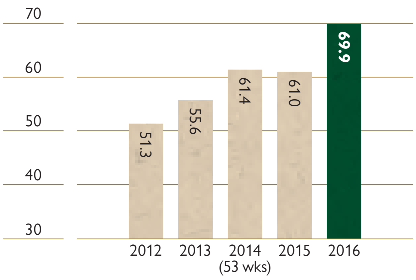
EBITDA[2]
(£m)

£496.9m +55.8%



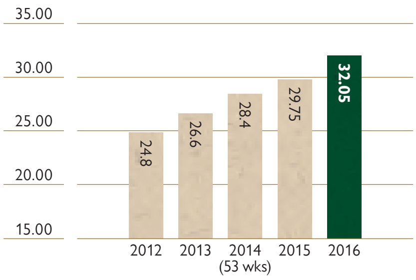
ADJUSTED BASIC EARNINGS PER SHARE[1,3] (p)

69.9p +14.6%



DIVIDEND PER SHARE
(p)

32.05p +7.7%



Market outperformance

– Pub Company[4] like-for-like (LFL) sales +1.5%; ahead of the market +1.3%[5]

– Pub Partners LFL net income +2.7%

– Brewing & Brands own-brewed volume (OBV) +2.9%; ale market share up 40 basis points to 10.5%

Financial strength

– Operating cash flow +24.1%; net debt/EBITDA improved to 3.9x[6]

– Group return on capital employed (ROCE) +10 basis points to 9.4%

– Dividend per share up 7.7%, continuing our progressive dividend track record

Strategic and operational progress

– Five strategic priorities outlined to drive future underlying growth

– Record customer satisfaction scores in Greene King Pub Company; net promoter score (NPS) +7.9%pts

– Greene King named Best Managed Pub Operator at the 2016 Publican Awards

Acquired Spirit Pub Company; integration and synergies ahead of plan

– £16.7m of cost synergies delivered versus year one target of £12m

– Tenanted and leased integrated ahead of schedule; integration of the managed business well under way

– Five retail growth brands identified and optimisation programme commenced to deliver long-term growth

1. As throughout, profit figures are shown before exceptional items.
2. EBITDA represents earnings before interest, tax, depreciation, amortisation and exceptional items and is calculated as operating profit before exceptionals adjusted for the depreciation and amortisation charge for the period.
3. 2011–2013 adjusted for the impact of IAS 19(R).
4. Previously Retail.
5. Coffer Peach Business tracker.
6. Pro-forma, calculated by inclusion of Spirit management accounts data for the seven week pre-acquisition period. EBITDA is adjusted for exceptional items as detailed in note 3 of the financial statements.

A STRONG BUSINESS

I became chairman of Greene King on 2 May 2016 and so this is my first report to you on the company, its performance and prospects. Greene King is a strong business with an excellent track record and, following the acquisition of Spirit Pub Company during the year, we are at an exciting time in our development. I look forward to working with the board and senior executive team to build upon the success of my predecessor in creating further value for all our stakeholders.

Overview

2016 was a year of strong growth for Greene King, reflecting a continued good performance from the underlying business, enhanced by a substantial contribution from Spirit. Including a 45 week contribution from Spirit, group revenue grew 57.6% and exceeded £2bn. Including synergies, operating profit before exceptional items increased by 53.1% and profit before tax and exceptional items grew 52.2% to £256.5m, resulting in a 14.6% increase in adjusted earnings per share to 69.9p. Cash generation remained strong and net debt to EBITDA improved to 3.9x. Excellent progress has been made integrating the Spirit business and we realised synergies ahead of target in the first year.

Dividend

As a result of this strong growth and reflecting confidence in future prospects, the board has recommended a final dividend of 23.6p, giving a total dividend for the year of 32.05p. This represents growth of 7.7% compared to last year and continues the long-term track record of progressive dividends. The board continues to target minimum cover of around two times earnings.

Our people

Greene King is a people business and the strength of the business performance during the Spirit integration demonstrates the dedication, hard work and passion of our teams. I would like to thank everyone who has worked so hard within the enlarged group during the last year to deliver such strong results while successfully integrating Spirit.

Board changes

On 2 February 2016, it was announced that Tim Bridge would be retiring at the end of the financial year after more than 45 years with the company including ten years as chief executive followed by over ten years as chairman. Under Tim's leadership, Greene King has been transformed and it is a testament to his astute assessment of people and business opportunities that the group is in such a good state both operationally and financially. It is a privilege to succeed Tim Bridge as chairman and on behalf of the board I would like to thank him for his enormous contribution to Greene King over the years.

At the beginning of the financial year, Rob Rowley took over the role of senior independent director and will be taking the chairmanship of the audit committee at this year's annual general meeting (AGM). Ian Durant will be retiring at the AGM after completing nine years as a director, latterly as chair of audit, and I wish to record our sincere thanks for his valuable input and advice over this period.

Looking ahead

The choice available to the UK consumer who wants to enjoy a drink or a meal with family or friends has never been wider and capital continues to be attracted to leisure dining. Greene King has great teams, great brands and great assets and is well placed within this dynamic environment. The recent decision by the UK to leave the EU will need time to be implemented and the uncertainty this brings is likely to weigh on the economy in the near term. We will not be immune from its effects, but our business has shown resilience in the past, our teams are motivated and, particularly following the Spirit acquisition, we have many opportunities. I look forward to reporting on our continued progress.

Philip Yea
Chairman
28 June 2016

"WE ARE AT AN EXCITING TIME IN OUR DEVELOPMENT FOLLOWING THE ACQUISITION OF SPIRIT."

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BEST FOR CUSTOMERS

We aim to be the best in the eyes of the customer, which means offering our customers industry-leading value, service and quality, delivered by the best people and in high quality, appealing pubs with clear and exciting brands and formats.

We acquired a strong portfolio of brands with Spirit and, together with the existing Greene King brands and formats, we have begun a brand optimisation programme. We reviewed the combined portfolio in order to select those brands and formats that will drive future growth.

We considered:

– the relevance of the brand or format to current and future customers;
– long-term opportunities to grow and expand the brand;
– financial performance; and
– proximity to other brands within the combined group to ensure that we have a balanced portfolio.

Following the review, our five growth brands are Hungry Horse, Flaming Grill, Chef & Brewer, Farmhouse Inns and the Greene King locals estate brand.

We then matched each pub with the most appropriate brand and selected a number of pubs in which to trial brand changes.

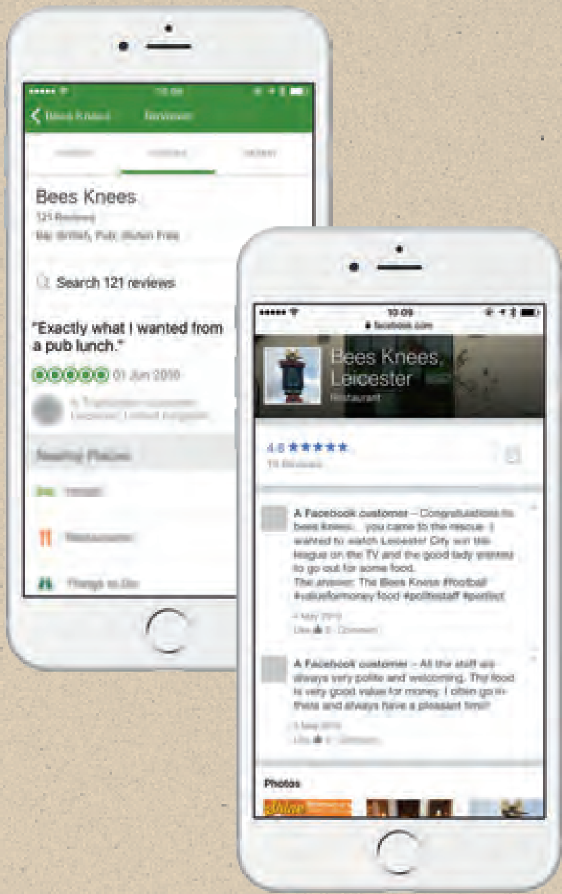
BEES KNEES REFURBISHMENT

In winter 2015, the 'Bees Knees' Fayre & Square in Leicester reopened as the 'Bees Knees' Hungry Horse – a pub restaurant focusing on great value food and with zoning allowing more families to dine in a comfortable environment, while other customers enjoy the option to watch sport.

We are very pleased with the results to date: average weekly turnover has increased by 42% and we have generated a strong return on our investment.

We have had some positive feedback from our customers too!

Average weekly takings

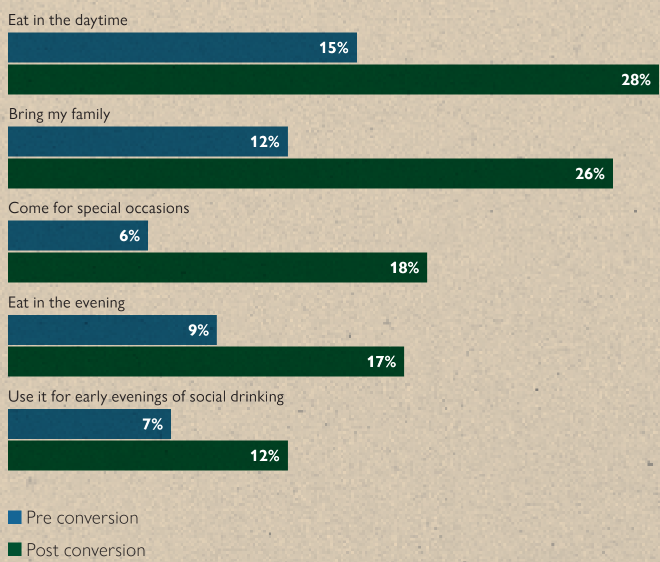


We commissioned a third party to ask our customers what they thought of the change for their local pub to the Hungry Horse brand.

This research has confirmed that there is now an increased intention to eat in the restaurant both during the day and in the evening. It has also confirmed that the pub has become more family friendly and likely to be chosen as a venue to celebrate special occasions. These results are in line without overall strategic objective to build strong and attractive brands and within this to broaden the appeal of our pubs.

"Looking ahead, for each of the following activities below, please say whether you think you will do this more often than before in this pub restaurant?"

Source: PDIQ Brand Conversion Research (Dec 2015)



BEST FOR TEAMS

"I REALLY ENJOY WORKING IN SUCH A FAST-PACED TEAM AND DEVELOPING NOT ONLY MY EDUCATION, BUT ALSO MYSELF. I CAN SEE MYSELF GROWING AS A PERSON AND WOULD RECOMMEND TO ANYBODY WANTING TO LEARN ON THE JOB TO LOOK INTO BECOMING AN APPRENTICE."

Gabrielle Green, 18, an apprentice chef at the Ship in Bedford

3,100

APPRENTICES STARTED LAST YEAR, EXCEEDING OUR PLEDGE OF 2,000

10,000

FURTHER APPRENTICES BY MARCH 2019

Our people make us who we are and they are our greatest asset. We employ more than 44,000 team members across the country, so attracting and retaining the best people, and developing and investing in them, is key to our continued success.

We want to offer the best for our teams and one of the ways in which we support their career aspirations is through our award-winning apprenticeship programme.

Apprenticeships provide learners with valuable skills which will help them to build their career with us. Our programme offers bespoke qualifications that cover a range of jobs, including front of house, kitchen and management, which are tailored to each of our brands.

Last year, we exceeded our pledge of recruiting 2,000 apprentices, with more than 3,100 starting their apprenticeship and working towards a nationally recognised qualification.

This year, we announced our pledge to recruit a further 10,000 apprentices over the next three years. This is our commitment to our people and also to young people looking for that all important first step on the career ladder.

The acquisition of Spirit Pub Company provided us with the opportunity to review both apprenticeship programmes and make improvements which will benefit the business in the years to come. The main development is that more of our team members are now able to access apprenticeship qualifications across the country.

Our apprenticeship programme continues to grow. We have seen a 175% increase in applications to join Greene King as an apprentice compared to the previous year. We are seeing a particular increase in 16–24 year olds interested in enrolling on our apprenticeship scheme and, as our business grows, we are committed to supporting this age group further by providing more opportunities to join.

Our apprenticeship programme has been recognised during the last 12 months by winning a number of awards, including:

- one of the Daily Telegraph and Top Apprenticeship Careers List's Top 50 Apprenticeship Employers in the UK;
- named as a Top 100 Apprenticeship Employer by the National Apprenticeship Service;
- Apprenticeships 4 England's Macro Employer of the Year;
- VQ Employer of the Year; and
- National Apprenticeship Service Regional Winner (East of England).

"WE BELIEVE WE HAVE A RESPONSIBILITY TO SUPPORT YOUNG PEOPLE BY CREATING THESE OPPORTUNITIES TO EARN AND LEARN."

BEST FOR COMMUNITIES

£2m

PROUD TO HAVE RAISED £2M FOR MACMILLAN CANCER SUPPORT

3 years

EXTENDED PARTNERSHIP FOR A FURTHER THREE YEARS

For centuries, pubs have been at the heart of the community and today we continue as our ancestors did before us by serving, and supporting, those who choose to spend time with us. We want to be the best we can be for our communities. One of the ways we support them is through our charity programme.

We wanted to unlock the powerful opportunity we have to raise money for important causes through our local community pubs so, in May 2012, we embarked on our first charity partnership with Macmillan Cancer Support. At that time, we set ourselves a stretching target of raising £1m in three years. We were delighted, and proud, to announce that after three and half years we had raised £2m.

We see our team members and guests as the real heroes as they pulled together to show such enthusiasm, passion, blood, sweat and tears to beat our fundraising goal.

Some of the key pieces of activity during the last year included:

- the World's Biggest Coffee Morning;
- the Hungry Horse Macmillan Week;
- locals' Macmillan Fundraising Month of May; and
- in local communities, family fun days, bingo nights, bike rides, marathons, climbs and much more!

This year, we were proud to receive the Pub Aid Award at the All Party Parliamentary Beer Group Annual Awards for our fundraising achievements for Macmillan.

The impact and reward of the partnership is not just felt by Macmillan. It has helped us to connect with our local communities and allowed our team members to show their creativity, strength and bravery in their fundraising and build stronger relationships together.

We know the £2m raised will make a huge impact on cancer patients and their families and, this year, we revealed we would continue our successful partnership with Macmillan for a further three years. The money raised over the next three years will continue to fund vital services such as Macmillan nurses and local support programmes supporting people with cancer to better self-manage in their own communities.

"Our partnership with Greene King began in May 2012 and we continue to be overwhelmed by the generosity and ingenuity of Greene King employees and customers in raising money for Macmillan. The money that Greene King has raised will make a real difference to the lives of people affected by cancer and their families. It will provide practical, medical, financial and emotional support and will help them take back control of their lives.

AT MACMILLAN WE BELIEVE THAT NO ONE SHOULD FACE CANCER ALONE AND WITH THE CONTINUED SUPPORT OF OUR PARTNER GREENE KING – NO ONE WILL."

Rachel Gascoigne, partnership manager at Macmillan Cancer Support

A TRANSFORMATIONAL YEAR

GROUP REVENUE WAS:

£2,073.0m

OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS WAS UP:

53.1%

PROFIT BEFORE TAX AND EXCEPTIONALS WAS:

£256.5m

ADJUSTED BASIC EARNINGS PER SHARE GREW:

14.6%

It has been a transformational year for Greene King, with the acquisition of Spirit in June 2015 followed by significant progress integrating the 'best of both' businesses and realising cost synergies, helping to deliver further improvement in earnings and dividends, and strong returns.

Trading environment

In the first half, improvements in the economic environment, including increased consumer confidence and sustained real income growth, were slow to positively impact the UK eating and drinking out market. As the UK referendum approached in the second half, the environment softened and consumers appeared more reluctant to spend discretionary income due to the uncertainty.

Following the UK's vote to leave the European Union, the increasingly uncertain trading environment is likely to weigh on consumer sentiment in the near term. However, Greene King has a strong track record of performing well in challenging trading environments and we have levers to pull within our business, particularly following the Spirit acquisition, to refocus our investment and help limit the indirect impact from lower consumer confidence. In addition, we have limited exposure to European sales, although we have some exposure to foreign exchange rate movements through overseas sourcing. We will look to mitigate the impact of this as far as possible.

Outside of the consequences of the vote, UK eating and drinking out remains a dynamic market with intense competition for every pound in the consumer pocket. This environment of increasing consumer choice extends beyond the traditional pub and restaurant sector and includes the supermarkets and the takeaway aggregators who have made eating at home more attractive. Understanding this, and ensuring our offer is compelling enough to compete successfully with this broader competitive set, is increasingly important for delivering long-term growth.

Consumers remain highly value conscious with a heightened awareness of price, a demand for excellent and personalised service, and a desire for higher quality on the plate and in the glass. These trends will be exacerbated by the uncertainty surrounding Brexit and we are well positioned to take advantage of any weakening in spending power utilising our successful value brands and formats.

They are also seeking experiences they can share with both friends and family and with a much wider audience on social media. Our aim is to create experiences that our customers will value and remember, and that they want to share with others. While digital and technology will increasingly contribute to the overall customer experience, it is the physical interaction with our people and our pubs that will enhance these experiences. We believe that our high quality estate, together with our approach to digital, can set us apart from our broad competitive set.

Our people are core to our business and we constantly strive to pay them appropriately for their hard work while also ensuring we maintain a high level of investment in their development and training. We remain confident of being able to mitigate most of the impact from the ongoing increases in the National Living Wage. We continue to expect the benefits of mitigating actions to be fully achieved in 2018/19 and there are no changes to our estimate that the incremental impact, over and above general wage inflation, will be £2m in the current financial year and will reach an annualised run rate of £6m per annum in 2018/19.

Now that the revised statutory Pubs Code has been announced, and assuming there are no further changes, we are planning for the introduction of the Code at the end of July 2016. We believe the overall financial impact on the group will be immaterial.

Performance summary

Total revenue grew 57.6% to £2,073.0m while operating profit[1] was 53.1% higher than last year at £392.2m, including £16.7m of synergies achieved during the year.

The operating margin was 18.9%, 0.6%pts lower than last year. This comprised a positive contribution from cost synergies, diluted by a higher contribution from managed pubs, higher lease costs following the Spirit acquisition and incremental investment in our people and in customer service.

In Pub Company, this investment in our people helped to drive LFL sales growth of 1.5%, ahead of the market[2], and included LFL sales growth in the original Greene King managed estate of 1.9%. Total sales growth in Pub Company was 68.7% while operating profit grew by 56.8% to £299.2m. 13 new pubs were opened during the year.

Having achieved a record customer satisfaction score in Greene King Pub Company in the first half, further progress was achieved in the second half resulting in a 7.9%pts increase in the full year. We also saw an improved trend in team member retention and in our food safety ratings. The improvements in these metrics indicate the success of our teams in continuing with business as usual during the integration process.

The tenanted and leased businesses were successfully integrated at the end of the first half and the combined Pub Partners business grew LFL net income by 2.7% in the year. Average EBITDA per pub increased by 14.3% reflecting further improvements in estate quality as a result of the Spirit acquisition, the disposal of 48 pubs from the combined estate and synergy contribution.

Brewing & Brands achieved record revenue of £196.9m, including 2.9% OBV growth, and we extended our share of the UK ale market by 40bps to 10.5%. Operating profit grew 9.7% to £32.7m.

The integration of Spirit progressed ahead of plan, with synergy realisation of £16.7m in the year exceeding our expectations. Overall, the positive group performance delivered a 24.1% increase in net cash flow generated from operations and we again covered our debt service obligation, core capital expenditure and dividend from internally generated cash. Net debt to EBITDA improved to 3.9x.

Adjusted earnings per share grew 14.6% to 69.9p and, as a result of this growth and our confidence in the future, we have declared a 7.7% increase in the dividend per share, maintaining our long-term progressive dividend policy.

The business achieved another year of robust returns, generating a ten basis point increase in ROCE to 9.4%, which remains comfortably ahead of our weighted average cost of capital (WACC).

1. Throughout this review, operating profit, operating profit margin and EBITDA are stated on a pre-exceptional basis.
2. Coffer Peach Business Tracker.

Serving food at a Hungry Horse.

Chief executive's review continued

"THE ACQUISITION OF SPIRIT IN JUNE 2015 WAS FOLLOWED BY SIGNIFICANT PROGRESS INTEGRATING THE BEST OF BOTH BUSINESSES."

Spirit integration

On 23 June 2015, we completed the acquisition of Spirit Pub Company, adding 791 managed pubs and 416 tenanted and leased pubs to the estate. Following a thorough review of Spirit, we commenced the exciting task of integrating these two leading pub businesses using a 'best of both' companies approach. At the end of the first half of the year, our two tenanted and leased businesses were integrated ahead of schedule. We also drove strong acceptance of the Greene King beer brands within Spirit's managed pubs and we announced a decision to retain both the Spirit and Greene King head offices. During the second half, the Greene King beer portfolio gained further traction within Spirit pubs, we commenced the roll out of the 'best of both' pub IT system and the majority of the people transition was completed.

The scale of change in the combined business since the acquisition is significant. While maintaining trading momentum, we have driven fundamental improvements to how the business is structured and run. Keeping Spirit's Burton office as the headquarters for our managed pub business and putting together a senior management team with the requisite retailing experience and skills has given us a platform to create an exceptional retailing business that can generate sustainable competitive advantage.

Following a strong start, momentum with the realisation of cost synergies continued in the second half with good progress on procurement, where we saw a number of supplier negotiations concluded sooner than anticipated. As a result, £16.7m of cost synergies were achieved in the year compared with our original expectation of around £12m. We continue to anticipate annual cost synergies in the region of £35m by the end of 2017/18, of which 80% will be realised by the end of this financial year. Non-recurring costs of achieving these synergies are still expected to total £25m. Our intention remains to invest cost synergies in excess of our stated target to strengthen key areas within Pub Company such as our people, our systems and our brands.

The new Pub Company support centre in Burton, Spirit's former headquarters.

Dining at a Chef & Brewer pub.

Brand optimisation

We acquired a strong portfolio of brands and formats with Spirit – one that would have been very difficult to replicate organically – and we continue to anticipate material benefits from optimising the combined brand portfolio, which will provide an exciting growth opportunity over the next few years.

The combined business has 20 brands and formats and our plan is to reduce this to around ten. We are evolving the future brand portfolio and plan to focus on five growth retail brands and formats: Hungry Horse, Flaming Grill, Farmhouse Inns, Chef & Brewer and Greene King. We will also continue to develop our hotels and Metropolitan, our premium London pub format.

In order to select the growth brands and formats to invest in, we looked at the consumer relevance and financial performance of each brand, the long-term opportunities to grow and expand and the proximity to other pubs within the combined group.

There is potential profit upside from investment in over 300 of our existing pubs to reposition them into the growth brands over the next three years. Our priority in 2016/17 is to convert around 100 Fayre & Square pubs into the growth brands, of which the majority will be rebranded as Hungry Horse.

We also plan to simplify our Local Pubs estate. We will reduce the number of formats and we will replace any existing retail branding with Greene King branding, considerably increasing the size of the Greene King branded estate and creating a significant pub retail brand in the UK eating and drinking out market.

In the current year, we expect to spend around £40–50m on these conversions and anticipate generating EBITDA returns significantly above our cost of capital. We expect a £1m dilutive profit impact in the first year, including the impact of additional opening costs.

Best for our communities

Our pubs are at the heart of the community and have a unique opportunity to play an active role in the communities they serve. We understand the importance of operating a sustainable and responsible business and, as an industry leader, it is our duty to set an example by delivering a winning social responsibility programme.

During the year, we were proud to deliver the following initiatives:

- in March we announced that our teams and customers raised £2m for our charity partner, Macmillan Cancer Support, doubling our initial target. To mark the milestone, we were pleased to renew our partnership with Macmillan Cancer Support for a further three years;
- a partnership with The Prince's Trust to launch ten programmes across the country giving unemployed young people an opportunity to step into work;
- for the third year running, we donated to the Pub is the Hub Community Services Fund in order to help to support rural pubs that want to diversify their services for the benefit of their communities; and
- further reduction in water consumption with Spirit named as the Water Efficient Project of the Year at the 2015 Energy Awards.

Outlook

Trading in the first eight weeks of the year has strengthened, helped by the European Football Championships and better weather in May, with Pub Company LFL sales up 2.8%. We are pleased with the initial performance of the brand optimisation programme and the exciting opportunity this presents to deliver long-term growth, and today we have outlined five strategic priorities to deliver our vision of being the best pub company in Britain.

The increasing uncertainty surrounding the UK's future withdrawal from the European Union is likely to have a negative impact on the economy and on consumer confidence in the near term. However, with our track record of success in previous challenging conditions, our strong balance sheet and the limited direct impact on our business from Brexit, we remain confident that our strategy will drive further growth in earnings, returns and dividends and we look forward to delivering further financial and strategic progress in the current financial year.

Rooney Anand
Chief executive
28 June 2016

Our business model

DELIVERING VALUE TO ALL STAKEHOLDERS

The Greene King vision is to be the best company in Britain: the best for our customers, the best for our teams, the best for our shareholders and the best for our communities.

Our integrated business model is predicated on balancing strong cash generation with investment to further position the business towards long-term growth markets and, as a result, deliver value to all of our key stakeholders.

Our business consists of three divisions: Pub Company (previously Retail), Pub Partners and Brewing & Brands.

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.

Pub Company: Our Pub Company consists of both more food-focused destination pubs and restaurants and more community-focused local pubs. The principal revenue streams are food and drink available for consumption on our premises. We gain further revenue from our accommodation offer on some sites, and a number of our sites have gaming machines. The success of our Pub Company 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. Pub Company (1,841 pubs) is the key growth driver for the group and in this division we typically own and operate the pubs. This division is a key focus area for growth and we will continue to invest the cash generated from the group in our people and our pubs to ensure that Pub Company continues to gain share of the UK eating and drinking out market.

Pub Partners: Pub Partners is responsible for operating our tenanted, leased and franchised pubs and aims to ensure that each pub has the right licensee to operate it, on the right agreement with the right offer. Revenue in our Pub Partners business of 1,215 pubs is principally achieved through the supply of beer and other drinks to our licensees and the rent that they pay us for the pub and our support. We also derive a small portion of revenue from gaming machines. Although we invest in this business – to ensure that we can offer prospective lessees the best pubs – the cash generated is principally reinvested into Pub Company.

Brewing & Brands: Our Brewing & Brands division operates two breweries, one in Bury St Edmunds and the other in Dunbar, that brew our core portfolio of ales, which are complemented by an innovative range of craft ales. We generate revenue in this division 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.

An integrated business model

In addition to driving growth in Pub Company through enhanced investment, further benefits of our integrated business model include the flexibility to transfer pubs between Pub Company and Pub Partners and ensure that we match each pub with the best operating model. Both Pub Company and Pub Partners are customers of Brewing & Brands increasing the distribution of our ales.

Acquisition of Spirit

The acquisition of Spirit has added additional scale in both Pub Company and Pub Partners, which, in addition to increasing our brand presence and recognition, creates opportunities to realise cost synergies in areas such as procurement and distribution. We have outlined a 'best of both' companies approach to the integration. For example, we have based our Pub Company division at the Spirit office in Burton-upon-Trent, while continuing to locate the Pub Partners division, Brewing & Brands and the company headquarters in Bury St Edmunds. This arrangement means that Pub Company is more centrally located, reflecting our national scale and reach in this division, while protecting the heritage and legacy of Greene King by retaining a significant presence in Suffolk. We will also optimise the combined brand portfolio, reducing the number of brands and formats from 20 to around ten, including five growth brands, and focusing our investment.

BEST FOR OUR...

Hungry Horse awarded Best Value Pub Restaurant Menu[1]

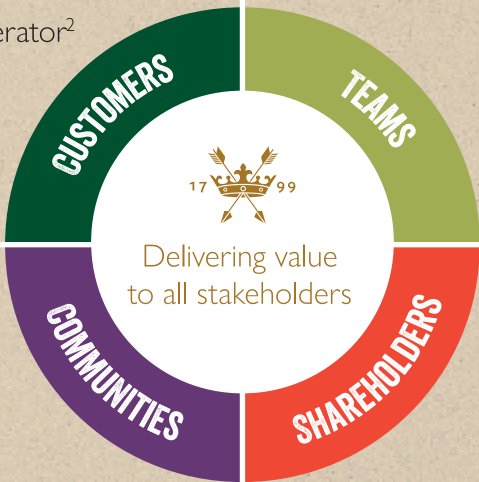
Best Managed Pub Operator[2]

Improved value, service and quality; record NPS

Top 50 Apprenticeship Employer[4]

Best Work Experience Provider 2015[5]

Will employ a further 10,000 apprentices over three years



Raised £2m for Macmillan – double our initial target

Water Efficient Project of the Year[3]

Prince's Trust partnership

ROCE 9.4% +10bps

Operating cash flow +24.1%

Full year dividend +7.7%

1. Menu Innovation and Development Awards.
2. 2016 Publican Awards.
3. 2015 Energy Awards.
4. The Daily Telegraph.
5. Springboard Awards for Excellence.

Our markets

Overview

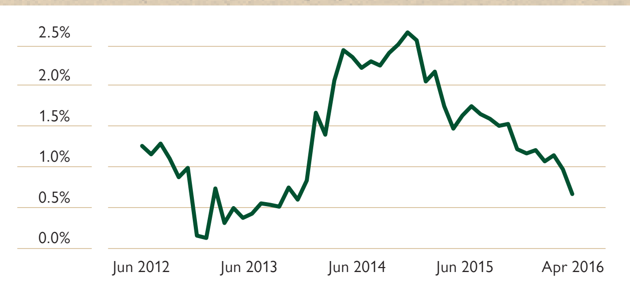
Our core markets are the UK eating out and UK drinking out markets. We also compete in the UK ale market with our brewing of cask and premium ales, and have a foothold in the UK staying out market.

Over the last 12 months our core markets have continued to be supported by the macroeconomic environment. Alongside the rest of the sector, we continue to navigate a number of changes in the regulatory environment, in particular the introduction of the National Living Wage and the statutory Pubs Code.

The long-term fundamentals behind our core markets remain strong and we are cautiously optimistic about the future. We have seen the UK eating out market grow and expect it to continue to do so. We also believe it will become increasingly dynamic with intense competition for every pound in the consumer's pocket. The UK drinking out market will continue to show resilience and hold its share of leisure spend.

Positive sector LFL growth continued, although it was a little more subdued in the second half of the year

UK MARKET LFL GROWTH (% ROLLING MAT)



Source: Coffer Peach Business Tracker.

While recent sector like-for-like (LFL) sales growth has been a little more subdued, within Pub Company, our largest and fastest growing business, we successfully outperformed the market in the 12 months to April 2016, growing our LFL sales by 1.5%, including by 1.9% in the original Greene King managed estate.

Economic environment

The macroeconomic environment continued to provide a strong backdrop to our core markets with consumers experiencing increases in average weekly earnings (supported by a tightening labour market). As a result of a low inflationary environment, the climb in consumer confidence throughout 2015 and an increasing appetite for households to spend rather than save, we saw UK real household spending grow by c. 2.8% in 2015.[1]

However, the picture was mixed across the year and, in the second half, as the UK referendum on the European Union approached, consumer confidence dipped and the economic environment showed some signs of softening with consumers more reluctant to spend discretionary income in the face of such uncertainty.

We remain cautiously optimistic about the future UK economic outlook and expect consumer discretionary spend to continue to grow, albeit at a slower rate as the growth in average weekly earnings slows (as the country approaches full employment) and inflation picks up.

Although the referendum is now behind us, the process by which Britain extracts itself from Europe is uncertain. We are mindful of the potential impact of this uncertainty on the consumer and expect consumer confidence to remain more subdued until this is clearer.

We are also mindful of the longer-term impact on household incomes from government plans to reduce welfare spending, which are likely to have a disproportionate impact on those with lower incomes.

Political environment

Regulatory forces have played, and will continue to play, a key role in shaping our markets and our business.

In July 2015, it was announced that the UK government would introduce a compulsory minimum wage premium for all staff over 25 years of age, known as the National Living Wage. Our people are core to our business and we constantly strive to pay them appropriately for their hard work while maintaining a high level of investment in development and training. We remain confident of being able to mitigate most of the impact from the ongoing increases in the National Living Wage.

Throughout the year, the Small Business, Enterprise and Employment Act has taken steps towards implementation, with the publication of a draft statutory Pubs Code in April 2016. Now that the revised Code has been announced, and assuming there are no further changes, we can start to plan for its introduction at the end of July 2016. We believe that the overall financial impact on the group will be immaterial.

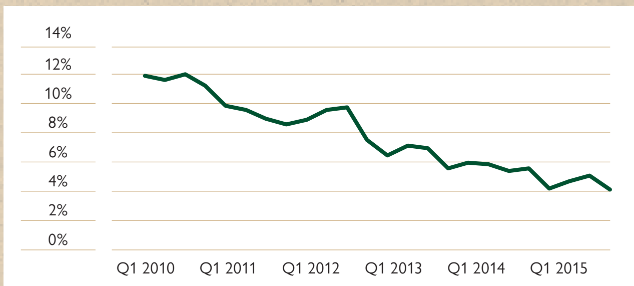
We welcomed the Chancellor's decision to freeze excise duty in March 2016. We maintain our support for an alcohol minimum unit price (MUP). We believe MUP, alongside other measures such as improved alcohol education, can be a highly effective measure in reducing irresponsible retailing and consuming of alcohol, therefore helping to reduce the costs to society of rising alcohol related illness and crime.

We await more detail around the proposed Apprenticeship Levy and will again look to work with government to ensure that this legislation supports rather than hinders investment in people development and training.

1. Source: Thomson Datastream, Capital Economics.

Households have been increasingly choosing to spend rather than save

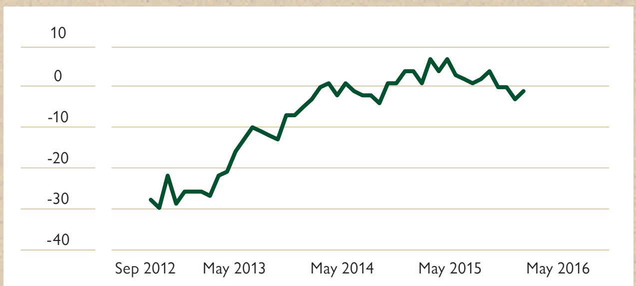
UK HOUSEHOLD SAVING RATIO (%)



Source: Capital Economics.

Consumer confidence was strong throughout 2015, but dipped in early 2016

UK CONSUMER CONFIDENCE COMPOSITE INDEX



Source: GfK.

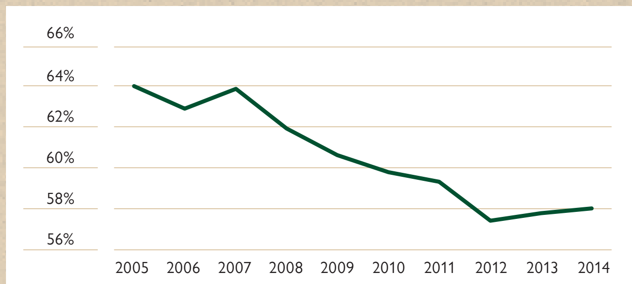
The pubs and bars segment is c. 25% of the total UK eating out market

UK EATING OUT MARKET STRUCTURE 2015 (£BN)

Source: M&C Allegra (2015).

We have seen more recent signs of the decline in alcohol consumption levelling off

UK ALCOHOL CONSUMPTION – % IN LAST WEEK 2005–2014



Source: ONS.

UK eating out

We offer a variety of eating out options and experiences across both our destination and local community pubs, with eating out representing c. 40% of leisure spend in 2015.

We compete in a broad UK eating out market made up of around 330,000 outlets and annual total spend of c. £85bn[1]. Within this market, the pubs and bars segment consists of around 50,000 outlets and total spend of c. £22bn – c. 25% of overall eating out spend.

The market is increasingly dynamic. An environment of increasing consumer choice extends beyond the traditional pub and restaurant sector and includes the supermarkets, who have successfully made eating at home more attractive, and the takeaway aggregators who facilitate the option of combining the ease of eating out with the comforts of home. Understanding this, and ensuring our offer is compelling enough to compete successfully with this broader competitive set, is increasingly important for delivering long-term growth.

The overall UK eating out market is expected to grow at an average annual rate of c. 3–4% over the next three years[1], supported by rising real incomes, supply growth in the market and increases in the proportion of adults eating out of home and the frequency with which they do so, driven in particular by younger adults.

Hectic lifestyles and the increasing desire to seek experiences mean that consumers are increasingly attracted to both informal dining with great value food and drink across all day parts as well as more premium offerings. Segments of the market such as fast food and 'retail grab and go' will therefore be among the fastest growing parts of the market. We will continue to develop our offer to meet these needs, and are making progress in improving our coffee offer and targeting breakfast and snack sales as well as the more traditional out-of-home dining occasions.

The pubs and bars segment is forecast to hold its share of this market at c. 25%. Managed and branded pubs will be the key drivers of the evolution of the pub sector as consumers are drawn to brands that stand out and have defined, consistent propositions that signal reassuring brand familiarity, excitement and the opportunity to try something new. In contrast, overall spend in the tenanted and leased sector will continue to decline primarily as a result of falling supply. We see an opportunity here to buck the inherent market decline by strengthening the quality of our estate to win share from less well invested competitors.

UK drinking out

Through our pubs and our portfolio of award-winning ales we offer choice for all types of drinkers and occasions. Drink is a key driver of overall spend in the pubs sector with 40% of all meals involving an alcoholic drink and 52% of consumers saying that alcohol is an important choice driver for where to eat.[2] A strong drinks range is therefore a crucial factor in achieving overall customer satisfaction and we aim to capture share of spend by providing a drinks range that offers value, quality and an experience to our guests.

After a notable decline in alcohol consumption between 2007 and 2012, consumption has levelled off more recently.[3] We have seen drinking out spend retain its share of leisure spend at c. 22%.[4] We expect to see continued resilience in drinking out spend in value terms, which will be supported by the broader increase in discretionary and leisure spend. We also expect the price differential between the on and off trades to become less relevant as consumers are drawn to the 'experience' of drinking out of their homes.

Other markets

UK ale market

We are the UK's leading cask ale brewer and premium ale brewer. The overall UK ale market was flat in the 12 months to April 2016. This improving picture has been driven by a slowing in the decline of standard ale in keg and can formats and continued growth of premium ale through cask and bottle formats.

During this period, we were successful in extending our share of the UK ale market by 40bps to 10.5%, which we have achieved through building consumer loyalty to our core ale brands, which have all grown in the year, and through developing our innovative range of seasonal and 'craft' beers to appeal to a new generation of beer drinkers.

We expect the UK ale market to continue to evolve and improve and to see low single-digit growth in the total market. We remain confident in our ability to continue to grow share with our enviable portfolio of brands that can meet the needs of consumers across all drinking occasions.

UK staying out market

We compete in the UK provincial staying out market and offer great value and convenience to guests on both business and leisure visits, with our estate at the year end consisting of 3,399 bedrooms. We see the combination of a pub restaurant and adjacent rooms to be an attractive guest proposition in the context of increasing business and leisure travel, and therefore one which offers plenty of opportunity for pubs to take share from the more traditional branded hotel chains. The staying out market enjoyed a strong year in 2015, benefiting from the economic recovery and a buoyant travel market. RevPAR (revenue per available room) in the market continued to grow in the provinces, and RevPAR across our combined Pub Company estate grew by 4.5% across the financial year. RevPAR in the provincial staying out market is expected to grow by c. 3–4% over the next two years (i.e. continued growth, albeit at a slower rate) driven by moderate increases in occupancy and hoteliers' average daily rate.[5]

1. M&C Allegra (2015).
2. CGA Peach.
3. '% of UK population who drank in the last week (aged 16 and over)' (source: adult drinking habits in Great Britain, 2014 ONS, released March 2016).
4. GK Leisure Tracker.
5. PwC (2016).

TO BE THE BEST PUB COMPANY IN BRITAIN

Our vision is to be the best pub company in Britain; the best for our customers, our teams, our communities and our shareholders. By being the best, we believe we will generate superior underlying growth and returns for our stakeholders. Pubs have to contend with a wider set of competitors, including coffee shops, takeaway aggregators and grab and go stores and a faster pace of consumer change than ever before. This means we will look to redefine what our pubs offer their customers, ensuring they have a broader and more lasting appeal. In order to deliver our vision, we have identified five strategic priorities for the medium term:

Best for our customers, best for our teams, best for our shareholders and best for our communities

1

BUILD ATTRACTIVE AND STRONG BRANDS

2

INDUSTRY-LEADING VALUE, SERVICE AND QUALITY

3

WORK WITH THE BEST PEOPLE

4

OWN THE BEST INVESTED PUB ESTATE IN BRITAIN

5

MAINTAIN A STRONG BALANCE SHEET AND FLEXIBLE CAPITAL STRUCTURE

Delivering attractive shareholder returns, earnings and dividend growth

1 BUILD ATTRACTIVE AND STRONG BRANDS

We must ensure our brands stand out and remain relevant to today's increasingly demanding consumer in order to drive long-term growth. We are optimising our brands and formats and using the scale this brings to increase investment in our brand propositions to drive greater brand awareness and loyalty. We will look to broaden the appeal of our pubs, both in terms of the customers who use them and their reasons for visiting. For our Local Pubs estate, Pub Partners and Brewing & Brands, the Greene King brand is key to superior performance and we will extend our brand marketing leadership by investing more in communicating the brand's benefits. A strong digital presence is vital in building successful brands and we will create the digital industry leader through combining the best of Greene King and Spirit's digital expertise to drive customer engagement, engender higher levels of customer brand loyalty and improve the return on our marketing investment.

2 INDUSTRY-LEADING VALUE, SERVICE AND QUALITY

We remain committed to exceeding customer expectations and we will achieve this by constantly improving the value offer to our customers, the service delivery of our teams and the quality of our food and drink offer. We will use our scale to deliver leading value propositions through the successful execution of known value item (KVI) and everyday low pricing (EDLP) strategies to drive a sustainable mix of volume and spend per head growth. We will increase investment in our people to ensure we lead the industry on service and successfully compete with the wider competitive set. Lastly, we will evolve and improve the quality of the food, drink and accommodation we offer our customers, regularly benchmarking against the best in class.

3 WORK WITH THE BEST PEOPLE

Being the first choice for people who want to work in the hospitality sector is important to us and we want to offer every existing team member the opportunity to grow and develop. Our refreshed career pathway 'Craft your career' provides individuals with structured development opportunities while further initiatives include our focus on apprenticeships across the business, which has led to a commitment to employ a further 10,000 apprentices over the next three years.

We also want to recruit, retain and develop the best operators in our Pub Partners business and this means extending our focus on training and development to both existing and future licensees.

Overall, investing more in the recruitment, retention and development of our people will lead to a better trained and more motivated team across our business, which will be reflected in ongoing improvements in team retention and customer service.

4 OWN THE BEST INVESTED PUB ESTATE

We want to own and run the best pubs in Britain, which we will achieve through proactive management of our pub portfolio and continued industry-leading investment in our estate. We will further grow the share of our profits from managed pubs, where we can determine the customer experience, while valuing the role that Pub Partners plays in generating cash, adding scale and promoting the Greene King brand. The best pubs have the best beers and we will continue to brew our own industry-leading beer brands. We believe the strong relationship between our pubs and our breweries is a clear competitive advantage.

We now operate 1,823 pubs, restaurants and hotels in our managed estate. We will selectively build and acquire new pubs and transfer exceptional tenanted and leased pubs to Pub Company when the opportunity arises. We will also selectively reduce the size of our current managed estate by selling pubs that dilute returns or have an unattractive long-term outlook. In Pub Partners, we now operate 1,212 pubs and we will reduce the size of the estate through disposals from the tail and through transfers to Pub Company. Our medium-term target for our Pub Partners estate is around 1,000 pubs.

Our preference remains to own the freehold title of our assets and, where it makes financial sense, we will selectively acquire pub freeholds where we currently operate the pub on a lease.

5 MAINTAIN A STRONG BALANCE SHEET AND FLEXIBLE CAPITAL STRUCTURE

Underpinning our company strategy is a financial strategy to maximise the strength and flexibility of our balance sheet. Through a relentless focus on cash generated from operations, we will continue to cover our debt service obligation, our core capital expenditure and our dividend through internally generated cash flow. After the year end, we successfully completed the issuance of an additional £300m of bonds in the Greene King secured financing vehicle, realising net proceeds of £180m after settling certain interest rate swap liabilities. This additional financing provides longer-term funding for general business operations including increasing our optionality to invest in the business.

Key performance indicators

To maintain focus on our five strategic priorities, we have a set of overall financial and non-financial KPIs, which are also used to help to align remuneration to performance.

KPI	PROGRESS IN FY16
Pub Company like-for-like sales (%) The sales this year compared to those in the previous year for all Pub Company sites that were trading throughout the two periods being compared, expressed as a percentage.	In Pub Company, on a combined basis, LFL sales grew by 1.5%, ahead of the market, which grew by 1.3% over a broadly comparable period[1]. LFL sales growth in the original Greene King estate of 1.9% (2015: 0.4%[2]).
EBITDA per pub: Pub Company EBITDA (operating profit before depreciation, amortisation and exceptionals) divided by the average number of trading pubs in the period.	In FY16, EBITDA per pub in Pub Company was impacted by synergies and fair value adjustments offset by the higher proportion of leasehold properties in Spirit – as a result EBITDA per pub fell by -3.6%. However, in the original Greene King managed estate average EBITDA per pub grew by 2.3% (2015: -0.2%[2]), which excludes synergy contribution.
Pub Partners LFL net income Net income is EBITDA in our leased, tenanted and free-of-tie pubs, stated before property costs and administrative expenses – the change in net income is on a same estate basis (i.e. adjusting for disposals).	The tenanted and leased businesses were successfully integrated at the end of the first half and the combined Pub Partners business grew net income by 2.7% in the year (2015: +3.5%[2]).
EBITDA per pub: Pub Partners EBITDA (operating profit before depreciation, amortisation and exceptionals) divided by the average number of trading pubs in the period.	Average EBITDA per pub increased by 14.3% (2015: +15.5%[1]) reflecting the contribution of the Spirit sites, ongoing improvements in the quality of the estate (such as the disposal of 48 pubs from the combined estate) and synergy contribution.
Brewing & Brands OBV growth (%) Year-on-year growth in the sold volume of our own-brewed ales.	Brewing & Brands achieved 2.9% OBV growth (2015: +4.2%[2]), and helped us to extend our share of the UK ale market by 40bps to 10.5%.
Return on investment (%) The incremental EBITDA delivered as a result of our developments, divided by the value of the capital investment.	Annualised return on development capex improved to 27.8% (2015: 22%[2]).
Return on capital employed (ROCE) (%) Pre-exceptional operating profit divided by the 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.	The business achieved another year of robust returns, generating a ten basis point increase in ROCE to 9.4% (2015: 9.3%) which remains comfortably ahead of our cost of capital.
Adjusted basic earnings per share (pence) 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.	Earnings per share before exceptional items was 69.9p (2015: 61.0p), up by 14.6%.
Pub Company net promoter score (NPS) (%) The percentage of responses where we score 9 or 10 (out of 10) less the percentage of responses where we score 0 to 6 (out of 10) to the statement 'I am likely to recommend this pub to a friend and/or relative'.	Record customer satisfaction scores; NPS +7.9%pts (2015: +12.3%pts).
Team turnover (%) The percentage of leavers against the average headcount over a rolling annual period, excluding any student leavers.	We saw an improved trend in team turnover. The improvements indicate the success of our teams in continuing with business as usual during the integration process.
Team engagement (%) The proportion of respondents who agreed with the following statement: 'I would recommend Greene King as a great place to work to others'.	Team engagement currently stands at 73% across the combined group. Investing more in the recruitment, retention and development of our people will lead to a better trained and more motivated team working across our business, which will be reflected in ongoing improvements in team engagement, team retention and the service we give to guests.

1. Coffer Peach Business Tracker.
2. Greene King: excludes synergies arising in the Greene King business.

PUB COMPANY

At the year end our Pub Company division comprised 1,823 pubs and restaurants open across Britain, appealing to a broad range of the population.

The Boathouse in Peterborough has been converted to a Chef & Brewer during the year.

OUR GROWTH BRANDS

CHEF & BREWER
FARMHOUSE INNS PUB DINING & CARVERY
FLAMING GRILL PUBS
HUNGRY HORSE
GREENE KING BURY ST EDMUNDS

REVENUE

£1,688.2m

SHARE OF TOTAL REVENUE

81.4%

PUB COMPANY CONTINUED

LIKE-FOR-LIKE SALES
+1.5%

OPERATING PROFIT[1]
+56.8%

NPS IN THE GREENE KING ESTATE
+7.9%pts

INCREASE IN ONLINE TABLE BOOKINGS
41%

Our Pub Company strategy is to attract customers with exciting brands that deliver unrivalled value, service and quality. The acquisition of Spirit Pub Company has helped us accelerate this strategy through the addition of successful brands and the opportunity to learn from each other and enhance the customer offer. It also allows us to generate greater scale to drive cost efficiencies that can be reinvested in the business.

In the former Greene King estate, total sales grew by 5.1%, while total sales increased 68.7% to £1,688.2m when including Spirit.

Full year LFL sales growth in the Greene King and Spirit managed estates was 1.9% and 1.0% respectively. On a combined basis, LFL sales grew by 1.5%, ahead of the market, which grew by 1.3%[2] over a broadly comparable period. We achieved LFL sales growth in food, drink and accommodation and, by brand, we saw notable strength in Chef & Brewer.

1. Before exceptionals.
2. Coffer Peach Business Tracker.

“THE ACQUISITION OF SPIRIT ADDED SUCCESSFUL BRANDS AND THE OPPORTUNITY TO ENHANCE THE CUSTOMER OFFER.”

On a combined basis, operating profit increased 56.8% to £299.2m. The combined operating margin declined 1.4%pts reflecting higher lease costs following the Spirit acquisition and a 0.3%pt reduction in the margin in the Greene King managed estate due to ongoing investment in our people and our service proposition.

1. Build attractive and strong brands

We constantly improve our brands and the offer within them to ensure they remain fresh and appealing to today’s demanding consumer. For example, to extend the appeal of Hungry Horse while retaining the brand’s family focus, we are trialling improved zoning, allowing more families to dine in a comfortable environment, while other customers enjoy the option to watch sport.

On digital, we have combined the ‘best of both’ from the Greene King and Spirit businesses and our ambition is to create seamless hospitality across the whole customer experience. Aiming to facilitate the customer journey, we developed our online booking capabilities, which contributed to a 41% increase in online bookings. Feedback from our customers on how we are doing is important to us and during the year we relaunched our ‘Hungry For Feedback’ initiative in Hungry Horse while, recognising the increasingly important role of social media, we further rolled out the ‘Always On Service’ initiative encouraging pub teams to engage with customers on Facebook at a pub level. We continued to personalise the content of our email communications with customers and saw an 18% increase in visits to our pub websites.

Our food festivals turn classic pub food and drink into interesting events, giving customers more reasons to visit and offering them the opportunity to trade up, which can drive spend per head. Further initiatives to expand the appeal of the traditional pub included the relaunch of our value-oriented breakfast offer in Farmhouse Inns, extended breakfast service hours in Hungry Horse and the introduction of a ‘Grab ‘n’ Go’ price point for a coffee and a pastry in Local Pubs. Including the Spirit estate, the proportion of sales generated before 5.00pm increased by 7.6%, including by 8.6% in the five retail growth brands.

2. Industry-leading value, service and quality

During the year, we expanded the number of KVIs across the Greene King estate, driving repeat visits among core customers and positively impacting volumes and gross margins. We introduced an ‘EDLP’ approach into the Spirit estate and, aiming to enhance the customer experience, particularly ahead of the Euros, upgraded our sports viewing facilities in Flaming Grill and in Local Pubs. Elsewhere, we were proud to see Hungry Horse win best value pub restaurant menu at the Menu Innovation and Development Awards. On service, initiatives focusing on great service at all customer touch points led to further increases in NPS since the half year and a 7.9%pt increase in the full year in the original Greene King estate to a new company record since measurement began in 2011. Quality improvements included a refreshed ‘Steak Education’ programme in Flaming Grill, and, in the Greene King estate, further improvements in core dishes contributed to a 2.3%pt increase in quality scores compared to last year.

"WE HAD OVER 3,000 APPRENTICES IN LEARNING DURING THE YEAR."

3. Work with the best people

Our teams are vital to our success and we are pleased with the trend in team member retention since the acquisition of Spirit, demonstrating the resilience and commitment of our pub teams throughout the integration progress to date. During the year, we began developing updated employee value propositions by brand, which outline recruitment, retention and development opportunities in each as well as the overall employee experience. This initiative has delivered positive results to date including the highest team member retention in Hungry Horse since measurement began.

On apprenticeships, we had over 3,000 apprentices in learning during the year and we were delighted to be recognised for our commitment to apprenticeships through the award of Macro Employer of the Year by Apprenticeships 4 England. We were also named as one of the top 50 apprenticeship employers in the UK by the Daily Telegraph.

4. Own the best invested pub estate

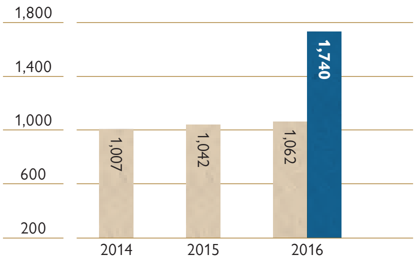
We continued to invest in our estate to ensure that our pubs remain enticing places for our customers to spend their time. During the year, we spent £139.0m on maintaining and developing the combined estate, including £51.8m on the Spirit managed estate and, reflecting a rigorous approach to investment allocation, we achieved annualised EBITDA returns in excess of 27%. Taking advantage of opportunities to selectively and strategically expand our Pub Company estate, we opened 13 new pubs in the year. We disposed of 26 pubs from the combined managed business including ten disposals that were required by the Competition and Markets Authority (CMA).

Overall, we were pleased to be recognised with the award of Best Managed Operator at the prestigious Publican Awards.

AVERAGE NUMBER OF PUBS TRADING

Greene King **1,062** +1.9%

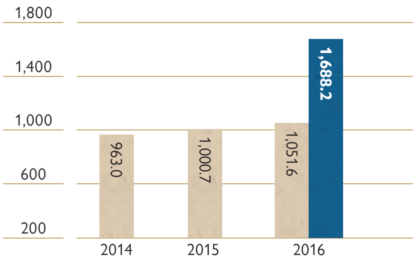
Combined **1,740** +67.0%



REVENUE

Greene King[1] **£1,051.6m** +5.1%

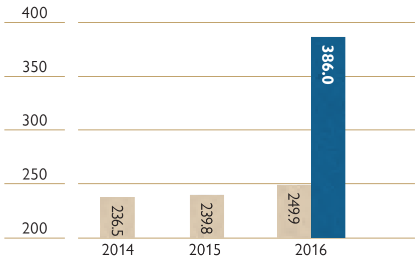
Combined[2] **£1,688.2m** +68.7%



EBITDA

Greene King[1] **£249.9m** +4.2%

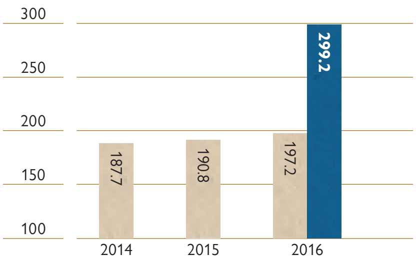
Combined[2] **£386.0m** +61.0%



OPERATING PROFIT

Greene King[1] **£197.2m** +3.4%

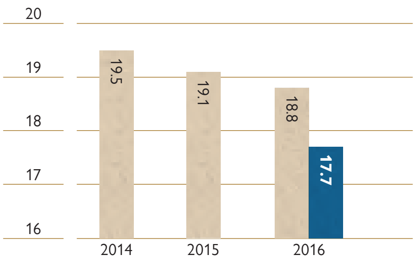
Combined[2] **£299.2m** +56.8%



OPERATING PROFIT MARGIN

Greene King[1] **18.8%** -0.3% pts

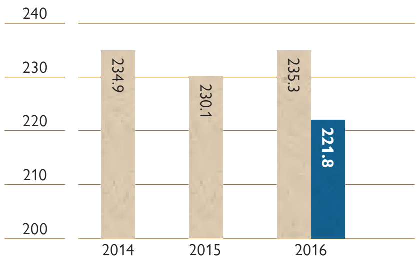
Combined[2] **17.7%** -1.4% pts



AVERAGE EBITDA PER PUB

Greene King[1] **£235.3k** +2.3%

Combined[2] **£221.8k** -3.6%



1. Excludes synergies in the existing Greene King business.
2. Includes Spirit acquisition fair value accounting adjustments, synergies and a 45-week contribution from Spirit.

PUB PARTNERS

Pub Partners is responsible for operating our tenanted, leased and franchised pubs across Britain and aims to be the preferred partner for the best operators in the industry.

OUR AGREEMENTS

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

We have expanded our range of partner suppliers to include premium brands such as Italian cuisine-focused Barrel & Stone.

REVENUE

£187.9m

SHARE OF TOTAL REVENUE

9.1%

REVENUE PER PUB

+13.8%

EBITDA PER PUB

+14.3%

50th

LOCAL HERO FRANCHISE-STYLE SITE OPENED

In Pub Partners, our strategy is to be the preferred partner for the best operators in the industry. We will achieve this through the offer of the best retail partnerships, in flexible formats and in the best pubs. During the year, we made further significant progress with this, accelerated by the acquisition of Spirit, including its high quality tenanted and leased estate and talented operations team.

The integration of Pub Partners and Spirit Leased was successfully achieved ahead of schedule at the end of the first half.

Pub Partners traded well throughout the year and the combined estate delivered LFL net income growth of 2.7%. Average EBITDA per pub increased by 14.3%, reflecting the contribution of the Spirit pubs, ongoing improvements in the quality of the estate and synergy contribution.

The addition of 416 tenanted and leased pubs from Spirit led to growth in revenue and operating profit in the year of 54.1% and 58.0% respectively. Excluding Spirit, revenue declined 2.1% due to disposals, although the operating margin improved by 1.3%pts reflecting good cost control and higher estate quality. The combined Pub Partners operating margin increased by 1.1%pts and was positively impacted by the performance in the original Greene King estate, offset by the increased proportion of leaseholds following the Spirit acquisition. Average revenue per pub grew 13.8% in the combined estate.

Central to the successful execution of our strategy is the ability to offer licensees the best pubs in their location. During the year, we spent £21.1m on maintaining and developing our Pub Partners estate. We also continued to optimise the combined estate through the disposal of a further 48 pubs. These disposals included six that were required by the CMA.

Aiming to attract and retain the best licensees, we increased our focus on food to further support licensees to build sustainable, quality businesses and expanded our range of partner suppliers to include premium brands such as Italian cuisine-focused Barrel & Stone. We also continued to develop our range of attractive and innovative agreements. During the year, Local Hero, our franchise-style agreement built around local provenance, saw the opening of its 50th site while, together with Spirit, we refreshed our suite of turnover agreements.

Digital is a means through which we can further engage with current and prospective licensees and in the year we launched a new and improved online application process and expanded our use of social media. Overall, our number of Twitter followers increased by 75% and traffic to the Pub Partners website increased twelvefold.

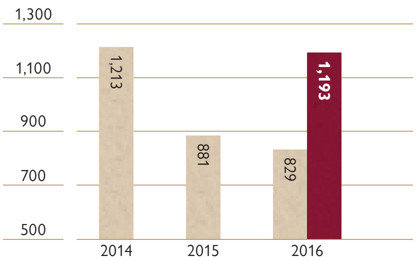
Our teams are important in ensuring we are preferred partners and can attract the best operators. Training initiatives included a 'Bury St Edmunds heritage experience' for our Spirit teams and a continued focus on apprenticeships where we now have 154 qualified apprentices compared with 85 this time last year.

These initiatives have contributed to a consistently low proportion of bad debts in the estate and a stable average licensee tenure at around five years.

AVERAGE NUMBER OF PUBS TRADING

Greene King **829** -5.9%

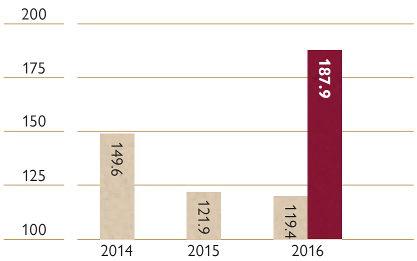
Combined **1,193** +35.4%



REVENUE

Greene King[1] **£119.4m** -2.1%

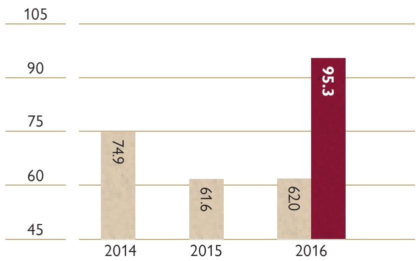
Combined[2] **£187.9m** +54.1%



EBITDA

Greene King[1] **£62.0m** +0.6%

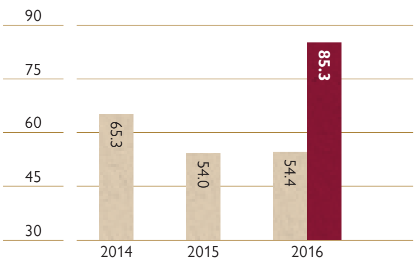
Combined[2] **£95.3m** +54.7%



OPERATING PROFIT

Greene King[1] **£54.4m** +0.7%

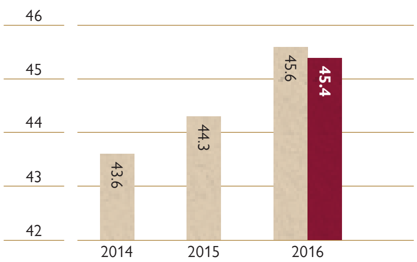
Combined[2] **£85.3m** +58.0%



OPERATING PROFIT MARGIN

Greene King[1] **45.6%** +1.3%pts

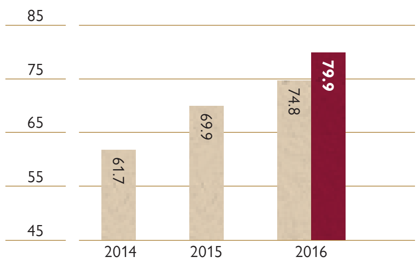
Combined[2] **45.4%** +1.1%pts



AVERAGE EBITDA PER PUB

Greene King[1] **£74.8k** +7.0%

Combined[2] **£79.9k** +14.3%



1. Excludes synergies in the existing Greene King business.
2. Includes Spirit acquisition fair value accounting adjustments, synergies and a 45-week contribution from Spirit.

Operational review continued

BREWING & BRANDS

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.

The new Greene King IPA branding was extended to bottle formats during the year.

OUR CORE BRANDS

IPA
"OLD SPECKLED HEN"
Abbot ALE
BELHAVEN BEST

REVENUE

£196.9m

SHARE OF TOTAL REVENUE

9.5%

OPERATING PROFIT[1]
+9.7%

OWN BREWED VOLUME
+2.9%

ALE MARKET SHARE
+40bps to 10.5%

GREENE KING IPA VOLUMES
+8.0%

In Brewing & Brands, our strategy is to drive growth and cash generation through building consumer loyalty to our core ale brands and our innovative range of seasonal and 'craft' ales. This strategy has led us to being the UK's leading cask ale brewer.

Significant progress was achieved in the year and, including additional volumes to Spirit pubs, OBV grew by 2.9%, increasing our share of the UK ale market by 40bps to 10.5%[2].

Revenue grew 2.2% to a record £196.9m, while operating profit grew by 9.7% to £32.7m leading to a 1.1%pt increase in the margin. The margin increase was predominantly driven by new sales to Spirit managed pubs, which are included in the Pub Company revenues along with those to the rest of the Greene King estate, but there was also a benefit from a positive channel mix and additional cost efficiencies realised in the second half of the previous financial year.

During the year, initiatives to further build consumer loyalty and engagement included the Greene King IPA 'To The Pub' campaign, which reached an audience of over 20 million and resulted in 60% of ale drinkers surveyed saying that the adverts encouraged them to buy Greene King IPA on their next visit to the pub. Other initiatives were a £1.2m investment in a multi-channel media campaign in the Hen brand family and increased use of social media to promote the Abbot Ale brand, with industry-leading engagement levels to date[3].

Our three core ale brand families – Greene King IPA, Old Speckled Hen and Belhaven – saw further volume growth in the year and our ale portfolio benefited from a number of exciting new partnerships, including Greene King IPA's sponsorship of the England and Wales Cricket Board. Greene King IPA was positively impacted by a brand refresh in the on-trade and growing popularity in the export market led by China. Overall, volumes of Greene King IPA grew by 8.0%, increasing its share of the UK cask ale market by 0.4%pts. The 'Hen' brand family had another successful year, particularly in take-home where penetration increased by 3%[4] on last year and, overall, Old Speckled Hen remains the number one premium ale brand in Great Britain.[5]

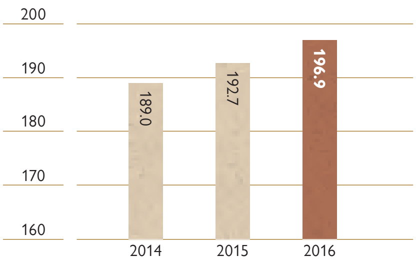
New product development remains a core part of our strategy and helps us to remain relevant to core consumer drinking occasions. Volumes of East Coast IPA continued to grow throughout the year, we launched 'Old Spirited Hen' and we also released limited edition ales such as Purple Reign, launched in celebration of Her Majesty's 90th birthday.

Elsewhere, we were proud to see Belhaven awarded 'Distributor of the Year' in Scotland at the prestigious DRAM awards and a number of our ales, including Greene King IPA, Abbot Ale and Belhaven Best, won gold at this year's Monde Awards. The launch of our new beer café at our Bury St Edmunds brewery has added to the brewery tour experience, which itself received a Certificate of Excellence on TripAdvisor for the fourth consecutive year.

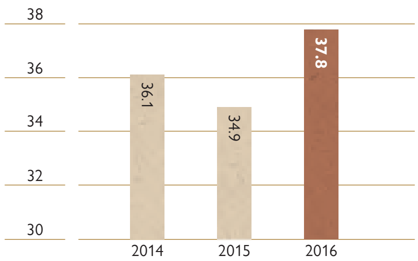
Following the acquisition of Spirit, we have been encouraged by the response of the Spirit pub managers and their desire to sell Greene King beers and are delighted that Greene King IPA is on sale in over 90% of Spirit managed pubs.

1. Before exceptionals.
2. BBPA May 2015-May 2016.
3. Google analytics.
4. Kantar Worldpanel 52 w/e 24 April 2016.
5. CGA Brand Index On-Trade Survey, 52 weeks to 03/16/Nielsen Scantrack volume data 52 weeks to 04/16.

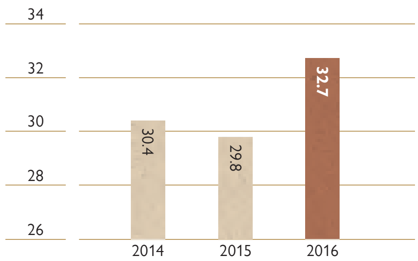
REVENUE
£196.9m +2.2%



EBITDA
£37.8m +8.3%

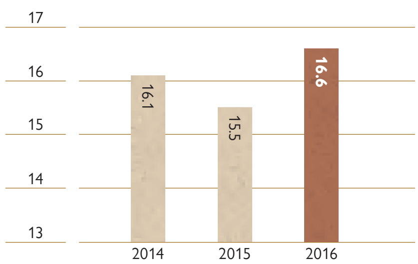


OPERATING PROFIT
£32.7m +9.7%



"GREENE KING IPA, OLD SPECKLED HEN AND BELHAVEN ALL SAW VOLUME GROWTH IN THE YEAR."

OPERATING PROFIT MARGIN
16.6% +1.1%pts



Financial review

STRONG RETURNS AND FURTHER DIVIDEND GROWTH

GROUP REVENUE INCREASED:
57.6%

FREE CASH FLOW:
£50.2m

ROCE:
9.4%

DIVIDEND:
32.05p

Income statement

Revenue was £2,073.0m, an increase of 57.6% compared to the prior year. Excluding a £705.1m contribution from Spirit, revenue increased 4.0% to £1,367.9m. Pub Company was the biggest driver of this increase, with revenue up 68.7% and average revenue per pub rising 1.0%. The combined Pub Company business now accounts for over 81% of group revenue. Total revenue in Pub Partners was £187.9m. This included the Greene King tenanted and leased estate where revenue of £119.4m was down 2.1%, due to the impact of pub disposals. Average tenanted and leased revenue per pub increased 13.8% and average EBITDA per pub grew 14.3%, demonstrating improvements in the quality of the estate and also benefiting from the inclusion of synergies and fair value accounting. Brewing & Brands grew revenue 2.2% to £196.9m.

Operating profit before exceptionals was £392.2m, which was an increase of 53.1% on the prior year. Group operating profit margin before exceptional items was down 60bps to 18.9%, reflecting a higher contribution from the managed estate and, within this, a reduction in Pub Company margin from 19.1% to 17.7%. The reduction of the Pub Company margin was in line with expectations and reflected ongoing investment in labour and training along with the impact of the higher proportion of leasehold pubs in the Spirit estate compared to the Greene King estate.

Net interest costs before exceptional items were £135.7m and included £49.0m of interest relating to Spirit.

Profit before tax and exceptionals was £256.5m, an increase of 52.2% on last year. The tax charge before exceptional items equated to an effective tax rate of 19.3%.

Earnings per share before exceptional items of 69.9p was up 14.6%. Statutory profit before tax was £189.8m, up 60.6% on last year.

Cash flow and capital structure

Operating cash flows remained strong. We generated free cash flow (FCF) of £50.2m, ahead of our scheduled debt repayments of £43.3m and after our core capital expenditure and dividend payments. Overall, EBITDA before exceptional items was £496.9m.

Group net debt at the year end was £2,048.4m, an increase of £679.7m from the previous year end due to acquiring net debt of £674.5m with the Spirit business.

> "OPERATING CASH FLOWS REMAINED STRONG."

In line with our strategic priorities, our objective is to maximise the strength and flexibility of our balance sheet, and the group has a capital structure aimed at meeting the short, medium and longer-term funding requirements of the business. The principal elements of the group's capital structure are a shorter dated £460m revolving credit facility to June 2018 that was £315m drawn at the year end and two long-term asset-backed financing vehicles. The Greene King securitisation has secured bonds with a carrying value of £1,140.9m and an average life of 11 years, while the Spirit debenture has secured bonds with a carrying value of £788.7m and an average life of 12 years.

Our credit metrics remain strong with 96.1% of our interest costs at a fixed rate and an average cost of debt of 6.6%. As a consequence of the Spirit acquisition, fixed charge cover reduced to 2.3x from 2.9x last year, while interest cover increased to 3.3x from 3.0x last year. On a pro-forma basis, annualised net debt to EBITDA improved to 3.9x. Our Greene King secured vehicle had a free cash flow debt service cover ratio of 1.5x at the year end, giving 26% headroom. The Spirit debenture vehicle had a free cash flow debt service cover ratio of 1.9x giving headroom of 33%.

After the year end, the group issued a £300m A6 bond at a coupon of 4.06%, realising net proceeds of £180m after settling certain interest rate swap liabilities. Capitalising on our high proportion of freehold assets, this transaction increased the proportion of longer-term debt in our capital structure and took the outstanding nominal value of bonds issued by Greene King Finance plc at that point to £1,447.7m. The Greene King bond portfolio is secured against 1,543 pubs with a market value of £2.2bn and a carrying value of £1.6bn.

Capital expenditure and disposals

During the year, we invested in both maintaining and developing our existing estate. Total expenditure during the year was £168.4m, made up of £110.3m in Greene King and £58.1m in Spirit.

In addition to the acquisition of Spirit, we added 13 new pubs, investing £46.7m in our retail expansion. Total cash capital expenditure was £194.1m, including £137.5m of core capital expenditure. Core capital expenditure included £45.9m on the Spirit estate.

We disposed of 48 pubs from the combined Pub Partners estate, including six required by the CMA. We also disposed of 26 Pub Company pubs, including ten required by the CMA. Total cash proceeds were £82.6m and a net profit on disposal of £23.3m has been recognised.

Return on capital employed

The group is focused on delivering the best possible returns on our assets and on the investments we make. We are focused on capital discipline, coupling targeted investment in new build pubs, single-site acquisitions and in developing our existing estate to drive organic growth with disposals of non-core pubs. This has contributed to a 10bp improvement in group ROCE to 9.4%. These returns were achieved despite a 10bp dilutive impact from Spirit. ROCE remains comfortably ahead of the group's cost of capital.

Dividend

The board has recommended a final dividend of 23.6p per share, up 8.3%. This will be paid on 12 September 2016 to shareholders on the register at the close of business on 12 August 2016.

The proposed final dividend brings the total dividend for the year to 32.05p per share, up 7.7%. This maintains our long-term track record of annual dividend growth and is in line with the board's policy of maintaining a minimum dividend cover of around two times underlying earnings, while continuing to invest for future growth.

Tax

The effective rate of corporation tax (before exceptional items) was 19.3% compared to 21.0% in the previous year, resulting in a charge to operating profits (before exceptional items) of £49.4m. This is slightly below the standard UK corporation tax rate due to adjustments in respect of prior periods. The exceptional tax credit of £50.5m is discussed under exceptional items.

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 and corporation tax. In the year, total tax revenues paid and collected by the group were £570m (2015: £405m). The group's tax policy, which has been approved by the board, aligns with this strategy and ensures that the group fulfils its obligations as a responsible UK taxpayer.

Since the year end, a formal agreement has been reached with HMRC on a number of historical tax positions. We expect to draw the remaining issue to a close and this will be heard by the Court of Appeal in July. The provision for uncertain tax positions and related interest accrued at the balance sheet date were £10.5m (2015: £31.6m) and £5.9m (2015: £13.9m) respectively.

Pensions

Following the Spirit acquisition, the group now maintains three defined contribution schemes, which are open to all new employees and three defined benefit schemes, which are closed to new entrants and to future accrual.

At 1 May 2016, there was an IAS 19 pension deficit of £52.3m representing a reduction of £6.9m since the previous year end. The £52.3m comprised £48.6m in respect of Greene King schemes and £3.7m in respect of the Spirit scheme.

The deficit reduction resulting from the effect of contributions paid to the schemes and the reduction in scheme liabilities following changes to demographic assumptions are partially offset by the impact of changes to the market-derived actuarial assumptions and a reduction in the market value of the schemes' assets since the previous year end.

Total cash contributions in the year were £12.5m for past service.

The triennial funding valuation and recovery plans have now been agreed for the three defined benefit pension schemes and future deficit recovery contributions are expected to be £3.3m per annum, a reduction of £8.6m per annum.

Exceptional items

We recorded a net exceptional charge of £16.2m, consisting of a £25.9m charge to operating profit before tax, a £40.8m charge to finance costs and a net exceptional tax credit of £50.5m. The following items were recognised in the year:

- A £17.5m charge for legal, professional, integration and reorganisation costs following the Spirit acquisition.
- A net impairment charge of £32.2m (2015: £27.4m) was made against the carrying value of our pubs and other assets. This comprises an impairment charge of £79.8m offset by reversals of previously recognised impairment losses of £47.6m.
- A net surplus on disposal of property plant and equipment, which includes a number of high alternative use value disposals, of £23.3m.
- £39.1m of exceptional finance costs in respect of the mark-to-market movements in the fair value of interest rate swaps not qualifying for hedge accounting within the Spirit debenture.
- The exceptional tax credit of £50.5m consists of a £11.4m tax credit on exceptional items, a deferred tax credit of £33.6m in respect of the licensed estate, a £0.7m tax credit in respect of prior periods and a £4.8m tax credit in respect of rate changes. The deferred tax credit in respect of the licensed estate includes a credit of £26.8m in relation to revaluation and rolled over gains on the licensed estate following clarification from HMRC on the treatment of certain judgmental terms.

Financial review continued

Spirit acquisition

The group completed the acquisition of Spirit Pub Company plc on 23 June 2015 for consideration of £763.1m.

A fair value exercise was undertaken upon completion and the final assessment in respect of the assets and liabilities acquired has been concluded. The goodwill on acquisition following the fair value exercise is £434.0m.

Key fair values include the following:

- Property, plant and equipment values, for which valuations have been performed by external surveyors, of £1,413.4m.
- A £168.3m intangible operating lease asset.
- The brands acquired with the Spirit business have been valued at £16.1m.
- A £312.7m liability recognised in respect of lease arrangements that are not considered to have market rate terms.
- Derivative liabilities in respect of interest rate swaps of £165.2m.
- Deferred tax asset of £68.7m recognised relating to losses, derivatives and other temporary differences.
- Net debt acquired, which totalled £674.5m and included cash of £147.5m.

The impact of fair value adjustments and other accounting alignments on the annual results has been to increase operating profit by £7.1m, largely as a result of the treatment of the off-market lease liability. The benefit to profit before tax and exceptionals has been £7.4m. There has been no impact on cash.

Guidance for financial year 2016/17

The 2016/17 pre-exceptional tax rate is expected to be c.20%.

In Pub Company, we anticipate opening 10–15 pubs in the current year and disposing of 65–75 pubs from the estate.

In Pub Partners, we expect to reduce the estate by 50–65 pubs in the financial year. These disposals, as well as potential transfers to Pub Company, will improve the quality of the estate while generating cash for other uses across the business.

We anticipate spending £130–140m in the current financial year, excluding brand optimisation capex, on maintaining and developing our pubs, in order to ensure that they remain attractive places for customers to spend their time.

Spend on the brand optimisation programme is expected to total £40m–50m in the current financial year – out of a total spend over three years of £120–150m – and we are targeting EBITDA returns significantly ahead of our cost of capital.

Our blended cost of debt is expected to be c.6.3%.

Kirk Davis
Chief financial officer
28 June 2016

Income statement analysis

	Greene King			Spirit[1]				
	F16 £m	Synergies £m	**Total £m**	F16 £m	Synergies £m	Accounting adjustments[2] £m	**Total £m**	**Total group £m**
Revenue	1,367.9	—	**1,367.9**	705.1	—	—	**705.1**	**2,073.0**
EBITDA[3]	326.5	5.6	**332.1**	143.4	11.1	10.3	**164.8**	**496.9**
Operating profit[3]	258.3	5.6	**263.9**	110.1	11.1	7.1	**128.3**	**392.2**
Net finance cost[3]	(86.7)	—	**(86.7)**	(49.3)	—	0.3	**(49.0)**	**(135.7)**
Profit before tax[3]	171.6	5.6	**177.2**	60.8	11.1	7.4	**79.3**	**256.5**

Operating profit analysis[3]

	Greene King			Spirit[1]				
	F16 £m	Synergies £m	**Total £m**	F16 £m	Synergies £m	Accounting adjustments[2] £m	**Total £m**	**Total group £m**
Pub Company	197.2	3.5	**200.7**	82.9	10.0	5.6	**98.5**	**299.2**
Pub Partners	54.4	1.1	**55.5**	27.2	1.1	1.5	**29.8**	**85.3**
Brewing & Brands	31.7	1.0	**32.7**	—	—	—	**—**	**32.7**
Corporate	(25.0)	—	**(25.0)**	—	—	—	**—**	**(25.0)**
Total	258.3	5.6	**263.9**	110.1	11.1	7.1	**128.3**	**392.2**

1. Post acquisition since 23 June 2015.
2. Accounting alignments and income statement impact of fair value adjustments.
3. Before exceptional items.

MANAGING RISK

As with any business, Greene King faces a range of risks and uncertainties in the course of its business. It is essential that we identify and manage these risks effectively in order to deliver on our strategic objective of being the best pub company in the UK and to maximise shareholder returns.

BOARD

Overall responsibility for risk management

Sets the group's risk appetite

AUDIT COMMITTEE

Delegated responsibility for monitoring risk profile and mitigation

Regularly reviews risk management processes for each division and functional area

GROUP RISK COMMITTEE

Reviews individual risk registers and mitigation plans

Ensures consistency of risk profiling across the group

Aggregates risk registers to create group risk register

SENIOR MANAGEMENT

Responsibility for identification of risks, implementation of mitigating actions and maintenance of business unit and functional risk registers

Approach to risk management

Board

The board has overall responsibility for the group's risk management framework. It reviews the group's principal risks on an annual basis, together with the actions taken to mitigate them. This year there has been a particular focus on developing our approach to risk appetite. The board has started this by defining group-level risk appetite statements, to set out the board's desired risk-taking approach to the achievement of our strategic objectives, in the context of managing our principal risks. Our risk appetite is an expression of the types and amount of risk we are willing to take or accept to achieve our plan. By defining our risk appetite, we will be able to better determine the mitigating activities required to manage to within acceptable levels both the likelihood of risks occurring and their potential impact.

Details of our broad risk appetite in relation to each of our key risks is set out in the table on page 34.

Audit committee

The board has delegated to the audit committee responsibility for reviewing the effectiveness of the group's risk management processes. It regularly reviews the risk management processes for each business unit and functional area.

Management

The implementation of risk management and internal control systems is the responsibility of the executive directors and other senior management, with each business unit or functional area responsible for identifying, assessing and managing the risks in their respective areas. They are required to maintain, review and regularly update a risk register to assist in this process.

Risk management process

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

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

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, whereby risk registers are aggregated and considered on a top-down basis in the context of delivering our strategy for the group.

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.

Risks and uncertainties continued

Principal risks and uncertainties

This section highlights some of the key risks and uncertainties which affect Greene King. The group is of course exposed to risks wider than those listed, but these are believed to be likely to have the greatest impact on our business at this moment in time.

For the first time this year we have indicated whether we believe the risk has increased, decreased or remained the same during the year and also how each risk relates to our strategic priorities.

STRATEGIC RISKS

CHANGE	POTENTIAL IMPACT	MITIGATION AND MONITORING	RISK APPETITE	LINK TO STRATEGY
Integration of Spirit Pub Company and failure to deliver the full anticipated synergies				
↓	Reduced revenue, profitability and lower growth rates than our strategic objectives.	Integration steering committee overseeing integration. Retention arrangements in place for critical-to-retain 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. Brand swap plans in place and being implemented and monitored.	We have an appetite for risks which we understand and which are consistent with the delivery of our strategic objectives.	1 3 4
Failure to develop an appealing customer offer, to identify and respond to fast-changing consumer tastes and to maintain and grow market share				
↔	Reduced revenue, profitability and lower growth rates than our budget.	Research conducted into consumer trends and plans developed to respond to key trends, including the piloting of new variations of existing brands. Use of guest satisfaction tools and net promoter scores to collect customer feedback and measure performance of our pubs. Increased investment in support and training for our employees to ensure service standards meet guest expectations and continue to improve. Increased use of social media to enhance communication with our guests and other consumers.	With our vision to be the best pub company in the UK we expect to be able to react swiftly and appropriately to changing consumer trends to ensure continuity of earnings growth and achievement of our strategic objectives.	1 2 3 4 5

ECONOMIC AND MARKET RISKS

CHANGE	POTENTIAL IMPACT	MITIGATION AND MONITORING	RISK APPETITE	LINK TO STRATEGY
Reduced consumer confidence in the UK, particularly in light of the referendum vote to leave the European Union 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. Piloting of new variations of existing brands. Costs are kept under constant review and mitigation plans prepared and implemented where appropriate. 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 levels.	We acknowledge and recognise that in the normal course of business, the group is exposed to risk and we are willing to accept a level of risk in order to achieve our strategic priorities and will manage the business accordingly.	1 2 4

STRATEGIC PRIORITIES

1 Build attractive and strong brands
2 Industry-leading value, service and quality
3 Work with the best people
4 Own the best invested pub estate
5 Maintain a strong balance sheet and flexible capital structure

OPERATIONAL AND PEOPLE RISKS

CHANGE	POTENTIAL IMPACT	MITIGATION AND MONITORING	RISK APPETITE	LINK TO STRATEGY
Significant cyber security breach				
↑	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 back-up procedures also in place. Plans in place to further enhance controls in this area including ongoing investment. 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 management response.	We have a low appetite for significant breaches within our IT operations.	3 5
Risks associated with the recruitment, 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. In addition, 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 Pub Company 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.	The nature of the sector in which we operate is predisposed to high turnover levels, but we have a low tolerance for levels which exceed the sector average. We expect our staff to have appropriate skills to deliver the functions of the business.	3
Reliance on a number of key suppliers and third party distributors and on our own ability to produce, package and distribute our own beers				
↑	Supply disruption could impact customer satisfaction, leading to loss of revenue. Key supplier or distributor withdrawal or long-term failure could reduce revenues or lead to increased costs. Inability to brew and distribute our own beers could lead to loss of revenue.	Back-up 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.	We recognise that we carry an inherent risk in relation to third party suppliers, but we seek to minimise this risk through management and control.	1 2

REGULATORY RISKS

CHANGE	POTENTIAL IMPACT	MITIGATION AND MONITORING	RISK APPETITE	LINK TO STRATEGY

Risk of increased regulation, and failure to respond to recent changes in regulation, in relation to any matter affecting our retail business, including National Living Wage, the apprenticeship levy, the anticipated rates revaluation in 2017 and potential future changes in relation to the sale of alcohol

CHANGE	POTENTIAL IMPACT	MITIGATION AND MONITORING	RISK APPETITE	LINK TO STRATEGY
↑	Legislation such as the National Living Wage and the apprenticeship levy will drive up costs as will any increases in rates charged on our pubs and restaurants. Legislation impacting consumers could potentially reduce demand leading to reduced revenue.	We have developed a plan which will in part mitigate the cost impact of the National Living Wage and the apprenticeship levy over the next three years. Monitoring of legislative developments and active engagement with government where necessary. Diversified offer includes soft drinks, coffee, food and accommodation to reduce our reliance on alcohol-based revenue.	We recognise that, in the normal course of business, we are exposed to legislative risk that we need to manage appropriately in order to meet our strategic objectives.	1 5

Failure to respond to the threats to our Pub Partners business posed by the introduction of the 'market rent only' (MRO) option and the statutory code

CHANGE	POTENTIAL IMPACT	MITIGATION AND MONITORING	RISK APPETITE	LINK TO STRATEGY
↔	Loss of income and profits in Pub Partners from reduced beer margin and penalties for breach of the statutory code.	Development of agreements that are exempt from the MRO option with plans to adopt these where possible. Site-by-site plans developed to mitigate risks. Upweighted compliance team in place with training for all relevant employees, and enhanced processes and procedures to reduce risks.	We recognise that in the normal course of business, we are exposed to legislative risk that we need to manage appropriately in order to meet our strategic objectives.	4 5

Failure to comply with major health and safety legislation, including in the areas of food safety and fire safety, or significant food integrity issues

CHANGE	POTENTIAL IMPACT	MITIGATION AND MONITORING	RISK APPETITE	LINK TO STRATEGY
↑	Serious illness, injury or even loss of life to one of our customers, employees or tenants, or significant food integrity issues, 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 and 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, including a supplier assurance programme, 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.	We have no appetite for health and safety breaches within our operations.	1 2

STRATEGIC PRIORITIES

1 Build attractive and strong brands
2 Industry-leading value, service and quality
3 Work with the best people
4 Own the UK's best invested pub estate
5 Maintain a strong balance sheet and flexible capital structure

FINANCIAL RISKS

CHANGE	POTENTIAL IMPACT	MITIGATION AND MONITORING	RISK APPETITE	LINK TO STRATEGY
Inability to meet the funding requirements of the enlarged group				
↓	Reduced revenue, profitability and lower growth rates than our strategic plan.	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. We completed a tap of our Greene King securitisation vehicle in May 2016.	We expect the group to be able to access suitable financial facilities to meet the ongoing requirements of the business and our longer-term strategic objectives.	5
Liquidity and covenant risk relating to the group's securitisation and other financing arrangements				
↔	A breaching 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.	We expect to be able to meet our payment obligations and covenant levels under a range of cautious but plausible liquidity scenarios.	5
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.	We expect to maintain funding levels for our pension schemes at manageable levels.	5

Viability statement

In accordance with provision C2.2 of the 2014 UK Corporate Governance Code, the board has assessed the prospect of the company over a period of three years from the date of approval of the financial statements.

The board concluded that a three year period was appropriate as it is aligned to the group's strategic planning process. The latest three year plan was approved by the board in February 2016 and covers the three year period to the end of the 2018/19 financial year.

Long-term financing is provided by the group's securitisation and debenture vehicles both of which have a weighted average life of 12 years remaining. The group also utilises a £460m revolving credit facility to provide liquidity and to manage its seasonal cash flows. The latest three year period goes beyond the June 2018 date when this facility matures.

The group's three year plan is prepared by consolidating each business segment's own plan and overlaying group assumptions in respect of estate optimisation and capital structure. Key assumptions underpinning the three year plan and the associated cash flow forecasts are the economic outlook, revenue growth expectations, impact of expected inflationary cost pressures, estate development and disposal opportunities, the successful integration of the Spirit business and realisation of synergies, and that credit markets remain stable in order to renew the revolving credit facility. A further report on viability was presented to the board following the conclusion of the tap of the Greene King securitisation vehicle which took place after the year end.

The three year plan considers cash flows and compliance with the financial covenants contained within the group's revolving credit facility and structured finance vehicles.

As detailed on pages 33 to 37 the board has conducted a robust assessment of the principal risks facing the company. This includes consideration of strategic risks, economic and market risks, operational and people risks, regulatory risks and financial risks. The resilience of the group to the impact of these risks has been assessed by applying significant but plausible sensitivities to the cash flow projections based on past experience. This includes modelling the effect of reduced consumer confidence and therefore spending, the failure of our business to maintain and develop compelling customer offers, food safety issues, lower than anticipated acquisition synergies and the impact of increased regulation across the business.

Taking account of the company's current position, principal risks and the sensitivity analysis discussed above, as well as the potential mitigating actions that the company can take, and the experience that the company has in adapting the business to change, the board has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the three year period of assessment.

MAKING A DIFFERENCE LOCALLY AND NATIONALLY

As a leading pub company in the UK, with 3,035 pubs, restaurants and hotels, two breweries and 44,000 team members, we understand the importance of making a positive contribution to the communities we serve and operating in a responsible, sustainable way.

During this year, we have been focused on integrating Spirit Pub Company, taking learnings and applying a 'best of both' approach to our corporate social responsibility (CSR). We are pleased to have made considerable progress on the integration and we are now reporting as one business.

We will continue to develop our CSR strategy around four key areas: our customers, our teams, our communities and our environment.

OUR CUSTOMERS

We pride ourselves on offering our customers the very best experience when they visit us and we continue to focus on delivering industry-leading value, service and quality to our customers. With over 3,000 pubs, restaurants and hotels across the country, we want to make sure that everybody's time is well spent when they visit us.

We are committed to supporting our customers to make healthier lifestyle decisions and providing them with safe, affordable and memorable experiences.

Healthy eating

We continue to review the nutritional profiles of a range of our dishes and made some positive changes to enable our customers to make healthier eating choices.

We continually review our products and, as part of this, we have made improvements to a range of sauces, such as an 80% reduction of sugar in our standard French dressing. We are reviewing the children's menu choices across our brands to improve the nutritional profile of our dishes. One of our premium children's burgers now has a 59% reduction in salt. Our Hungry Horse children's menu also now includes a number of dishes that are lower in salt, including chicken curry and rice, penne pasta and a salad bowl. This will continue to be a key focus area for Greene King.

We continue to provide a range of lower calorie menu options for customers who are counting the calories and looking for a lighter option when dining out. As a key part of the menu development process, we will review and develop our menus and our focus for the future is to continue to expand our nutritional expertise along with providing lower calorie and healthier options for our customers.

Allergens

We are working towards the development of our company strategy on nutrition. Following our acquisition of Spirit, we have an opportunity to review our nutritional policies to ensure we have a clear set of guidelines. We are evaluating all of our allergen procedures to ensure that we have one process in place across the group. This will ensure we remain safe and compliant with legislation as we continue to provide our customers with allergen information about the meals we provide.

Gluten

We continue to respond to the growing demand to provide a range of dishes for customers wishing to avoid gluten. Our spring/summer menus include a number of new non-gluten dishes including a mushroom and goat's cheese risotto and chilli salmon, with kale, sweet potato and toasted seeds.

Awards

Our hard work and focus on providing our customers with the very best value, service and quality has once again been recognised this year:

- We won Best Managed Operator at the Publican Awards, which recognised our food offering, diverse portfolio of brands, commitment to investing in our people and our charity work.
- Wacky Warehouse won UK's Best Children's Activity Provider 2016 at the Tommy's awards.
- We won Best Premium High Street Pub Menu 2016 at the MIDAS (Menu Innovation and Development Awards).
- We were given a Good Egg Award by Compassion in World Farming in recognition of our commitment to using only free range eggs across the business in the next five years.

Food standards

Providing our customers with consistently high quality food is paramount to us and we do this by actively promoting kitchen standard excellence. In Pub Company, this is achieved through training, external audits, open dialogue with local authorities and operational incentive schemes.

"WE HAVE AN ONGOING COMMITMENT TOWARDS DEVELOPING HEALTHIER MENU OPTIONS FOR OUR GUESTS."

We are proud that out of the 1,618 pubs visited in the year by local environmental health officers, 1,521 (94%) received a 4 or 5 star rating. Such high scores are a reflection of how hard our managers and team members work to maintain the highest standards, along with our continued investment in improving the quality of our kitchens. We will continue to work hard to ensure all of our pubs are doing everything they can to maintain the highest standards of hygiene.

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 new British Retail Consortium version 7 standard, confirming that our beers are produced to the very highest of quality and food safety standards.

The quality and dispense services team in our Brewing & Brands division completed over 1,400 trade quality audits, including 850 independent Cask Marque audits covering our entire Pub Partners and Inns estates. As a result, we have again improved the quality standards in our cellars and dispense equipment, which has led to improved standards and a pass rate of 95%.

We have seen many of our beers win awards at the Monde Selection, an independent quality award, and we were proud that four of our beers, Old Speckled Hen, Abbot Ale, Belhaven Black and Belhaven Wee Heavy, received the Gold Award this year.

Responsible retailing

Tackling under-age sales

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

All of our Pub Company premises operate the 'Challenge 21' or 'Challenge 25' programmes. We also support the principles laid out in the Portman Code of Practice on the responsible retailing of alcohol.

Not only are all general managers and front of house team members trained when they join us, but we also ensure this training is ongoing so they always understand their role in promoting the responsible consumption of alcohol by our customers.

Best Bar None and Pub Watch schemes

We are proud that a significant number of our Belhaven pubs achieved Best Bar None accreditations this year, including 19 golds, ten silvers and three bronze awards.

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

Designated driver campaign

We are passionate about encouraging our customers to 'enjoy responsibly' and during 2015's festive season, we once again supported Coca Cola's Designated Driver Christmas Campaign. This was the seventh year in a row that we rewarded designated drivers with free soft drinks.

Minimum unit pricing for alcohol

We continue to call on the government to introduce minimum unit pricing in the UK. Alcohol should never be cheaper to buy than water and government policy must address the sale of alcohol at 'pocket money' prices. We believe that the minimum unit pricing of alcohol would be a meaningful step in reducing alcohol-related harm.

OUR COMMUNITIES

As a pub company, we have a unique opportunity to play an active role in the communities we serve and support good causes.

We have been running pubs for over 200 years and are committed to continuing to being present and involved with community life for many more. That is why our charity programme is so important to us.

Macmillan Cancer Support

In March this year, we announced that our teams and customers had raised more than £2m for our national charity partner, Macmillan Cancer Support, doubling our initial target. To mark this milestone, we were proud to renew our partnership with the cancer charity for a further three years.

Our team members have carried out a wide range of fundraising activities including cake sales and taking part in challenges such as the Yorkshire Three Peaks and the London Marathon. Our pubs, restaurants and hotels across the country have pulled together with national campaigns such as the World's Biggest Coffee Morning as well as supporting many local fundraisers within their communities.

We were proud to be recognised by the All Party Parliamentary Beer Group by winning the 2016 PubAid award for our fundraising for Macmillan.

Prince's Trust

As a leader in the hospitality industry, we want to support young people into work by offering opportunities to learn a skill and a trade and helping them start their career journeys. As part of this ambition, this year we announced a partnership with The Prince's Trust.

"WE ARE SUPPORTING 150 YOUNG PEOPLE THROUGH OUR PRINCE'S TRUST PARTNERSHIP."

The 'Get into Hospitality' programme will offer 150 of the UK's most disadvantaged 16-25 year olds an opportunity to develop skills in the hospitality sector, achieve accredited hospitality qualifications and support them into jobs and other positive outcomes in the industry.

Subject to successfully completing the three week programme, we aim to offer jobs and a place on our award-winning apprenticeship scheme to as many course participants as possible.

There will be ten programmes offered around the country over the next 12 months. We have successfully completed our first course in London. Other locations include Liverpool, Portsmouth and Glasgow.

Pub is the Hub

For the third year, we have donated to the Pub is the Hub Community Services Fund in order to support rural pubs that want to diversify their services for the benefit of their communities. Over the course of the three years, the money we have donated to the fund comes to £45,000.

The Community Services Fund, which has been running since April 2013, aims to offer funds to licensees who are looking to broaden their services to the wider community but are unable to find suitable funding from other sources. With grants available of up to £4,000, applicants have to demonstrate that they will be offering a new service or replacing a service that has already been lost to the local community, such as a local shop or a library.

Prostate Cancer UK

Over 600 of our pubs across the country raised more than £71,000 for Prostate Cancer UK during last year's Rugby World Cup.

Taylor Walker, Flaming Grill and Chef & Brewer pubs partnered with Prostate Cancer UK last autumn to help support the charity's Men United movement in reaching men.

As well as individual pub fundraising events, a select few were fully transformed into Men United Arms. The pubs were rebranded for a few days using Prostate Cancer UK branded signs, bunting, beer mats, drip trays and team uniforms.

Great Ormond Street Hospital

Our Taylor Walker pub brand celebrated completing a ten year charity partnership programme with Great Ormond Street Hospital which raised £100,000 for the children's charity.

ITV Text Santa

Customers and team members at our pubs raised £26,000 in aid of ITV's 2015 Text Santa fundraising appeal by holding Christmas quizzes.

Pubs across the country, including the Hungry Horse and Chef & Brewer brands and Greene King Local pubs, took part in the national Text Santa Christmas Quiz during December. The much-needed funds contributed to the appeal's record-breaking £8.5m total.

Cash raised during the appeal is being split between ITV Text Santa's chosen charities, Macmillan Cancer Support, Make-A-Wish® UK and Save the Children.

OUR TEAM MEMBERS

Our people are our greatest asset. We now have 44,000 team members and our ambition is to be the best employer for each of them. We continue to focus on attracting and retaining the best people but also understand the importance of motivating, engaging and developing our team members right across the business.

Employee engagement

Our Employee Engagement Survey is a valuable tool to help us build the best pub company in Britain. This survey provides us with a wealth of information that we are committed to actioning across the business.

Developing our talent

We recognise the talent that all our team members bring to Greene King and, by nurturing this talent when they first arrive, we aim to provide an environment through development and opportunity that allows them to flourish and craft their own career.

Apprenticeships

We pride ourselves on developing and investing in our team members and also supporting those who are just beginning their careers. In March, we pledged to take on a further 10,000 apprentices during the next three years. Since the launch of our award-winning apprenticeship scheme in 2011, we have helped support over 7,400 apprentices to achieve a qualification while working in our pubs.

The scheme offers bespoke qualifications that cover a range of job roles including front of house, kitchen and management roles which are tailored to each of the Greene King retail brands. The course, which has been commended by the Prime Minister David Cameron at a reception hosted at 10 Downing Street, has received numerous awards this year including: Apprenticeships 4 England's Macro Employer of the Year; National Apprenticeship Service Regional Winner (East of England); VQ Employer of the Year; and was named as a Top 100 Apprenticeship Employer by the National Apprenticeship Service.

Creating jobs

Thanks to the opening of newly-built Hungry Horse and Farmhouse Inns pubs, we have been able to create 1,000 new jobs across the country in the last 12 months.

In many areas of the country where we run recruitment drives for our new pubs, we hold a two week pre-employment training programme in conjunction with local Job Centre Plus teams. The schemes prove to be very popular and successful and we are able to welcome successful candidates to our team.

"WE PLEDGE TO RECRUIT 10,000 APPRENTICES DURING THE NEXT THREE YEARS."

Diversity

We take pride in making sure all of our team members are given the same opportunities to achieve their full potential. We are committed to our equal opportunities policy to ensure that our team members and candidates are recruited, developed, remunerated and promoted on the basis of their skills and suitability for the work performed.

We promote an environment in our pubs, restaurants, hotels, headquarters, pub company support centre and breweries, that is free from discrimination. We work to a policy in which 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)	164	51	215	24
All employees	23,051	21,085	44,137	48

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

We have been successfully providing opportunities for self-employed entrepreneurs for over 200 years and, following the acquisition of Spirit, our Greene King Pub Partners division has grown to more than 1,200 pubs.

We continue 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 to the best licensees in the country.

Our support is tailored to meet the individual needs of our licensee partners and their staff. This year we have developed industry-leading training courses to support our partners in a number of areas, including digital marketing, management development and becoming a multiple operator.

In keeping with our 'best of both' approach, we have taken on an innovative food supply service which was originally used in Spirit and is now, in its first year, supplying food to around 120 pubs.

Our Brewing & Brands dispense team helps our tenants and lessees to maintain consistently outstanding cellar quality ensuring that our beer brands are always being offered at their best. This is all underpinned by our professionally qualified business development managers (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

Energy

We are compliant with the government's Energy Saving Opportunity Scheme (ESOS), which is a mandatory energy assessment scheme in the UK. It looks at actions taken and plans made by businesses to reduce energy usage and must be completed every four years.

We audited the energy used by our buildings, pubs and breweries to identify cost-effective energy saving measures. Procedures in place include but are not exclusive to:

- The ability to measure electricity usage on a 24/7 basis in all of our pubs, allowing us to analyse any long or short-term changes. We have similar information for mains gas usage in c. 97% of our pubs.
- Ongoing engagement across our business to encourage teams to save energy provided it does not detract from our customers' experience.

65% of our pubs' internal lighting is now via LED bulbs. We also have an enhanced boiler replacement programme to move older sites to energy-saving condensing technology and linked to heating control systems to reduce gas usage.

Waste

We are signatories to Courthauld 2025 – a voluntary ten year agreement that brings together organisations across the food system, with a goal of making food and drink production and consumption more sustainable. As part of this commitment we have partnered with SWR waste management to deliver a recycling-led waste management solution to our pub estate. The ultimate aim is to achieve zero waste to landfill and propel the business to the forefront of the hospitality industry with a 'best practice' waste initiative. Short-term plans involve all pubs segregating food from dry materials and in the longer term we plan to implement Spirit's award-winning backhaul solution to the entire Greene King estate.

We will continue to implement the 'best of both' philosophy, by following Spirit's lead in its diversion from landfill rate, which is currently 96% for all waste collected direct from ex-Spirit pubs. In the last year the ex-Spirit pubs have also seen a reduction in general waste of 2%, glass volume of 23% and overall waste volume of 6%. Across the Greene King estate diversion of waste from landfill stands at 57% with 20,696 tonnes of waste being recycled in total.

"WE WERE WINNERS OF THE WATER EFFICIENT PROJECT AT THE ENERGY AWARDS AND THE ECONOMIC SUSTAINABILITY CATEGORY AT THE FOOTPRINT FOODSERVICE AWARDS."

CO_2 emissions by type

	Source of emissions	**2015/16 tonnes of CO_2e**	2014/15 tonnes of CO_2e
Direct emissions scope 1	Natural gas	**61,940**	41,741
	Gas oil	**1,186**	806
	Kerosene	**188**	197
	Liquefied petroleum gas	**5,525**	2,624
	Red diesel	**78**	81
	Refrigerants	**3,115**	3,196
	Owned vehicles	**7,669**	7,486
Total direct emissions scope 1		**79,700**	56,131
Indirect emissions scope 2	Electricity	**167,562**	111,240
Gross emissions		**247,263**	167,371
Revenue in Pub Company and Brewing & Brands (£'000)		**1,885,100**	1,193,400
Tonnes CO_2e per £100k revenue		**13.117**	14.025

Mandatory greenhouse gas reporting

The table above, 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. The figures below include those of Spirit from the date of acquisition, 23 June 2015, except where stated.

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 (although not for Spirit) 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, except in relation to Spirit.

We have used the UK government's greenhouse gas (GHG) Conversion Factors for Company Reporting for all scope 1 emissions (2014 for 2014/15 and 2015 for 2015/16). GHG emissions from refrigeration and air conditioning units have been determined using the simplified material balance method as described in the Environmental Reporting Guidelines 2013.

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 (2014 for 2014/15 and 2015 for 2015/16).

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 revenue in our Pub Company and Brewing & Brands businesses as the vast majority of our CO_2 emissions relate to those businesses.

Water

In readiness for market deregulation in 2017, we have been working hard to take best practice from the acquisition of Spirit and apply a 'best of both' approach across the estate. Water benchmarking across brands continues and we have conducted 149 audits of high-consuming pubs to highlight opportunities for greater efficiency.

We have again managed to reduce consumption on a like-for-like basis. Spirit was named winner of the Water Efficient Project at the Energy Awards, and, as a group, we won the Economic Sustainability category at the Footprint Awards. Both awards recognised our continued effort to drive water usage downwards.

Our focus has been to ensure that our water data is in the best possible shape to allow us to target more effectively and take advantage of any opportunities that the opening market has to offer from a fiscal or socially responsible perspective.

At our Bury St Edmunds brewery we are continually looking at ways to reduce our water usage. Current initiatives include reviewing tank cleaning programmes and pipeline flushes to maximise efficiency.

SUSTAINABILITY IN ACTION

Case study: supporting our communities

Angefrancois Kevin Grah, 21, is one of the students from the Prince's Trust pilot scheme, which was held in London in April and May. He successfully completed the course and is now one of our team members at Loch Fyne Covent Garden, where he received his on-the-job training. He now hopes to move onto our apprenticeship scheme.

'I'd been unemployed for a couple of months after having to leave my job as a chef at a local Chinese restaurant. I left school with only one GCSE, in Italian. So, I was struggling to be offered job interviews.

'A friend of mine actually told me about the Prince's Trust and so I decided to attend the open day, and I'm glad I did.

'The course taught me a lot, but my highlight really was the work placement at Loch Fyne. I was mostly in the kitchen, learning the role of the chef, and it was great to be able to be so involved. Working in such a fast-paced team was brilliant. I was in my element and everybody was so welcoming.

'I'm so pleased my hard work paid off. I've been offered a job at the Loch Fyne in Covent Garden and, around my college classes, I work evenings and weekends as a waiter. I would love nothing more than to have a long future with Greene King. Maybe, one day, I'll be running my own pub or restaurant and helping to support young people.'

David Redpath, general manager of Loch Fyne Covent Garden, who was a 'buddy' during the London programme, said:

'I thought this was a great programme and was honoured that it was piloted in our restaurant. 'Get into Hospitality' gives young people who haven't yet had the best of chances, the opportunity to showcase themselves and prove that they really can get the job done. It's a fantastic scheme, which really does help young people learn and progress, and I'd definitely volunteer to help out again.

'We had two students train at our restaurant, and it felt great to watch them 'graduate' at the end of the programme and I was proud to offer our candidates two full time jobs. They have a lot of work and training ahead of them, but I know and trust they can do it.'

"BEING A TRAINEE CHEF AS A GREENE KING APPRENTICE WAS AN EASY MOVE TO MAKE."

Case study: investing in our people

Despite the many celebrity chefs on our televisions, there is an industry shortage of chefs. However, our award-winning apprenticeship scheme aims to buck the trend, with 719 out of 2,876 apprentices working in our kitchens.

Gabrielle Green, 18, has been an apprentice chef at the Ship in Bedford for nine months. After completing her GCSEs, she decided that she did not want to continue with typical further education and left school at the age of 16.

Now working towards her Level 2 in Hospitality certificate, Gabrielle said: 'I've always had an interest in cooking, right from a very young age, so being a trainee chef as a Greene King apprentice really was an easy move to make. I didn't want to be stuck in a classroom all the time, and now I get the chance to learn while being paid at the same time.

'I really enjoy working in such a fast-paced team and developing not only my education, but also myself. For instance, I have the chance to cook and taste food that I've never experienced before, and preparing meals is such an important responsibility. I really can see myself growing as a person and would recommend to anybody wanting to learn on the job to look into becoming an apprentice. It's not only for young people either – anybody, at any stage of their lives – can do it.'

APPROVAL OF THE STRATEGIC REPORT

Pages 2 to 44 of the annual report form the strategic report.

By order of the board

Lindsay Keswick
Company secretary
28 June 2016

CORPORATE GOVERNANCE

Board of directors

Philip Yea (61)
Chairman
Commenced role – May 2016
(Appointed to board in
February 2016)

Philip Yea became chairman in May 2016 after being appointed to the board as an independent non-executive director in February 2016. He is senior independent director at both Vodafone Group plc and Computacenter plc. He is also a non-executive director of Aberdeen Asian Smaller Companies Investment Trust plc, and an independent director and trustee of the Francis Crick Institute. His prior executive career included roles as finance director of Diageo plc and chief executive of 3i Group plc.

Rooney Anand (52)
Chief executive
Commenced role – 2005
(Appointed to 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 (44)
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 (55)
Non-executive director
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 (57)
Non-executive director
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 (66)
Senior independent non-executive director
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 and Morgan Advanced Materials plc, having retired from the same role at Moneysupermarket.com Group plc in April 2016. Rob was appointed senior independent director in May 2015.

Lynne Weedall (49)
Non-executive director
Commenced role – 2012

Lynne Weedall is currently group HR director for Selfridges Group and brings to the board a wealth of experience of HR and organisational development gained from a variety of roles in the retail sector, including at Dixons Carphone, Whitbread and Tesco.

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 introduce this report, which is my first since becoming chairman at the beginning of the current financial year. My predecessor, Tim Bridge, took his responsibility for ensuring that we met high standards of corporate governance very seriously, and I will continue to do so throughout my tenure.

During the year the company again applied the main principles and relevant provisions of the UK Corporate Governance Code (the Code), and I hope this report gives you a good understanding of the systems of governance and control which continue to operate.

As you might expect, the board was very busy during the 2015/16 financial year dealing with the integration of Spirit Pub Company, the acquisition of which completed in June 2015. I am pleased to have joined Greene King at such an exciting time in our development. I am looking forward to working closely with Rooney and the rest of the board in the next stage of our progress as a leading pub hospitality company, whilst at the same time continuing to ensure that we have a well balanced and effective board, strong oversight of risk management, alignment of remuneration policies with shareholder interests and sound shareholder relationships.

In accordance with the Code, we conducted a board evaluation exercise during the year. Having joined the board in February, and to facilitate my understanding of the board and its ways of working, it was agreed that I should undertake that evaluation by means of individual discussions with each board member, with a view to looking forward and focusing on how to improve board effectiveness, rather than looking back at past practice.

Finally, I would like to thank my fellow directors for their support since my appointment. Together, I believe we can continue to maintain a strong and effective governance system to enable the business to deliver its strategy, generate shareholder value and safeguard our shareholders' long-term interests.

Philip Yea
Chairman

"I BELIEVE WE CAN CONTINUE TO MAINTAIN A STRONG AND EFFECTIVE GOVERNANCE SYSTEM."

Philip Yea, 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 2014 throughout the year in all respects, save that, with the impending retirement of Tim Bridge at the end of the financial year, no evaluation was undertaken of his performance as chairman as is required by Code provision A4.2.

Board independence – current directors

Name	Independent	Nomination committee	Audit committee	Remuneration committee
Philip Yea	Yes	N		
Rooney Anand	No			
Mike Coupe	Yes	N	A	R
Kirk Davis	No			
Ian Durant	Yes	N	A	R
Rob Rowley	Yes	N	A	R
Lynne Weedall	Yes	N		R

Corporate governance statement continued

The board

Board composition

As at the year end the board comprised the chairman, two executive directors and five non-executive directors. The non-executive chairman was Tim Bridge, who retired at the end of the year. The new chairman is now Philip Yea. The chief executive is Rooney Anand and the senior independent director during the year was Rob Rowley.

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 board is currently looking to recruit a further non-executive director, to replace Ian Durant, who will be retiring from the board at the AGM in September. Further details are set out in the nomination committee report.

The directors' biographies are on page 46.

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 during the last financial year, was not independent on appointment, having previously served as chief executive. However, the board was satisfied that he showed independent judgment, that his performance as chairman was effective and that he demonstrated continued commitment to the role.

Philip Yea, the new chairman, is independent on appointment, having never been employed by the company and having diverse business interests beyond the company.

Rob Rowley was the senior independent non-executive director during the year. He too has never been employed by the company and has diverse business interests. 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. During the year Rob Rowley played an active role in the recruitment of Philip Yea as the new chairman, as explained in the nomination committee report.

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 committee, 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.

The board has delegated certain responsibilities to standing committees, details of which are set out on page 49. 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 of the board in February each year focusing on strategy, with the business unit managing directors and heads of the main functional areas, namely trading, marketing, HR and property, attending for part thereof. The strategy sessions include an in-depth review of relevant economic factors and issues affecting the sector and management's projections for the medium term. The board then has the 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, which are reviewed and 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, with the assistance of the audit committee, 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 the views of the audit committee, which assisted in the process this year, as well as 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 focus area for the board during the year included the integration of the Spirit business following completion of the acquisition of Spirit Pub Company in June 2015, to ensure that planned synergies are being effectively captured and that the business is being appropriately managed during the integration period. Regular reports on progress have been presented to the board with plenty of opportunity for the board to raise any concerns. Looking forward this focus will continue whilst the programme of brand swaps is carried out and the remaining synergies continue to be captured.

Another key focus area for the board has been financing, to ensure that the group had available sufficient funds to deliver its capital expenditure programme and for general business purposes. The board approved the £300m tap of the Greene King securitisation vehicle which completed shortly after the year end realising net proceeds of £180m after settling certain interest rate swap liabilities.

The board has also spent some time considering matters relating to risk, including the issue of risk appetite and a robust assessment of the principal risks facing the group. Further details, including the new viability statement, are set out in the risk management section which starts on page 33.

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: Philip Yea (Chairman), Mike Coupe, Ian Durant, Rob Rowley, Lynne Weedall

Audit: Ian Durant (Chairman), Mike Coupe, Rob Rowley

Remuneration: Lynne Weedall (Chairman), Mike Coupe, Ian Durant, Rob Rowley

Nomination committee report page 51

Audit committee report page 52

Remuneration report page 55

	Board	Nomination committee	Audit committee	Remuneration committee
Executive directors				
Rooney Anand	8/8	—	—	—
Kirk Davis	8/8	—	—	—
Non-executive directors				
Tim Bridge	8/8	3/3	—	—
Mike Coupe[1]	8/8	3/3	2/3	3/3
Ian Durant	8/8	3/3	3/3	3/3
Rob Rowley	8/8	3/3	3/3	3/3
Lynne Weedall[2]	7/8	3/3	—	3/3
Philip Yea[3]	3/3	1/1	—	1/1

1. Mike Coupe was unable to attend one audit committee meeting due to prior commitments with J Sainsbury plc.
2. Lynne Weedall was unable to attend one board meeting due to prior commitments with Selfridges Group.
3. Philip Yea was appointed to the board on 2 February 2016.

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 in the adjacent table.

Board papers are generally 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.

Corporate governance statement continued

Board effectiveness

Board performance and evaluation

The UK Corporate Governance Code requires the board to conduct an annual evaluation of its own performance and that of its committees and directors. This year, on account of the impending retirement of Tim Bridge as chairman, there was no formal evaluation of Tim Bridge's performance as chairman.

The board evaluation exercise was carried out by Philip Yea, who conducted an informal review comprising individual meetings with each director to elicit any immediate concerns or issues that he should take account of in formulating the future conduct, structure and agenda for the board. No material concerns were expressed, and so discussions focussed on future board composition (given the planned retirement of Ian Durant at the AGM), future topics for board review, including succession planning and talent management, and other potential changes to board agendas given the increased scale of the group following the acquisition of Spirit. The findings were recorded in a paper considered by the board at its meeting in June 2016.

In addition to the annual evaluation exercise there remains an on-going dialogue within the board to ensure that it operates effectively and that any matters raised are addressed in a timely manner.

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 their skills and knowledge of the company remain up to date. 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 encouraged to visit the company's pubs and restaurants and do so throughout the year.

Newly-appointed directors receive a tailored induction on joining the board to acquaint them with the company. This includes 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. Philip Yea received a particularly detailed induction on joining the board given his future role as chairman of the board, and met all the board directors individually and a large number of senior managers across the business.

There is an agreed written procedure 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 on-going basis when there are any changes. The board is satisfied that the chairman and 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 annual report. 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 9 September 2016 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, an audit committee and a remuneration 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.

Nomination committee report

I am pleased to introduce our nomination committee report for 2015/16, which explains the committee's focus and activities during the year, a key part of which related to my own appointment as a non-executive director and chairman-elect. Having now taken over as chairman of the board and of the nomination committee I shall endeavour to ensure that the committee continues to focus on succession planning and on ensuring that the size, composition and structure of the board is appropriate for the delivery of the group's strategic objectives and that all relevant provisions of the UK Corporate Governance Code continue to be met.

Philip Yea
Chairman of the nomination committee

Membership

During the year the nomination committee was chaired by Tim Bridge. The other members of the committee were Mike Coupe, Ian Durant, Rob Rowley, Lynne Weedall and Philip Yea (following his appointment as a director in February 2016). Apart from Tim Bridge, all members were considered by the board to be independent. On Tim Bridge's retirement at the end of the financial year Philip Yea took over as chairman of the committee.

Responsibilities

The key responsibilities of the nomination committee are 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 three meetings during the year. Attendance at these meetings by the committee members is shown in the table on page 49.

Tim Bridge advised the non-executive directors during 2015 that he was considering retiring from the board, and so a key activity for the committee was to find a suitable successor to him. The committee reviewed a panel of head hunters to assist them in the process and chose The Zygos Partnership, which has no other connection with the company and which has signed up to the voluntary code of conduct on matters such as diversity for executive search firms. In conjunction with them, a job specification and a profile of the likely characteristics, qualifications, experience and merits required were produced before starting the search, with the aim of finding a short list of candidates suited to the role, without prejudice between male and female candidates.

A long-list of candidates was initially drawn up for the role, from which a short-list evolved after extensive discussions by the committee. Rob Rowley, as senior independent director, as well as all the other members of the nomination committee and Rooney Anand, the chief executive, then interviewed the short-listed candidates before the committee made a formal recommendation to the board that Philip Yea be appointed to the board, initially as a non-executive director and member of the nomination and remuneration committees, with a view to him taking over as chairman of the board from the start of the current financial year. The handover process worked well, giving Philip Yea time for a well-planned and extensive induction process, and participation in two board meetings, including the strategy sessions, before taking over as chairman.

The committee has also begun the search for a new non-executive director to replace Ian Durant who will be retiring at the AGM in September. The Zygos Partnership has also been appointed to conduct the search, with the aim of finding a suitable candidate.

In terms of committee composition, it was noted that Rob Rowley would be taking over as chairman of the audit committee on the retirement of Ian Durant, given his recent and relevant financial experience (as former finance director of Reuters Group plc). Philip Yea, initially appointed to be a member of both the nomination and remuneration committees, became chairman of the nomination committee and stood down from the remuneration committee with effect from the beginning of the current financial year. No other changes were recommended to the composition of the board committees.

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 ongoing directors to stand for re-election at the forthcoming AGM, with the exception of Philip Yea who will be standing for election for the first time.

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. There is currently one female director on the board, Lynne Weedall, who is chairman of the remuneration committee. With a board of seven people, the board believes that 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.

Audit committee report

I am pleased to introduce our audit committee report for 2015/16. The committee's key responsibilities include monitoring the integrity of the group's financial reporting, internal controls and risk management procedures, overseeing the internal and external audit processes and a range of other corporate governance activities.

During the year the committee devoted particular attention to the following key areas: the year-end financial statements and interim report and associated audit matters, with particular focus on the accounting treatment of certain matters arising as a result of the acquisition of Spirit Pub Company; the relationship with the external auditor, including audit tender and audit partner rotation review; and risk management processes and internal controls. In particular the committee reviewed the viability statement on page 37 before it was recommended to the board.

I will be retiring from the board at the AGM in September and therefore, during 2016/17, under the stewardship of Rob Rowley, the committee will continue its focus on the financial statements, on governance matters and on risk management, whilst at the same time ensuring that the new Ernst & Young audit partner, as explained below, has a full and detailed understanding of the issues facing the business and is able to deliver a robust and detailed audit of the group's financial statements.

Ian Durant
Chairman of the audit committee

Membership

The audit committee was chaired during the year by Ian Durant. The other members of the committee were Mike Coupe and Rob Rowley. 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. Looking forward Rob Rowley, who is the former finance director of Reuters Group plc, will take over as chairman of the committee following Ian Durant's retirement from the board at the AGM in September.

Responsibilities

A key responsibility for the audit committee is reviewing the financial reporting, controls and risk management processes across the group. 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. Whilst the board retains responsibility for undertaking the required assessment that the annual report is fair, balanced and understandable, the audit committee this year, at the request of the board, has undertaken a review of this prior to submission of the annual report to the board, as detailed below.

The committee also 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. In addition, the committee is responsible for considering the company's whistle blowing procedures and reviewing their effectiveness in practice.

In relation to risk matters, the committee 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 held three half-day meetings during the year. Attendance at these meetings by the committee members is shown in the table on page 49. On each occasion the external auditors, chief financial officer and senior members of the finance function attended, as well as the company secretary, head of risk and members of the internal audit function. By rotation, operational managers and functional heads present risk reports at audit committee meetings.

There is an opportunity at each meeting for the committee to discuss matters privately with the internal and external auditors without management present. Outside of scheduled meeting times, the chairman of the committee is in regular contact with the external audit partner to discuss matters relevant to the company.

The committee's 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. 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. As a result of the review the audit committee has assisted the board in its fair, balanced and understandable review of the annual report, as explained below.

Financial statements and audit

The committee reviewed and provided input into the audit scope and audit plan presented by the external auditor, ensuring there was adequate focus on the fair value issues arising from the acquisition of Spirit. In considering the financial statements the committee reviewed the group's accounting policies to ensure consistency on a year-to-year basis, and that appropriate accounting policies were adopted for new issues such as brand valuations associated with the acquisition of Spirit. Significant issues that the committee addressed in relation to the financial statements are set out in the table on page 53. 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.

Significant issues considered by the audit committee in relation to the financial statements for 2015/16

Matter considered	What the committee did
Fair value accounting for acquired Spirit assets and liabilities	The committee reviewed the proposed fair value accounting treatment of assets and liabilities acquired as a result of the Spirit acquisition and the changes proposed to the interim adjustments applied by management at the half year. In particular, it considered key judgmental areas including off-market leases, brand valuations and property and lease valuations and the treatment of goodwill, ensuring an appropriately rigorous process had been applied to determine fair values based on reasonable assumptions. In particular, the committee noted the assessments of independent advisers appointed to undertake property valuations of the Spirit estate and to consider the valuation of brands and other intangible assets. Following discussions with the external auditors, the committee concluded that the proposed accounting treatment of the Spirit assets and liabilities was reasonable and confirmed that the fair values set out in note 7 to the financial statements were appropriate.
Uncertain tax positions	The committee undertook a detailed review of uncertain tax positions which have not yet been agreed or are in dispute with HMRC. Whilst many of the uncertain tax provisions have been resolved with HMRC, the largest of these, an internal funding arrangement undertaken in 2003/4, known as Sussex, remains outstanding. The committee satisfied itself that an appropriate provision was in place in respect of this uncertain tax position following discussion with the external auditor.
Impairment of property, plant and equipment	Management prepared a detailed report for consideration by the committee concerning the methodology used to determine the extent of any impairment required. The committee considered the methodology used, reviewed management's proposals and considered the expected timetable for the disposal of non-core sites. The committee assessed the proposed changes to both the underlying growth rates and the discount rate used and determined them to be appropriate. The committee agreed that the growth rates were appropriate at this stage even in light of possible consumer uncertainty following the referendum vote to leave the European Union. The external auditors were asked for their input and the committee took into account their views on the questions raised. Following the review and discussions the committee concluded that an impairment of £32.2m was appropriate in relation to property, plant and equipment.
Funding headroom and covenants and the viability statement	The committee reviewed the group's funding headroom and covenants in conjunction with the review of the use of the going concern assumption and, in particular, the viability statement on page 37. The committee considered the time period proposed for the viability statement, challenged management's projections, assumptions and stress testing (which included material reductions in planned growth rates), as well as the extent to which mitigating actions would achieve the desired outcomes, and took into account the external auditor's comments on its own work on this issue.
Accounting for supplier income and customer rebates	The committee reviewed the group's accounting for supplier income, including listing fees, performance fees and volume rebates, noting that such income is not recognised until it can be reliably estimated. The auditor's review of both supplier income and customer rebates was considered. During 2015/16 the annual value of supplier fees and rebates amounted to approximately £27m, whilst customer rebates amounted to £22m in the year. The committee was satisfied that the current controls in place provided reasonable assurance that the risks associated with these areas were being appropriately managed.
Accounting for deferred tax	The committee reviewed the changes to the deferred tax provision for rolled over gains and property revaluations, which led to a £26.8m deferred tax credit. The auditor's review of the capital gains model and HMRC's review as part of the dispute resolution process were considered. The committee was satisfied that the revised deferred tax provision for capital gains was appropriate.

Fair balanced and understandable annual report

One of the key governance requirements in relation to the annual report is that it should be fair, balanced and understandable. At the request of the board this year, the audit committee undertook a review of management's processes in this regard (including the clear guidance given to contributors and the review process adopted by management) and also considered in detail the draft annual report to ensure that it was fair, balanced and understandable in their view. The committee then recommended to the board that it could make the required disclosure as set out on page 69.

Effectiveness of the external audit

After the 2014/15 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 chief financial officer, 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 the committee was satisfied that the quality of the audit service provided by Ernst & Young LLP was appropriate. The feedback from the review was also provided to Ernst & Young LLP. The committee also took into account the quality of the audit firm procedures as published by the Financial Reporting Council.

Ensuring external auditor independence

The audit committee is cognisant of the importance of auditor independence and objectivity and has a 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 chief financial officer 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. This policy was complied with during the year.

The audit committee has considered a revised policy for non-audit services in line with the recent guidance issued by the FRC which will have effect for the group's 2017/18 financial year. Now that the guidance is finalised, the audit committee will confirm its policy and implement it before the 2017/18 financial year. The revised policy will be more restrictive than that which currently exists.

The committee also has a policy in relation to the appointment of former partners or employees of the auditor by the group, which 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 as soon as they tender their resignation to the audit firm. No members of the audit team have joined Greene King in the period.

Audit committee report continued

Ensuring external auditor independence continued

During the year the company made limited use of specialist teams within Ernst & Young LLP for non-audit work, including acting as auditors to the Belhaven pension scheme and in relation to the restated FRS 101 accounts for Greene King Finance plc, required in relation to the secured financing completed in May 2016. The total fees paid to Ernst & Young LLP during the year amounted to £0.65m of which £12k related to prior year expenses, and £0.04m (6%) related to non-audit work. Further detail is in note 4 to the financial statements.

In considering the independence and objectivity of the external auditor, and the further safeguards in place to protect it, the committee noted the annual review undertaken by the external auditor identifying all services provided to the group and determined that carrying out such work did not, and will not going forward, impair the independence of the external auditor.

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 LLP are required to rotate the audit partner responsible for the group every five years and the current audit partner's term ends with completion of this annual report.

In accordance with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Processes and Audit Committee Responsibilities) Order 2014 (the Order) and in the light of the transitional provisions on audit matters thereunder which allow a period until April 2024 before an audit tender and change is required, and given the change of audit committee chairman which will take place immediately after the signing of this annual report, the committee recommended to the board, and the board accepted the recommendation, that Ernst & Young LLP should be retained as the group's auditors for the time being. A new audit partner will be in place for the 2016/17 financial year audit, and the committee will give consideration to undertaking a full audit tender, in which Ernst & Young LLP will not be permitted to partake, within the next five years. The company was in compliance with the Order during the year.

The committee therefore recommended to the board that Ernst & Young LLP should be reappointed as the company's auditor for the forthcoming year. This resolution will be put to shareholders at the AGM.

Internal audit

The company's internal audit function is responsible for reviewing the effectiveness and efficiency of the systems of internal control in place to safeguard the assets of the company. 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 and to maintain independence. 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, as well as full reviews of relevant areas, the internal audit function had also carried out a number of key financial control reviews, all of which were reported to management and the committee. The committee also reviewed the resources available to the internal audit function both in the short term following the acquisition of Spirit and on a longer term basis, noting that resources have been increased during the year.

Other matters considered during the year

The committee considered the group's policy in relation to the valuation of its property assets, in the light of the fact that Spirit operated with an annual revaluation policy, whereas Greene King has historically adopted a policy whereby property plant and equipment are valued at cost or deemed cost on transition to IFRS. The committee considered the advantages and disadvantages of each approach and recommended to the board no change to Greene King's policy in this regard.

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 subject of cyber security and receives regular reports from management on the issue and how it is managing external threats in this area. At the request of the committee, management undertook further testing (including by external consultants) of the company's defences against a cyber security attack, implemented a number of additional security measures as a result and addressed the content of regular committee reporting on this topic.

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.

Internal control and risk management

As disclosed in the Risks and uncertainties section of this report on page 33, there is an on-going process for identifying, evaluating and managing the principal risks faced by the company. 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 continued to review reports from a number of business units and functional areas on their respective risk management processes and key risks and on the key financial internal controls and to challenge representatives of the relevant business unit or functional area who attended those meetings to present the relevant reports. 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 Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, 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 key elements of the internal control framework, in addition to the risk management processes outlined in the risks and uncertainties section of this report, 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.

Remuneration report

I am pleased once again to be able to summarise the company's remuneration policy, the way in which it has been implemented during the last financial year and the way it will be implemented this forthcoming year.

The remuneration committee remains very mindful of investor interest in executive remuneration and has again sought to ensure that the remuneration policies and practices at Greene King drive appropriate behaviours by management that are in the long term interests of the company and its shareholders.

Lynne Weedall
Chairman of the remuneration committee

Annual statement

Shareholders approved the remuneration policy for the company's directors at the 2014 AGM, and in line with the regulations on directors' remuneration, the company will next submit its policy to shareholders for approval in 2017. 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 2015/16 financial year, details of which are set out in the annual report on remuneration on pages 59 to 66. This latter report is subject to an advisory shareholder vote at the forthcoming AGM.

Decisions during the year

As I highlighted in last year's directors' remuneration report, given the significant changes to the size and complexity of the group as a result of the acquisition of Spirit Pub Company, the remuneration committee gave a commitment to review executive director base salary levels and other elements of the directors' remuneration policy during 2015/16.

Following the completion of the review, the main conclusions reached were that no changes should be made to the directors' remuneration policy at this time although a number of decisions were made in respect of the operation of the policy.

In particular, in the light of a detailed review of the changes in the size and complexity of the group as a result of the Spirit acquisition, the progress that management was making in respect of the integration and the individual performance of the two executive directors, the remuneration committee awarded base salary increases of 13% and 7% to the chief executive and chief financial officer respectively, with effect from 19 October 2015, the half year point. Further details are set out on page 61. It should be noted however that no further increase to the executive directors' base salary was made in May this year, and no further changes will be considered until May 2017.

In addition, the committee reviewed the various outstanding long-term incentive plan (LTIP) award performance targets to ensure that it was satisfied that the EPS and ROCE target ranges provide an appropriate level of stretch in light of the acquisition of Spirit. As such, targets for the 2013 and 2014 awards have been adjusted to take into account the anticipated impact of the Spirit acquisition (excluding synergies) and, given that the performance targets for the 2015 LTIP awards were set without taking into account the expected impact of Spirit, the committee has significantly toughened the targets in respect of these awards. Consistent with best practice, major investors were consulted in respect of the adjustments, which are explained on page 62.

Pay for performance

Bonus pay outs for this year were 97.5% of eligible salary for the chief executive and 77.5% of eligible salary for the chief financial officer, reflecting the stretching targets set at the beginning of the year. The LTIP awards granted in 2013 are expected to vest in August this year at 100% of the maximum for the core LTIP award and 76% of the maximum for the growth LTIP award.

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
28 June 2016

Policy report

This section of the report sets out Greene King's current remuneration policy which was approved at the 2014 AGM by 96% of shareholders who voted. No changes are being made to the policy this year and, therefore, the policy is set out below for information only. Details of actual remuneration paid, LTIP awards granted and the associated performance conditions are set out in the annual report on remuneration which starts on page 59.

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 2015/16 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 59. An explanation of how the performance measures were chosen is given in the notes below.

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.	—

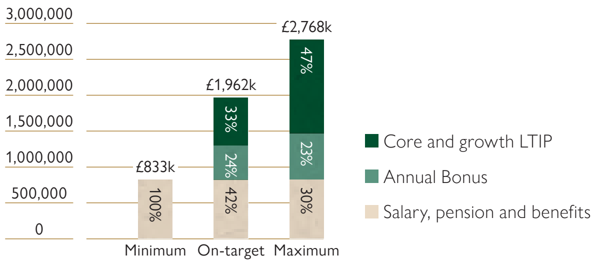
Notes:

1. A description of how the company intends to implement the policy set out in this table for 2016/17 is set out in the annual report on remuneration, which starts on page 59.
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 Pub Company. 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.

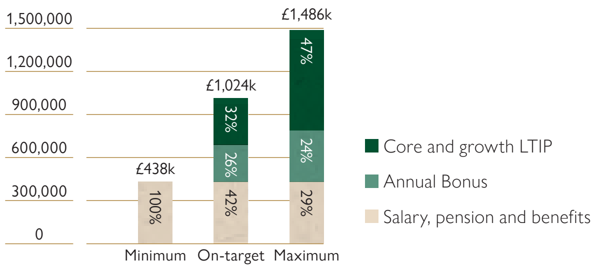
Indicative total remuneration levels

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 officer



Chief financial officer



Notes:

1. Minimum relates to the value of the package assuming that current 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 on-going 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, for each of the current directors, the start and expiry date of their respective appointments.

Director	Date of appointment	Present expiry date
Philip Yea	2 Feb 16	1 Feb 19
Mike Coupe	26 Jul 11	25 Jul 17
Ian Durant	16 Mar 07	9 Sep 16
Rob Rowley	18 Jul 14	17 Jul 17
Lynne Weedall	11 Oct 12	10 Oct 18

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.

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, Ian Durant and Rob Rowley. Philip Yea was appointed as an additional member of the committee on 2 February 2016 but stepped down from the committee on 2 May 2016 when he took over as chairman of the company. 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 49.

Advisers to the remuneration committee
The committee has appointed New Bridge Street, part of Aon plc, to provide advice on general remuneration matters and comparator information. 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, generally charged on a time spent basis, were £35,274.

Rooney Anand, chief executive, attends meetings of the committee by invitation and provides advice to help the committee determine appropriate remuneration and incentive packages for the chief financial officer 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 by invitation.

Shareholder voting at the 2014 and 2015 AGM

The table below shows the results of the binding vote on the directors' remuneration policy at the AGM held in September 2014 and the advisory vote on the 2014/15 directors' remuneration report at the AGM held in September 2015.

	Votes for	Percentage	Votes against	Percentage	Votes withheld
Approval of the directors' remuneration policy report – passed in 2014	138,964,449	95.8%	6,047,870	4.2%	2,105,782
Approval of the remuneration report – passed in 2015	209,030,752	99.1%	1,916,795	0.9%	9,342,342

Audited information

Single figure of remuneration

The tables below show the details of the total remuneration paid to each director in 2015/16 and 2014/15.

	Salary or fees £'000	**Taxable benefits £'000**	**Pension-related benefits[1] £'000**	**Annual bonus £'000**	**Long-term incentives[2] £'000**	**Total £'000**
2015/16 (52 weeks) (audited)						
Executive directors						
Rooney Anand	**609**	**20**	**152**	**594**	**1,172**	**2,547**
Kirk Davis	**340**	**12**	**68**	**264**	**—**	**684**
Non-executive directors						
Tim Bridge	**183**	**34**	**—**	**—**	**—**	**217**
Mike Coupe	**46**	**—**	**—**	**—**	**—**	**46**
Ian Durant	**53**	**—**	**—**	**—**	**—**	**53**
Rob Rowley	**46**	**—**	**—**	**—**	**—**	**46**
Lynne Weedall	**53**	**—**	**—**	**—**	**—**	**53**
Philip Yea	**11**	**—**	**—**	**—**	**—**	**11**

	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	1,092	2,139
Kirk Davis	160	6	32	118	—	316
Matthew Fearn	134	11	45	—	552	742
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

Notes:

1. Pension benefits for the executive directors comprised cash in lieu of pension contributions.
2. Long term incentives in 2015/16 comprised the value of the awards granted in October 2013, which will vest in October 2016 and which were subject to performance targets measured over the three years to May 2016. The value of the award has been calculated using £8.66, being the average share price for the last three months of the 2015/16 financial year, and also takes into account the value of the dividend equivalent shares which accrued on the award. 100% vesting of the 2013 core LTIP award and 76% vesting of the 2013 growth LTIP has been assumed. For the long-term incentives in 2014/15 the actual share price on the date of vesting has been used (restated from the estimates of £1,088k for Rooney Anand and £550k for Matthew Fearn disclosed in the 2014/15 annual report).

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

Base salary

The base salaries for 2015/16 for Rooney Anand and Kirk Davis (£567,970 and £328,000 respectively) were increased to £645,000 and £351,000 respectively with effect from 19 October 2015, following a detailed review by the committee of the changes in the size and complexity of the group as a result of the Spirit acquisition, the progress that management was making in respect of the integration and the individual performance of the two executive directors. The base fee for the chairman was £183,000, whilst the base fees for the non-executive directors were £46,000 for Mike Coupe, Rob Rowley and Philip Yea and £53,400 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 56.

Pension-related benefits

Cash in lieu of pension contributions were in line with the policy table set out on page 56.

Annual bonus

Executive directors may earn bonuses depending on the company's performance and their own individual performance. Awards for 2015/16 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 72.5% on financial performance and 27.5% on individual performance.

For both the chief executive and the chief financial officer, the financial performance measures were based on profit before tax and exceptionals (PBTE), free cash flow and the amount of synergies captured from the Spirit acquisition. The target ranges, outcome and awards (as a % of salary) are included in the table below:

	Target range	Outcome	Maximum percentage of bonus	Actual percentage of bonus
Rooney Anand				
PBTE (excluding fair value accounting adjustments)	£243.5m – £249.0m	£249.1m	62.5	62.5
Free cash flow[1]	£26.0m – £32.0m	£50.2m	15.0	15.0
Spirit synergies	£11.0m – £13.0m	£16.7m	12.5	12.5
Personal target[2]	—	—	10.0	7.5
Total			100.0	97.5
Kirk Davis				
PBTE (excluding fair value accounting adjustments)	£243.5m – £249.0m	£249.1m	50.0	50.0
Free cash flow[1]	£26.0m – £32.0m	£50.2m	12.5	12.5
Spirit synergies	£11.0m – £13.0m	£16.7m	10.0	10.0
Personal targets[3]	—	—	27.5	5.0
Total			100.0	77.5

Notes:

1. Free cash flow significantly out-performed the target range as a result of better than anticipated trading, better than expected working capital from the Spirit business and lower than anticipated interest and pension costs.
2. The personal target for Rooney Anand related to the strengthening and development of the senior executive team. Following the remuneration committee's assessment of the personal target and actual performance, 7.5% of salary was awarded.
3. The personal targets for Kirk Davis related to targets linked to like for like sales growth and the performance of the senior finance team. As the like for like sales growth targets remain commercially sensitive, the target and result have not been disclosed above but will be disclosed next year. Following the remuneration committee's assessment of the personal targets and actual performance, 5% of salary was awarded against these metrics.

Performance against the combined financial and individual targets resulted in bonuses being paid at £594k (97.5% of eligible salary) for the chief executive and at £264k (77.5% of eligible salary) for the chief financial officer. Eligible salary is salary earned during the relevant financial year.

Disclosure of 2014/15 bonus targets

On the basis that the financial targets and the company's performance against those targets for the 2014/15 financial year are no longer considered commercially sensitive, details are set out below. The group delivered a strong financial result for the year, achieving record sales and profit, with revenue up 3.0%, notwithstanding underlying retail growth being lower than anticipated and operating profit before exceptional items up 3.8%. Profit before tax and exceptional items fell 0.8% to £168.5m although adjusted earnings per share were up 1.3%. Operating cash flows continued to be strong.

Performance measure	Target range	Actual performance	Percentage of bonus opportunity awarded
PBTE	£167.9m – £175.9m	£168.5m	48%
Free cash flow	£44.2m – £50.2m	£55.7m	100%

Details of the performance against non-financial targets were disclosed last year.

Audited information continued

Long-term incentive plans

The LTIP awards granted on 4 August 2013 were based on a three year performance period ended 1 May 2016. 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
Core LTIP – earnings per share[1]	62.3p – 68.5p	69.9p	0%	100%	100%
Growth LTIP – return on capital employed[2]	8.85% – 9.55%	9.38%	0%	100%	76%

Notes:

1. The earnings per share target was adjusted to take account of an increased number of disposals and the acquisition of Spirit which completed in June 2015. No adjustment was made in respect of anticipated synergies arising from the acquisition allowing management to benefit from those that have been delivered. The prior target range was 59.7p – 65.9p. 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.
2. The ROCE target was adjusted on the same basis as the earnings per share target. The prior range was 9.1% - 9.8%. 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	Type of award	Number of shares at grant	Number of shares to vest	Number of shares to lapse	Estimated value[1] £'000	Estimated value of dividend equivalent shares to vest[2] £'000	Total estimated value £'000
Rooney Anand	Core LTIP	68,630	68,630	—	594	65	659
Rooney Anand	Growth LTIP	68,630	52,159	16,471	452	61	513

Notes:

1. The estimated value of the shares is based on the average share price during the three months to 1 May 2016 (866 p).
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. The estimated value has been calculated on the same basis as set out in note 1 above, with an additional estimate for the value of the dividend equivalent shares which will be due in relation to the 2016 final dividend payable in September 2016.

Interests under the LTIP

A summary of the current 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 3 May 2015	Granted during the period	Vested during the period	Lapsed during the period[1]	Outstanding at 1 May 2016	Performance period
Rooney Anand	6-Aug-12	Restricted forfeitable share	nil	117,000	—	117,000	—	—	—
	4-Oct-13	Core LTIP	nil	68,630	—	—	—	68,630	May 2013 – May 2016
	4-Oct-13	Growth LTIP	nil	68,630	—	—	—	68,630	May 2013 – May 2016
	24-Jul-14	Core LTIP	nil	66,361	—	—	—	66,361	May 2014 – May 2017
	24-Jul-14	Growth LTIP	nil	66,361	—	—	—	66,361	May 2014 – May 2017
	10-Aug-15	Core LTIP	nil	—	66,558	—	—	66,558	May 2015 – May 2018
	10-Aug-15	Growth LTIP	nil	—	66,558	—	—	66,558	May 2015 – May 2018
Kirk Davis	10-Aug-15	Core LTIP	nil	—	38,437	—	—	38,437	May 2015 – May 2018
	10-Aug-15	Growth LTIP	nil	—	38,437	—	—	38,437	May 2015 – May 2018

The 2014 LTIP award targets have been adjusted to take into account the impact of the Spirit acquisition. The EPS target applicable to the core LTIP was increased by the forecast net benefit to earnings that Spirit was forecast to generate and the ROCE target applicable to the growth LTIP was adjusted to reflect the expected impact of Spirit on returns. No adjustment was made in respect of delivering the potential future synergies to enable management to benefit should these be delivered as planned. Under the revised targets there will be no vesting of the core award for EPS growth of 26.2% or less above a base of 56.1p, increasing on a straight-line basis to full vesting for growth of 35.3% during the performance period above that base. The prior target range was 22–31% above the 56.1p base. For the growth LTIP award, there will be no vesting for ROCE of 9.25% or less, increasing on a straight-line basis to full vesting for ROCE of 9.85% at the end of the performance period. The prior target range was 9.4–10.0%.

The 2015 LTIP award targets have also been adjusted to take into account the impact of the Spirit acquisition and in the light of feedback received from a number of shareholders following the publication of the 2015 annual report regarding the level of stretch in the targets. Under the revised targets there will be no vesting of the core award for EPS growth of 22% or less above a base of 61.0p, increasing on a straight-line basis to full vesting for growth of 32% during the performance period above that base. The prior target range was 7.5–16.5% above the 61.0p base. For the growth LTIP award, there will be no vesting for ROCE of 9.6% or less, increasing on a straight-line basis to full vesting for ROCE of 10.2% at the end of the performance period. The prior target range was 9.2–9.7%.

Details of the awards granted to the directors on 10 August 2015 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 £567,970	853.33p	66,558	£567,959	May 2015 – May 2018	11 August 2018 – 9 August 2025
Rooney Anand	Growth LTIP	nil-cost option	100% of salary of £567,970	853.33p	66,558	£567,959	May 2015 – May 2018	11 August 2018 – 9 August 2025
Kirk Davis	Core LTIP	nil-cost option	100% of salary of £328,000	853.33p	38,437	£327,994	May 2015 – May 2018	11 August 2018 – 9 August 2025
Kirk Davis	Growth LTIP	nil-cost option	100% of salary of £328,000	853.33p	38,437	£327,994	May 2015 – May 2018	11 August 2018 – 9 August 2025

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

There are no outstanding interests under the group's executive share option scheme (under which no awards have been made since September 2008). In the prior year the gain made by Rooney Anand on the exercise of his 74,751 share options 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 2015	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 1 May 2016	Option price (p)	Exercise period
Kirk Davis	3050	—	—	—	3050	580	1 April – 30 Sept 2018

In the prior year, the gain made by Matthew Fearn on the exercise of his 2,325 share options amounted to £8k.

Payments to former directors

As disclosed in last year's directors' remuneration report Matthew Fearn stepped down from the board and his role as chief financial officer on 29 September 2014. As disclosed last year, 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 in the prior year to Matthew Fearn based on 6 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 in the prior year 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, 2015/16 or any future financial years was or will be paid.

As set out in last year's report, the awards granted to Matthew Fearn under the LTIP scheme in 2012 vested at the normal date in August 2015 subject to performance and time pro-rating. The actual value received by him, based on the share price at the date of vesting, is shown in the 2014/15 section of single figure of remuneration table (updated from the estimated amount disclosed last year). In addition, also as disclosed last year, the awards granted to him in 2013 will be permitted to vest at the normal date in October 2016, also subject to performance and time pro-rating. The anticipated value of those awards, calculated on the same basis as set out above in the section headed 'Long term incentive plans' is as follows:

Former director	Type of award	Number of shares at grant	Number of shares to vest	Number of shares to lapse[1]	Estimated value £'000	Estimated value of dividend equivalent shares to vest £'000	Total estimated value £'000
Matthew Fearn	Core LTIP	43,290	20,894	22,396	181	13	194
Matthew Fearn	Growth LTIP	43,290	15,880	27,410	138	10	148

Note:

1. Matthew Fearn's core and growth LTIP awards were both pro rated to reflect time served prior to his departure from the company. The resulting amounts will then vest as to 100% for the core LTIP and 76% for the growth LTIP as a result of the performance of the company against the performance targets.

Remuneration report continued

Audited information continued

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 3 May 2015	At 1 May 2016			
Director	Legally owned	Legally owned	Subject to performance under the LTIP	Total	Shareholding as percentage of salary as at 1 May 2016
Rooney Anand	467,265	529,041	403,098	932,139	671
Kirk Davis	—	4,000	76,874	80,874	9
Tim Bridge	1,438,531	1,526,432	—	1,526,432	—
Mike Coupe	2,000	3,690	—	3,690	—
Ian Durant	22,320	22,320	—	22,320	—
Rob Rowley	—	3,000	—	3,000	—
Lynne Weedall	2,000	2,051	—	2,051	—
Philip Yea	—	30,000	—	30,000	—

At 1 May 2016, Tim Bridge had a non-beneficial interest in 87,900 (2015: 87,900) shares, in addition to the holding shown above.

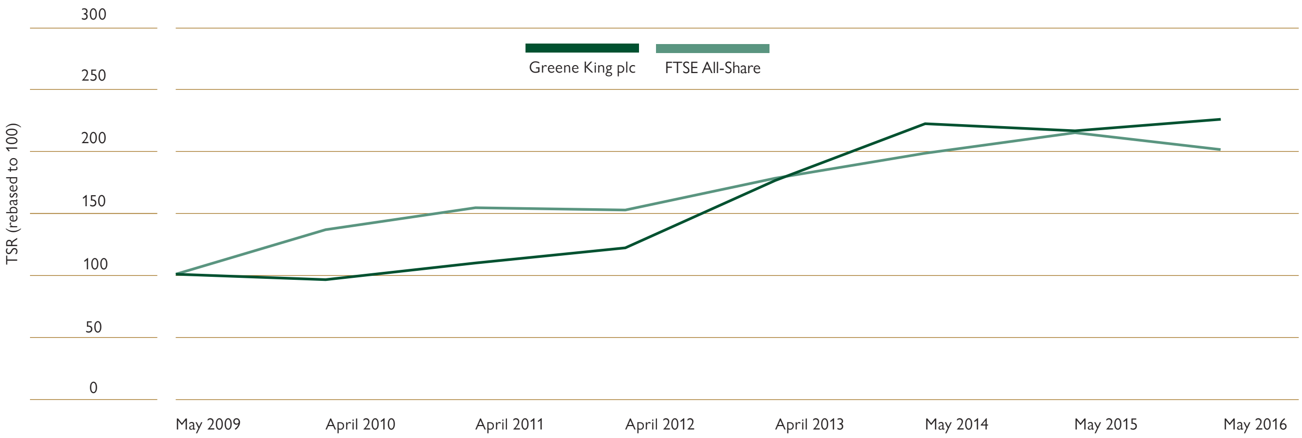
The share price as at 1 May 2016 was 818p.

There has been no change in the interests of the current directors since 1 May 2016 to the date of this report.

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 seven years in shown below. We have chosen this comparator group as it is the most appropriate market index of which the company is a member.



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

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	**2015/16**
CEO single figure (£'000)	1,096	1,406	1,248	2,689	2,517	2,139	**2,547**
annual bonus percentage of maximum	97%	100%	75%	72%	97%	60%	**97.5%**
LTIP percentage of maximum	0%	0%	0%	100%	100%	100%	**88%**

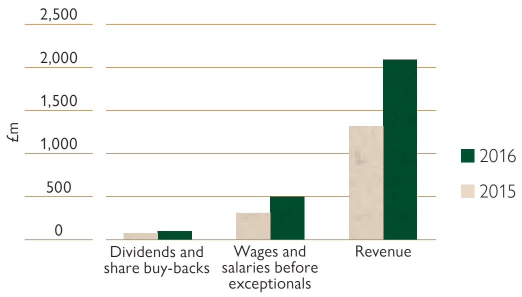
Percentage increase in the chief executive's remuneration

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	9.9	6.7
Taxable benefits	-9.7	4.8
Annual bonus	78.7	44.8

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 and received and retained £56k (2015 – £45k) from that company by way of fees. Since January 2016 he has also been a non-executive director of Wm Morrison Supermarkets plc and received and retained £12.5k from that company by way of fees during the year. Neither company is a related party of the group.

Implementation of remuneration policy in 2016/17

Salary

Although the executive directors' salaries are generally reviewed annually, as explained above their salaries were increased in October 2015 following the acquisition of Spirit. As a result, there will be no further change to the base salaries of the executive directors for the current financial year. Their salaries with effect from 2 May 2016 (and previous year levels) are as follows:

Name	Position	From 2 May 2016	Percentage increase	From 19 October 2015	Percentage increase	From 4 May 2015
Rooney Anand	Chief executive	£645,000	0.0%	£645,000	13.6%	£567,970
Kirk Davis	Chief financial officer	£351,000	0.0%	£351,000	7.0%	£328,000

Typical 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) were 2.0%.

Pension and benefits

The pension contributions and benefits will continue in line with the policy table on page 56.

Annual bonus

The annual bonus opportunity will remain unchanged for 2016/17. The chief executive's financial performance targets will continue to be based primarily on group PBTE (maximum weighting 62.5%) and free cash flow (maximum weighting 15%). In addition the chief executive will continue to have a financial target relating to the achievement of synergies from the acquisition of Spirit (maximum weighting 12.5%) and a further 10% of his bonus will be based on personal targets relating to the development of his senior management team.

The chief financial officer's financial performance targets will be based on PBTE (maximum weighting 45%), free cash flow (maximum weighting 10%), the achievement of synergies from the acquisition of Spirit (maximum weighting 10%) and Pub Company like for like sales growth (maximum weighting 15%), and a further 20% of his bonus will be based on personal targets which relate to his performance and that of the senior finance team.

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 2017/18 annual report.

Remuneration report continued

Other information (unaudited) continued

Implementation of remuneration policy in 2016/17 continued

LTIP

The awards to be made in 2016 will continue to 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 April 2019. There will be no vesting under the core LTIP award for EPS growth (from a base of 69.9p) of 16% or less, increasing on a straight-line basis to full vesting for growth of 25%. For the growth LTIP award, there will be no vesting for ROCE of 9.75% or less, increasing on a straight-line basis to full vesting for ROCE of 10.3%. The committee retains the discretion to scale back the vesting levels of the growth LTIP awards in appropriate circumstances.

Chairman and non-executive directors' fees

The fees payable to the chairman and the non-executive directors in 2016/17 are as set out below. The chairman will not be entitled to any benefits.

Name	Position	2015/16 base fee	2016/17 base fee	Percentage increase
Philip Yea	Chairman	n/a	£250,000	—
Mike Coupe	Non-executive director	£46,000	£50,000	8.7%
Ian Durant	Non-executive director	£53,400	£60,000	12.4%
Rob Rowley	Non-executive director	£46,000	£60,000	30.4%
Lynne Weedall	Non-executive director	£53,400	£60,000	12.4%

The increased fee for Rob Rowley reflects the additional time commitments relating to his role as senior independent director.

Approved by the board on 28 June 2016.

Lindsay Keswick
Company secretary

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 1 May 2016. The company has chosen, in accordance with section 414C(11) of the Companies Act 2006, to include matters of strategic importance, such as future developments in the business of the group, and details of the greenhouse gas emissions, in the strategic report which otherwise would be required to be disclosed in the director's report.

Profits and dividends

The group's profit before taxation and exceptional items for the period amounted to £256.5 million (2015 – £168.5 million). An interim dividend of 8.45p per share (2015 – 7.95p) was paid on 22 January 2016. The directors recommend a final dividend of 23.6p per ordinary share (2015 – 21.8p), making a total dividend for the year of 32.05 per share (2015 – 29.75p). Subject to the approval of shareholders at the AGM, the final dividend will be paid on 12 September 2016 to shareholders on the register at the close of business on 12 August 2016.

Directors

Details of the current directors are given on page 46. Philip Yea was appointed to the board on 2 February 2016. At the end of the year Tim Bridge retired as chairman, having served as a director for 39 years.

The board has recommended that all of the directors offer themselves for re-election at the forthcoming AGM, with the exception of Philip Yea who will be standing for election for the first time.

Details of the directors' service agreements, remuneration, and interests in long term incentives and awards are set out in the directors' remuneration 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:

	3 May 2015	**1 May 2016**
Rooney Anand	467,265	**529,041**
Tim Bridge	1,438,531	**1,526,432**
Mike Coupe	2,000	**3,690**
Kirk Davis	—	**4,000**
Ian Durant	22,320	**22,320**
Rob Rowley	—	**3,000**
Lynne Weedall	2,000	**2,051**
Philip Yea	—	**30,000**

At 1 May 2016, Tim Bridge had a non-beneficial interest in 87,900 (2015: 87,900) shares, in addition to the holding shown above.

There have been no changes in the interests of the current directors between 1 May 2016 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 significant holdings (3% or more) of voting rights:

	1 May 2016	28 June 2016
Standard Life Investments (Holdings) Limited	4.774%	4.774%
The Capital Group Companies, Inc	16.28%	16.28%

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 27 to the financial statements. 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.

In connection with the acquisition of Spirit Pub Company the consideration was satisfied by the allotment of 89,095,959 ordinary shares, with an aggregate nominal value of £11,136,995.

A total of 371,620 ordinary shares, with an aggregate nominal value of £46,453 were allotted, for cash, during the period in connection with the company's share save and executive option schemes.

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.

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 27 July 2015. 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.

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 close 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 is one employee 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, this agreement is 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.

Directors' report and disclosures continued

Appointment and replacement of directors continued

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.

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 employees fairly and equally and will endeavour to provide workplace adaptations and training for employees or candidates who have a disability and colleagues who become disabled during their employment.

The company values employee 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 employees. 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 sharesave scheme open to all employees which helps to align employees with the performance of the company.

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 43.

Directors' and officers' indemnity insurance

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

Financial instruments

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

Post balance sheet events

Details of events occurring after the year-end are set out in note 33 to the financial statements.

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 46. Having made enquiries of fellow directors and of the company's auditor, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditor is unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditor is aware of that information.

Going concern

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

The directors are of the opinion that the group's forecast and projections, 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 Friday 9 September 2016 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
28 June 2016

Directors' responsibilities statements

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual 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 group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). Under company law the 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 group and the company and of the profit or loss of the group for that period. In preparing these 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;

– present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

– in respect of the group financial statements, state whether IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;

– provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's financial position and financial performance;

– in respect of the parent company financial statements, state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and

– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and/or the group will continue in business.

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

Under applicable law and regulations the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

The directors confirm, to the best of their knowledge:

– that the consolidated financial statements are prepared in accordance with IFRSs, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the company and undertakings included in the consolidation taken as a whole;

– 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 46.

P Yea
Director
28 June 2016

R Anand
Director

FINANCIAL STATEMENTS

Independent auditor's report

To the members of Greene King plc

Our opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 1 May 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

What we have audited

We have audited the primary statements and related notes of Greene King plc for the 52 weeks ended 1 May 2016 which comprise:

Group	Parent company
Group income statement	Company balance sheet
Group statement of comprehensive income	Company statement of changes in equity
Group balance sheet	Related notes 35 to 45 to the financial statements
Group cash flow statement	
Group statement of changes in equity	
Related notes 1 to 34 to the financial statements	

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Overview of our audit approach

Materiality	– Overall group materiality was £12.4m (2015: £7.8m) which represents approximately 5% of pre-tax profit before exceptional items. The increase in the materiality is primarily due to the acquisition of Spirit Pub Company plc (Spirit) during the year.
Audit scope	– We performed an audit of the complete financial information of all of the trading components and the corporate centre which together represent 100% of 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.
Risks of material misstatement	– Fair value estimates of assets and liabilities acquired in the Spirit business combination. – Asset impairment considerations in relation to the trading estate and associated goodwill. – Uncertain tax positions. – Revenue recognition, including fraud risks and risk of management override.
What has changed	– Our audit approach and assessment of areas of focus changes in response to changes in circumstances affecting the Greene King plc business and impacting the group financial statements. Since the 2015 audit we have made the following changes to our areas of focus: – On 23 June 2015, the group completed the acquisition of Spirit. As part of the acquisition accounting, accounting standards require the purchase price to be allocated between the assets acquired and liabilities assumed, resulting in the recognition of goodwill. We have identified as an additional risk for this year the fair valuation of assets acquired and liabilities assumed. – We no longer consider the funding headroom and compliance with debt covenants as a risk of material misstatement on the basis of the increased level of headroom over prior years, even after the acquisition of Spirit. – The risk relating to uncertain tax positions has been reduced relative to the prior year due to the agreement of the HMRC on many of the arrangements. – Our performance materiality was set to a lower threshold in 2016, largely due to the significant changes in the group through the acquisition of Spirit which increases the risks of material misstatement.

Independent auditor's report continued

To the members of Greene King plc

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. This is not a complete list of all the risks identified in our audit. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Details of why we identified these risks of material misstatements and our audit response are set out in the below table. This is not a complete list of all the procedures we performed in respect of these areas. The arrows in the table indicate whether we consider the financial statement risk associated with this focus area to have increased, decreased or stayed the same compared to 2015.

Risk	Our response to the risk	What we concluded to the Audit Committee
Fair value estimates of assets and liabilities acquired in the Spirit business combination Refer to the audit committee report (page 53); accounting policies (page 82); and note 17 of the group financial statements (page 106)		**Risk direction** New
During the period the group acquired Spirit for a total consideration of £763m. The acquisition is accounted for as a business combination in relation to which there are a number of significant and complex judgments involved in the determination of the fair value of the assets acquired and liabilities assumed. A purchase price allocation exercise has been performed by management, assisted by external experts. The primary element of the valuation exercise assessed the fair value of the trading estate (£1,419m including assets held for sale) and the resulting goodwill (£434m). The allocation also considered the fair values of intangible assets (favourable operating leases and brands), borrowings, off market contract liabilities, derivative financial instruments, post-retirement obligations and scheme assets, other assets and liabilities and deferred tax. We have identified the fair valuation of the assets acquired and the liabilities assumed as a significant risk.	We verified the appropriateness of the group's accounting for the acquisition of Spirit including the following procedures: – we challenged the group's preliminary estimates of fair value to test their robustness, by checking completeness of the company's process to identify the assets acquired and liabilities assumed, and checking internal consistency of the assumptions used in the valuations, including of the brand intangible asset, off-market leases and onerous contract liabilities; – we obtained the group's external expert's reports supporting the value of the trading estate and brand intangible assets and used our firm's valuation specialists to verify the appropriateness of the valuation methodologies and the reasonableness of key assumptions and judgments made by the valuers; – we also involved our valuation specialists to assist the audit team in assessing the appropriateness of the methodology and the assumptions applied to value the off market leases and onerous contracts, and to independently recalculate the fair value of secured bonds and related interest rate swaps; – we checked the arithmetical accuracy of management's calculation of the off market liabilities, tested the adequacy of the discount rates applied and agreed the future expected payments to the terms in the relevant contracts or other supporting evidence; – in respect of post retirement obligations, we involved our pensions specialists to test the reasonableness of the assumptions applied by the group's actuaries; – we evaluated the competence and independence of the experts used by the group and our in-house experts by reference to their qualifications and experience; and – we evaluated whether appropriate disclosures have been included in the group financial statements.	As a result of the procedures performed we are satisfied that assets and liabilities acquired are measured at fair value in line with the requirements of the accounting standards. We also concluded that appropriate disclosures have been included in the group financial statements.
Asset impairment considerations in relation to the trading estate and associated goodwill Refer to the audit committee report (page 53); accounting policies (page 82); and note 14 of the group financial statements (page 100)		**Risk direction** ↔
The group has property, plant and equipment (PP&E) with a net book value of £3,671m relating to its trading estate and £1,122m of goodwill as at 1 May 2016. For the trading estate, impairments are considered on a site by site basis when an impairment indicator has been identified through reduced profit performance. For goodwill, impairment is assessed at an operating segment level (i.e. Pub Company Greene King, Pub Company Spirit, Pub Partners Greene King, Pub Partners Spirit and Brewing & Brands), being the lowest level at which goodwill is monitored.	We obtained an understanding of the group's process employed to identify indicators of impairment and to estimate appropriate impairments of PP&E at a cash-generating unit (CGU) level (site level) or goodwill at an operating segment level. We then tested key elements of those processes. In particular: – we compared the profit growth rates in the cash flow forecasts to the budget, external market growth estimates rates applied by industry peers and recent actual profit growth rates over the last five year period, and corroborated explanations for any anomalies; – we tested the reasonableness of the discount rate applied to cash flows through benchmarking to comparator companies and market expectations;	We considered the reasonableness and appropriateness of the group's estimates, noting that all significant assumptions fell within a range of acceptable outcomes. As a result of the procedures performed, we concluded that the group's impairment indicator analysis and impairment assessment for the group's CGUs had been carried out appropriately and in accordance with the accounting standards.

Risk	Our response to the risk	What we concluded to the Audit Committee

Asset impairment considerations in relation to the trading estate and associated goodwill continued

In assessing impairment, management estimates the recoverable value of each site by reference to the higher of its value in use (based on the group's key assumptions in relation to forecast profits, a growth rate and a discount rate) and fair value less costs of disposal (FVLCD). As a result of the Spirit acquisition and the bond issue, current valuations were available upon which to base the FVLCD. The recoverable value is compared to the carrying value of each site to determine any impairment. For goodwill, the group performs its impairment analysis by considering the value in use of the operating segment, based on forecast cash flows for that segment, employing consistent assumptions.

These processes have a high degree of judgment and therefore carry a higher level of inherent risk of material error.

- we reperformed the group's sensitivities applied to the cash flows and considered the group's judgment of how a reasonably possible change in assumptions would lead to an impairment based upon our knowledge of the group's activities and factors in the sector;
- we obtained an understanding of the methodology management applied to allocate the new Spirit goodwill to the operating segments, as well as the methodology applied for allocating goodwill to disposals, to ensure that the approach taken is in line with the requirements of the applicable accounting standards; and
- we checked the arithmetical accuracy and integrity of the impairment models.

For the trading estate, additionally:

- we checked on the impairment model that the site's recoverable value is the higher of value in use and FVLCD;
- where the FVLCD was required to support the recoverable value of a site, we evaluated the robustness and appropriateness of the valuation methodologies and the reasonableness of key assumptions and judgments made by the experts, using our own property valuation specialists, who utilised their knowledge of property valuation and comparator transactions on a sample of the sites. We also evaluated the competence and independence of the experts used by the group and our in-house experts by reference to their qualifications and experience;
- where impairment indicators existed but no impairment charge had been recognised, we sought and corroborated explanations from management on individual pubs to assess whether an impairment charge was required; and
- on a sample of sites where judgment has been applied to determine the recoverable value, we have obtained and corroborated explanations from management.

We evaluated the appropriateness, sufficiency and clarity of any impairment-related disclosures provided in the group financial statements, including the disclosure of key sensitivities.

We concur with management's assessment that goodwill for each reportable segment is not impaired and is recoverable.

We concluded that the related disclosures in the group financial statements are appropriate.

Uncertain tax positions

Refer to the audit committee report (page 53); accounting policies (page 82); and note 10 of the group financial statements (page 96)

Risk direction

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The group has implemented a number of intra-group arrangements to finance third party acquisitions and to effect other intra group transactions. Certain of the potential benefits from these arrangements were under dispute by the HMRC.

Subsequent to the year end, a settlement agreement has been confirmed with the HMRC in respect of the majority of legacy tax items at £21.4m, similar to the liability recognised at the 2015 year end and of which £9m remains payable at the year end.

The uncertainty over resolution of the remaining arrangements (principally an arrangement known as 'Project Sussex') has required the directors to make judgments on the level of tax that will ultimately be paid. The directors obtained opinions from independent advisers to help them assess the level of tax liability required.

Estimated liabilities for uncertain tax positions of £10.5m (2015: £31.6m) and related interest of £5.9m (2015: £13.9m) are included within Income tax payable and Trade and other payables respectively. This amount excludes the provision of £9m related to the legacy items as this is no longer considered an uncertain tax position on the basis of the agreement confirmed shortly after the year end.

We used our tax audit specialists to evaluate the group's assessment of the liability recognised. Our work included:

- agreeing the amount of the provision recognised (£21.4m) to the agreement reached with the HMRC through its 'High Risk Corporate Process' on a number of outstanding matters;
- with regard to Project Sussex, inspecting correspondence with HMRC and the advice received from the group's advisers, and performing our own assessment of the likely outcome of litigation on the basis of our experience of similar scenarios; and
- recalculating the accrual for the interest on late paid corporation tax if the group were to settle the Project Sussex liability at the amounts provided at the balance sheet date.

As a result of the procedures performed we have concluded that the provision for uncertain tax positions is within a range of probable outcomes of the final settlement.

We consider the group's level of disclosure in the financial statements is appropriate taking into account the FRC guidance on this area.

Independent auditor's report continued

To the members of Greene King plc

Our assessment of risk of material misstatement continued

Risk	Our response to the risk	What we concluded to the Audit Committee
Revenue recognition, including fraud risks and risk of management override Refer to the audit committee report (page 53); accounting policies (page 82); and note 3 of the group financial statements (page 89)		**Risk direction** ⟷
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. This risk is associated with the accuracy and completeness of retrospective discounts and rebates due to the area being more susceptible to management override. For food, liquor and accommodation sales in the Pub Company division, we consider these are low risk given that the transactions are routine, low value and high volume with no estimation uncertainty. Accordingly, the fraud risk for such revenues is limited to journal entries and other adjustments made at the end of a reporting period.	We obtained an understanding of the processes for the recognition of revenue in each of the revenue streams, and separately for the recognition of retrospective discounts by the group as a whole. For food, liquor and accommodation sales in the Pub Company division we have focused our testing on manual journals posted to this revenue stream. Furthermore we have utilised data analytics to agree revenue posted to cash received. For beer and liquor sales in the Brewing & Brands and Pub Partners divisions: – 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 the year 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 and rebates: – we performed audit procedures on key customer contracts to identify complex rebate agreements and ensure that the treatment is appropriate in light of the revenue recognition policy; – we agreed the nature and terms of certain significant discount arrangements to contracts or other supporting documentation and tested a sample of rebates to the specified terms, subsequent invoice and if available settlement to ensure the amounts accrued were reasonable; and – we analysed the volume of distributor sales in the period before and after the year end to ensure correct cut-off.	As a result of the procedures performed, we have been able to conclude that revenue has been recognised in accordance with the revenue recognition policy and accounting standards.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there is evidence of bias by the directors that may represent a risk of material misstatement due to fraud.

The scope of our audit

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. Taken together this enables 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, the organisation of the group and effectiveness of group-wide controls, 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.

We performed an audit of the complete financial information of all of the trading components and the corporate centre which together represent 100% of 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.

Our application of 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	PERFORMANCE MATERIALITY	REPORTING THRESHOLD
£12.4m	£6.2m	£600k

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. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the group to be £12.4m (2015: £7.8m), which is set at approximately 5% (2015: 5%) of pre-tax profit before exceptional items. Our materiality amount provides a basis for determining the nature and extent of 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.

How we determined materiality

STARTING BASIS	ADJUSTMENT	MATERIALITY
Profit before tax £189.8m	Excluding exceptional items of £66.7m to determine the profit before tax and exceptional items of £256.5m	£12.4m, being approximately 5% of the profit before tax and exceptional items

Rationale for basis

We used pre-tax profit before exceptional items of £256.5m 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 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 entity.

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 risk assessments, together with our assessment of the group's overall control environment, the changes in the business environment resulting from the acquisition of Spirit, and the number and monetary amounts of individual uncorrected misstatements identified in prior periods as well as the nature of the misstatements, our judgment was that the overall performance materiality for the group should be 50% (2015: 75%) of our planning materiality, namely £6.2m (2015: £5.9m). We have set our performance materiality to a lower threshold in 2016, reflecting the significant changes in the group through the acquisition of Spirit which increases the risks of misstatement. Our objective in adopting this approach was to ensure that the total of any detected and undetected audit differences does not exceed our materiality of £12.4m for the group financial statements as a whole.

Audit work on individual components for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the size of the component relative to the group as a whole and our assessment of risk of misstatement at that component. In the current year the range of performance materiality allocated to components was £2.5m to £5.6m (2015: £2.3m to £5.3m).

Reporting threshold

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

We agreed with the audit committee that we would report to them all uncorrected audit differences in excess of £0.6m (2015: £0.4m), which is set at 5% of planning materiality, 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 light of other relevant qualitative considerations in forming our opinion.

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 and 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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities statement set out on page 69, the directors are responsible for the preparation of the 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 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.

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.

Independent auditor's report continued

To the members of Greene King plc

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;
- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate governance statement in the annual report which starts on page 47 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial 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 – otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement (included on page 69) that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.	We have no exceptions to report.
Companies Act 2006 reporting	We are required 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; or – a Corporate Governance Statement has not been prepared by the company.	We have no exceptions to report.
Listing Rules review requirements	We are required to review: – the directors' statement in relation to going concern, set out on page 68, and longer-term viability, set out on pages 37; and – the part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

Statement on the directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: – the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; – the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; – the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and – the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

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.

Bob Forsyth (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
28 June 2016

Group income statement

For the fifty-two weeks ended 1 May 2016

	Note	2016 Before exceptional items £m	2016 Exceptional items (note 5) £m	2016 Total £m	2015 Before exceptional items £m	2015 Exceptional items (note 5) £m	2015 Total £m
Revenue	2,3	**2,073.0**	**—**	**2,073.0**	1,315.3	—	1,315.3
Operating costs	4	**(1,680.8)**	**(25.9)**	**(1,706.7)**	(1,059.1)	(43.9)	(1,103.0)
Operating profit	2,4	**392.2**	**(25.9)**	**366.3**	256.2	(43.9)	212.3
Finance income	7	**1.5**	**—**	**1.5**	0.3	—	0.3
Finance costs	7	**(137.2)**	**(40.8)**	**(178.0)**	(88.0)	(6.4)	(94.4)
Profit before tax		**256.5**	**(66.7)**	**189.8**	168.5	(50.3)	118.2
Tax	10	**(49.4)**	**50.5**	**1.1**	(35.3)	6.4	(28.9)
Profit attributable to equity holders of parent		**207.1**	**(16.2)**	**190.9**	133.2	(43.9)	89.3

	Note	2016 Before exceptional items	2016 Total	2015 Before exceptional items	2015 Total
Earnings per share					
– basic	12		**64.4p**		40.9p
– adjusted basic	12	**69.9p**		61.0p	
– diluted	12		**64.1p**		40.6p
– adjusted diluted	12	**69.5p**		60.6p	
Dividends per share (paid and proposed in respect of the period)	11		**32.05p**		29.75p

Group statement of comprehensive income

For the fifty-two weeks ended 1 May 2016

	Note	2016 £m	2015 £m
Profit for the period		**190.9**	89.3
Other comprehensive loss to be reclassified to the income statement in subsequent periods:			
Cash flow hedges:			
– Losses taken to equity	24	**(40.1)**	(93.4)
– Transfers to income statement on cash flow hedges	24	**27.6**	29.7
Tax on cash flow hedges	10	**(2.5)**	12.7
		(15.0)	(51.0)
Items not to be reclassified to the income statement in subsequent periods:			
Actuarial losses on defined benefit pension schemes	9	**(4.5)**	(11.9)
Tax on actuarial losses	10	**(1.5)**	2.4
		(6.0)	(9.5)
Other comprehensive expense for the period, net of tax		**(21.0)**	(60.5)
Total comprehensive income for the period, net of tax		**169.9**	28.8

Group balance sheet

as at 1 May 2016

	Note	As at 1 May 2016 £m	As at 3 May 2015 £m (see note 10)	As at 4 May 2014 £m (see note 10)
Non-current assets				
Property, plant and equipment	14	**3,671.3**	2,235.4	2,169.7
Intangibles	13	**174.6**	—	—
Goodwill	13	**1,121.9**	700.9	703.8
Financial assets	15	**16.8**	21.3	24.2
Deferred tax assets	10	**78.7**	28.3	13.3
Prepayments		**0.3**	0.4	0.3
Trade and other receivables	19	**0.1**	0.1	0.1
		5,063.7	2,986.4	2,911.4
Current assets				
Inventories	18	**41.3**	32.1	30.5
Financial assets	15	**9.8**	9.1	8.6
Trade and other receivables	19	**82.7**	58.9	60.2
Prepayments		**27.7**	18.0	13.3
Cash and cash equivalents	20	**381.7**	210.3	216.2
		543.2	328.4	328.8
Property, plant and equipment held for sale	21	**2.3**	0.4	81.7
		545.5	328.8	410.5
Current liabilities				
Borrowings	23	**(210.3)**	(189.9)	(202.0)
Derivative financial instruments	24	**(41.2)**	(28.1)	(9.4)
Trade and other payables	22	**(424.0)**	(294.1)	(256.5)
Off market contract liabilities	25	**(22.4)**	—	—
Income tax payable	10	**(30.3)**	(50.8)	(46.5)
Provisions	26	**(24.7)**	(0.5)	(0.5)
		(752.9)	(563.4)	(514.9)
Non-current liabilities				
Borrowings	23	**(2,219.8)**	(1,389.1)	(1,449.8)
Trade and other payables	22	**(1.5)**	(1.0)	—
Off market contract liabilities	25	**(277.5)**	—	—
Derivative financial instruments	24	**(399.7)**	(208.8)	(163.0)
Deferred tax liabilities	10	**(17.9)**	(57.4)	(72.0)
Post-employment liabilities	9	**(53.6)**	(60.5)	(53.5)
Provisions	26	**(12.7)**	(6.1)	(6.0)
		(2,982.7)	(1,722.9)	(1,744.3)
Total net assets		**1,873.6**	1,028.9	1,062.7
Issued capital and reserves				
Share capital	27	**38.6**	27.5	27.4
Share premium	28	**261.0**	259.3	256.6
Merger reserve	28	**752.0**	—	—
Capital redemption reserve	28	**3.3**	3.3	3.3
Hedging reserve	28	**(182.0)**	(167.0)	(116.0)
Own shares	28	**(0.2)**	(4.9)	(6.3)
Retained earnings		**1,000.9**	910.7	897.7
Total equity		**1,873.6**	1,028.9	1,062.7
Net debt	30	**2,048.4**	1,368.7	1,435.6

Signed on behalf of the board on 28 June 2016

P Yea
Director

R Anand
Director

FINANCIAL STATEMENTS

Group cash flow statement

For the fifty-two weeks ended 1 May 2016

	Note	2016 £m	2015 £m
Operating activities			
Operating profit		**366.3**	212.3
Operating exceptional items	5	**25.9**	43.9
Depreciation	14	**94.9**	62.8
Amortisation	13	**9.8**	—
EBITDA[1]	2	**496.9**	319.0
Working capital and other movements	29	**(75.1)**	4.6
Interest received		**1.5**	0.3
Interest paid		**(132.8)**	(86.0)
Tax paid		**(45.7)**	(40.6)
Net cash flow from operating activities		**244.8**	197.3
Investing activities			
Purchase of property, plant and equipment		**(194.1)**	(160.5)
Advances of trade loans	15	**(4.1)**	(5.5)
Repayment of trade loans	15	**4.8**	7.9
Sales of property, plant and equipment		**82.6**	94.0
Acquisition of subsidiary, net of cash acquired	17	**104.3**	—
Net cash flow from investing activities		**(6.5)**	(64.1)
Financing activities			
Equity dividends paid	11	**(93.3)**	(62.8)
Issue of shares		**1.7**	2.8
Transaction costs for share issue		**(2.1)**	—
Purchase of own shares		**—**	(4.2)
Repayment of borrowings	30	**(44.0)**	(61.1)
Advance of borrowings	30	**65.0**	—
Net cash flow from financing activities		**(72.7)**	(125.3)
Net increase in cash and cash equivalents		**165.6**	7.9
Opening cash and cash equivalents	20	**210.3**	202.4
Closing cash and cash equivalents	20	**375.9**	210.3

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

Group statement of changes in equity

For the fifty-two weeks ended 1 May 2016

	Note	Share capital (note 27) £m	Share premium (note 28) £m	Merger reserve (note 28) £m	Capital redemption reserve (note 28) £m	Hedging reserve (note 28) £m	Own shares (note 28) £m	Retained earnings £m	Total equity £m
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	27	0.1	2.7	—	—	—	—	—	2.8
Release of shares	28	—	—	—	—	—	5.6	(5.6)	—
Repurchase of shares	28	—	—	—	—	—	(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**
Profit for the period		—	—	—	—	—	—	190.9	190.9
Other comprehensive income:									
Actuarial losses on defined benefit pension schemes (net of tax)		—	—	—	—	—	—	(6.0)	(6.0)
Net loss on cash flow hedges (net of tax)		—	—	—	—	(15.0)	—	—	(15.0)
Total comprehensive income		**—**	**—**	**—**	**—**	**(15.0)**	**—**	**184.9**	**169.9**
Issue of ordinary share capital	27	11.1	1.7	752.0	—	—	—	—	764.8
Transaction costs for share issue	17	—	—	—	—	—	—	(2.1)	(2.1)
Release of shares	28	—	—	—	—	—	4.7	(4.7)	—
Share-based payments	8	—	—	—	—	—	—	6.2	6.2
Tax on share-based payments	10	—	—	—	—	—	—	(0.8)	(0.8)
Equity dividends paid	11	—	—	—	—	—	—	(93.3)	(93.3)
At 1 May 2016		**38.6**	**261.0**	**752.0**	**3.3**	**(182.0)**	**(0.2)**	**1,000.9**	**1,873.6**

Notes to the accounts

For the fifty-two weeks ended 1 May 2016

1 Accounting policies

Corporate information

The consolidated financial statements of Greene King plc for the 52 weeks ended 1 May 2016 were authorised for issue by the board of directors on 28 June 2016. 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 1 May 2016 (prior year 52 weeks ended 3 May 2015).

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 parties, Greene King Finance plc and Spirit Issuer plc. Greene King Finance plc and Spirit Issuer plc are structured entities set up to raise bond finance for the group. As Greene King plc has full control over both entities they are fully consolidated. The financial statements of subsidiaries are prepared for the same reporting year end 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. New standards and interpretations which came into force during the year did not have a significant impact on the Group's financial statements.

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. There is no depreciable amount if residual value is the same as, or exceeds, book value. Plant and equipment assets are depreciated over their estimated lives which range from three to 20 years.

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

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

Intangible assets

Operating lease intangibles

The fair value attached to operating leasehold interests on acquisition are deemed to represent lease premiums, and are carried as intangible assets. The operating lease intangible is amortised over the period of the lease.

Brand intangibles

Brand intangible assets recognised on acquisition are amortised on a straight-line basis over their estimated useful lives (15 years).

Business combinations and goodwill

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

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 is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which are deemed to be an asset or a liability is recognised in the income statement. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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

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

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

1 Accounting policies continued

Significant accounting policies continued

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 derecognised when the group no longer controls the contractual rights that comprise the financial instrument, normally through sale or when all cash flows attributable to the instrument are passed to an independent third party.

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 derecognised 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 and other receivables

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

Inventories

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

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Property, plant and equipment held for sale

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

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.

Notes to the accounts continued

For the fifty-two weeks ended 1 May 2016

1 Accounting policies continued

Significant accounting policies continued

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 and the movement is recognised in the income statement unless hedge accounting is adopted. For interest rate swaps where hedge accounting is not applied the fair value movement is analysed between pre-exceptional finance costs and exceptional finance costs. Pre-exceptional finance costs includes cash payments or receipts on the interest rate swaps so as to show the underlying fixed rate on the debt with the remaining fair value movement (which is generally the movement in the carrying value of the swap in the period) reflected as an exceptional item. For derivatives acquired at a non-zero fair value (e.g. on acquisition) the amortisation of the initial fair value is recognised in pre-exceptional finance costs to offset the cash payments or receipts.

Hedge accounting

To qualify for hedge accounting the hedge relationship must be designated and documented at inception. Documentation must include the 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 certain of 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 in Other comprehensive income (OCI), whilst any ineffective portion is recognised immediately in the income statement.

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

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

Off market contract liabilities

Off market contract liabilities are recognised where contracts are at unfavourable terms relative to current market terms on acquisition. For leases where the current rentals are below market terms, the related asset is considered to be included within the residual value of the leasehold pub. For other acquired pubs an off market liability has been calculated as the difference between the present value of future contracted rentals and the present value of future market rate rentals. The liability unwinds against the rental expense so that the income statement charge reflects current market terms.

The off market contract liability is increased by the unwinding of the discount at acquisition (using the effective rate applied in measuring the off market contract liabilities at the date of acquisition) and decreased by utilisation which is unwound against rental expense in the income statement so that the income statement charge reflects current market terms.

Pensions and other post-employment benefits

Defined benefit pension schemes

The group operates three 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 remeasurement gains and losses are recognised in full in the group statement of comprehensive income in the period in which they occur.

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

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

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.

1 Accounting policies continued

Significant accounting policies continued

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 because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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 retained earnings. 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, and rental income, which is recognised on a straight-line basis over the lease term and machine income, where net takings are recognised as earned. The accrued value for rebates payable is included within other payables.

Supplier rebates

Supplier rebates are included within operating profit as they are earned. The accrued value at the reporting date is included within other receivables.

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.

The fair values attached to operating head leasehold interests on acquisitions are deemed to represent lease premiums, and are carried as intangible assets. These operating leases are capitalised at cost and amortised over the period of the lease.

See 'Off market contract liabilities' for the accounting policy where the fair values of operating leases are a liability.

Finance leases

Leases of property, plant and equipment, where the group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are recognised at acquisition at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The asset is then depreciated over the shorter of the estimated useful life of the asset or the lease term. A corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between the finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs.

Merger reserve

The merger reserve represents capital contributions received and amounts recognised on the acquisition of Spirit Pub Company Limited being the difference between the value of the consideration and the nominal value of the shares issued as consideration.

Taxes

Income tax

The income tax charge comprises both the income tax payable based on profits for the year and the deferred income tax. It is calculated using taxation rates enacted or substantively enacted by the balance sheet date and is measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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.

Notes to the accounts continued

For the fifty-two weeks ended 1 May 2016

1 Accounting policies continued

Significant accounting policies continued

Taxes continued

Deferred tax continued

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

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

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

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

Uncertain tax positions

Provision for uncertain tax positions is based on an assessment of the tax treatment of certain transactions. Tax benefits are not recognised unless it is probable that the benefit will be obtained and tax provisions are made if it is probable that a liability will arise. The group reviews its uncertain tax positions each period in order to determine the appropriate accounting treatment.

Exceptional items

The group has elected to classify certain items as exceptional and present them separately on the face of the income statement. Exceptional items are classified as those which are separately identified by virtue of their size, nature or expected frequency, to allow a better understanding of the underlying 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 periods beginning on or after 1 January 2018. The group is currently considering the impact of IFRS 15 on its consolidated results and financial position.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases which requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new standard, IFRS 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as IFRS 16. The group is currently considering the impact of adopting IFRS 16 on its consolidated results and financial position.

Other standards and interpretations that are relevant to the group have been assessed as having no significant 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. Refer to note 10 for further details.

1 Accounting policies continued

Significant accounting judgments and estimates continued

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 and 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 an individual pub 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. See note 26 for details.

Business combinations

For the business combination the assets acquired and liabilities assumed have been valued at fair value. This requires a number of estimates with the details on the fair valuation being disclosed in note 17. Additionally, the goodwill acquired in the business combination was allocated to the operating segments of the group, based on the extent that the benefits of acquisitions flow to those segments (see note 13 for allocation).

2 Segment information

Following the acquisition of Spirit Pub Company on 23 June 2015 the group had five reportable segments that are largely organised and managed separately according to the nature of products and services provided, distribution channels and profile of customers. The segments include the following businesses:

Pub Company: Managed pubs and restaurants (Greene King and Spirit)

Pub Partners: Tenanted and leased pubs (Greene King and Spirit)

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. No aggregation of operating segments has been made.

Following the back-office integration of the Greene King and Spirit businesses from the start of the next financial year, the group has reverted to three reportable segments: Pub Company, Pub Partners and Brewing & Brands.

Segmental information presented in respect of the prior year is for the three Greene King reportable segments.

Notes to the accounts continued

For the fifty-two weeks ended 1 May 2016

2 Segment information continued

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

2016	Pub Company £m	Pub Partners £m	Brewing & Brands £m	Corporate £m	Total operations £m
External revenue					
Greene King	1,051.6	119.4	196.9	—	1,367.9
Spirit	636.6	68.5	—	—	705.1
Total	1,688.2	187.9	196.9	—	2,073.0
Segment operating profit					
Greene King	200.7	55.5	32.7	(25.0)	263.9
Spirit	98.5	29.8	—	—	128.3
Total	299.2	85.3	32.7	(25.0)	392.2
Exceptional items					(25.9)
Net finance costs					(176.5)
Income tax credit					1.1
					190.9
EBITDA[2]					
Greene King	253.4	63.1	37.8	(22.2)	332.1
Spirit	132.6	32.2	—	—	164.8
Total	386.0	95.3	37.8	(22.2)	496.9
Balance sheet					
Segment assets					
Greene King	2,338.2	629.6	384.5	55.8	3,408.1
Spirit	1,452.6	288.1	—	—	1,740.7
Unallocated assets[1]	—	—	—	—	460.4
	3,790.8	917.7	384.5	55.8	5,609.2
Segment liabilities					
Greene King	(73.1)	(12.0)	(84.8)	(168.0)	(337.9)
Spirit	(362.1)	(33.4)	—	(6.0)	(401.5)
Unallocated liabilities[1]	—	—	—	—	(2,996.2)
	(435.2)	(45.4)	(84.8)	(174.0)	(3,735.6)
Net assets	3,355.6	872.3	299.7	(118.2)	1,873.6
Other segment information:					
Capital expenditure					
Additions – Greene King	111.3	15.4	6.3	7.1	140.1
Additions – Spirit	45.9	5.9	—	—	51.8
	157.2	21.3	6.3	7.1	191.9
Depreciation and amortisation					
Greene King	(52.7)	(7.6)	(5.1)	(2.8)	(68.2)
Spirit	(34.1)	(2.4)	—	—	(36.5)
	(86.8)	(10.0)	(5.1)	(2.8)	(104.7)

1. Unallocated assets/liabilities comprise cash, borrowings, pensions, net deferred tax, net current tax, derivatives and VAT provision acquired. Prior year assets and liabilities have been restated for the £33.7m deferred tax liability that has been offset against deferred tax assets as detailed in note 10.
2. EBITDA represents earnings before interest, tax, depreciation, amortisation and exceptional items and is calculated as operating profit before exceptionals adjusted for the depreciation and amortisation charge for the period.

2 Segment information continued

2015	Pub Company £m	Pub Partners £m	Brewing & Brands £m	Corporate £m	Total operations £m
External revenue	1,000.7	121.9	192.7	—	1,315.3
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
EBITDA[2]	239.8	61.6	34.9	(17.3)	319.0
Balance sheet					
Segment assets	2,058.2	608.7	358.7	51.0	3,076.6
Unallocated assets[1]					238.6
	2,058.2	608.7	358.7	51.0	3,315.2
Segment liabilities	(110.0)	(14.1)	(73.7)	(103.9)	(301.7)
Unallocated liabilities[1]					(1,984.6)
	(110.0)	(14.1)	(73.7)	(103.9)	(2,286.3)
Net assets	1,948.2	594.6	285.0	(52.9)	1,028.9
Other segment information:					
Capital expenditure					
Additions	139.4	18.9	4.7	2.6	165.6
Depreciation	(49.0)	(7.6)	(5.1)	(1.1)	(62.8)

1. Unallocated assets/liabilities comprise cash, borrowings, pensions, net deferred tax, net current tax, derivatives and VAT provision acquired. Prior year assets and liabilities have been restated for the £33.7m deferred tax liability that has been offset against deferred tax assets as detailed in note 10.
2. EBITDA represents earnings before interest, tax, depreciation, amortisation and exceptional items and is calculated as operating profit before exceptionals adjusted for the depreciation and amortisation 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:

	2016 £m	2015 £m
Goods	**1,920.6**	1,224.4
Services	**152.4**	90.9
	2,073.0	1,315.3

Revenue from services includes rent receivable from licensed properties of £50.5m (2015: £33.5m).

Notes to the accounts continued

For the fifty-two weeks ended 1 May 2016

4 Operating expenses

Operating profit is stated after charging/(crediting):

	2016			2015		
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Cost of products sold recognised as an expense	**748.7**	**—**	**748.7**	515.2	—	515.2
Employment costs (note 6)	**529.4**	**9.7**	**539.1**	336.8	0.9	337.7
Depreciation of property, plant and equipment (note 14)	**94.9**	**—**	**94.9**	62.8	—	62.8
Amortisation (note 13)	**9.8**	**—**	**9.8**	—	—	—
Operating lease rentals:						
– Minimum lease rentals payable	**71.9**	**—**	**71.9**	17.0	—	17.0
Other operating charges	**226.1**	**39.5**	**265.6**	127.3	43.1	170.4
Net profit on disposal	**—**	**(23.3)**	**(23.3)**	—	(0.1)	(0.1)
	1,680.8	**25.9**	**1,706.7**	1,059.1	43.9	1,103.0

Fees paid to the auditors during the period consisted of:

	2016 £m	2015 £m
Audit of the consolidated financial statements	**0.5**	0.2
Audit of subsidiaries	**0.1**	0.1
Other services relating to acquisition	**—**	1.2
Tax advisory services	**—**	0.1
Included in other operating charges	**0.6**	1.6

Audit of the consolidated financial statements includes additional one-off fees for additional procedures in relation to the acquisition of Spirit.

5 Exceptional items

	2016 £m	2015 £m
Included in operating profit		
Acquisition and integration costs	**17.5**	15.8
Net impairment of property, plant and equipment (note 14)	**32.2**	27.4
Employee costs	**—**	1.5
Share-based payment credit	**—**	(0.6)
Insurance proceeds	**(0.5)**	(0.1)
Net profit on disposal of property, plant and equipment and goodwill	**(23.3)**	(0.1)
	25.9	43.9
Included in financing costs		
Interest on tax adjustment in respect of prior periods	**—**	4.0
Fair value losses on ineffective element of cash flow hedges	**1.3**	2.4
Fair value movements of derivatives held at fair value through profit and loss	**39.1**	—
Interest on VAT provision (note 26)	**0.4**	—
Total exceptional items before tax	**66.7**	50.3
Tax impact of exceptional items	**(11.4)**	(7.0)
Tax credit in respect of the licensed estate	**(33.6)**	(2.3)
Tax credit in respect of rate change	**(4.8)**	—
Adjustment in respect of prior periods – income tax	**(0.5)**	9.5
Adjustment in respect of prior periods – deferred tax	**(0.2)**	(6.6)
Total exceptional tax	**(50.5)**	(6.4)
Total exceptional items after tax	**16.2**	43.9

5 Exceptional items continued

Exceptional operating costs

Acquisition and integration costs are items of one-off expenditure, including legal and professional fees, the costs of dedicated integration project teams and redundancy costs, incurred in connection with the acquisition and integration of Spirit.

During the period to 1 May 2016 the group has recognised a net impairment loss of £32.2m (2015: £27.4m). This is comprised of an impairment charge of £79.5m (2015: £27.4m) and reversal of previously recognised impairment losses of £47.3m (2015: £nil). The impairment charge includes £1.4m in respect of properties damaged by fire in the year. A £4.8m charge has also been recognised in respect of IT assets acquired with Spirit that will not form part of the IT infrastructure post integration. Impairment of £73.3m has been recognised in respect of a small number of pubs and is driven by changes in the local competitive and trading environment at the respective sites, and changes to estimates of fair value less costs of disposal. In addition to this impairment, reversals have been recognised following an improvement in trading performance and an increase in amounts of estimated future cash flows for previously impaired sites or increases to fair value less costs of disposal.

In the period, the group received further insurance compensation to meet the costs of restoring sites fire damaged in a previous period totalling £0.5m (2015: £0.1m).

The net profit on disposal of property, plant and equipment and goodwill of £23.3m (2015: £0.1m profit) comprises a total profit on disposal of £50.1m (2015: £10.2m) and a total loss on disposal of £26.8m (2015: £10.1m). The net profit on disposal is made up of the following segments: Pub Company – Greene King £2.7m profit, Pub Partners – Greene King £17.5m profit, Pub Company – Spirit £0.5m loss, Pub Partners – Spirit £0.9m loss and Corporate £4.5m profit.

In the prior period the group incurred £1.5m of exceptional employee costs, which included restructuring costs and costs associated with changes to key management. In addition a share-based payment credit of £0.6m was recognised which resulted from the reversal of charges recognised in earlier years following a reassessment of expected scheme performance.

Exceptional finance costs

The £1.3m fair value loss (2015: £2.4m loss) is the mark-to-market movement on the ineffective element of cash flow hedges resulting from changes in the LIBOR yield curve (note 24).

During the period the group acquired as part of the business combination derivatives that are subsequently accounted for at fair value through profit and loss as opposed to existing derivatives which are designated in hedge relationships. The exceptional charge relates to the mark-to-market movement on these derivatives, excluding amortisation of the fair value on acquisition which reduces the pre-exceptional finance costs that include the interest paid (note 24).

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 (No.2) Act 2015 reduced the rate of corporation tax from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020. These rate reductions were substantively enacted at the balance sheet date and are therefore included in these accounts. The net deferred tax asset has been calculated using the rates at which each temporary difference is expected to reverse. The effect of these rate reductions is to reduce the deferred tax provision by a net £2.7m comprising a credit to the income statement of £4.8m and a debit to the group statement of comprehensive income and equity of £7.5m.

The adjustment in respect of prior periods' income tax in 2015 arises from finalising the tax returns for earlier periods including the reversal of tax relief previously taken on intra-group transactions. On 6 June 2016 a formal agreement was reached on a number of historical tax positions, in respect of which £9m remains payable, excluding Sussex which will be heard by the Court of Appeal on 4 July 2016.

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. During the period the group recognised a deferred tax credit of £26.8m in relation to revaluation and rolled over gains on the licensed estate following correspondence with HMRC which clarified the treatment of certain judgmental items that led to a change in the group's estimation of base cost.

6 Employment costs

	2016			2015		
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Wages and salaries	**484.5**	**9.7**	**494.2**	307.4	1.5	308.9
Other share-based payments (note 8)	**6.2**	**—**	**6.2**	3.7	(0.6)	3.1
Total wages and salaries	**490.7**	**9.7**	**500.4**	311.1	0.9	312.0
Social security costs	**32.0**	**—**	**32.0**	21.1	—	21.1
Other pension costs (note 9):						
– Defined contribution	**6.7**	**—**	**6.7**	4.6	—	4.6
	529.4	**9.7**	**539.1**	336.8	0.9	337.7

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

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

	2016	2015
Pub Company	**39,587**	22,709
Pub Partners	**50**	56
Brewing & Brands	**806**	875
Corporate	**1,043**	485
	41,486	24,125

The figures above include 20,638 (2015: 15,256) part-time employees.

Details of directors' emoluments are shown in the directors' remuneration report on pages 59 to 64.

Notes to the accounts continued

For the fifty-two weeks ended 1 May 2016

7 Finance (costs)/income

	2016			2015		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Bank loans and overdrafts	**(10.7)**	**—**	**(10.7)**	(10.6)	—	(10.6)
Other loans including recycling of cash flow hedge reserve	**(112.4)**	**—**	**(112.4)**	(76.2)	—	(76.2)
Ineffective element of cash flow hedges	**1.6**	**(1.3)**	**0.3**	1.6	(2.4)	(0.8)
Derivatives held at fair value through profit and loss	**—**	**(39.1)**	**(39.1)**	—	—	—
Interest on tax adjustment in respect of prior period	**—**	**—**	**—**	—	(4.0)	(4.0)
Interest on tax provisions	**(1.2)**	**—**	**(1.2)**	(0.4)	—	(0.4)
Interest on exceptional VAT provision	**—**	**(0.4)**	**(0.4)**	—	—	—
Unwinding of discount element of provisions and off market contract liabilities	**(12.6)**	**—**	**(12.6)**	(0.4)	—	(0.4)
Net finance cost from pensions	**(1.9)**	**—**	**(1.9)**	(2.0)	—	(2.0)
Total finance costs	**(137.2)**	**(40.8)**	**(178.0)**	(88.0)	(6.4)	(94.4)
Bank interest receivable	**1.5**	**—**	**1.5**	0.3	—	0.3
Total finance income	**1.5**	**—**	**1.5**	0.3	—	0.3
Net finance costs	**(135.7)**	**(40.8)**	**(176.5)**	(87.7)	(6.4)	(94.1)

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 scheme (ESOS) have also been operated.

The general terms of the LTIP/Growth LTIP are detailed in the directors' remuneration report on pages 59 to 64. All are equity settled.

The total charge recognised for the period arising from share-based payment transactions including National Insurance contributions is £7.1m (2015: £3.4m). A corresponding credit of £6.2m (2015: £3.1m) has been recognised in equity. The increase is due to a change in estimate on the expected result of performance conditions.

The fair value of the LTIP/Growth LTIP issued since 2015 is considered to be equal to the share price on the date of issue. For 2016 issue the fair value was 8.63p (2015: 8.40p) per share option. Future dividend payments have not been factored into the valuation as participants are entitled to dividend payments. The fair value of previously issued LTIPs were estimated using the Black-Scholes model.

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

	2016 SAYE	2015 SAYE
Weighted average share price	**870p**	857p
Exercise price	**726p**	590p
Expected dividend yield	**3.9%**	3.6%
Risk-free rate of return	**0.6%**	0.7%
Volatility	**21.2%**	20.1%
Expected life (years)	**3.3**	3.3
Weighted average fair value of grants in the year	**140p**	215p

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

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

8 Share-based payment plans continued

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

ESOS

	Number of options		Weighted average exercise price	
	2016 m	2015 m	**2016 p**	2015 p
Outstanding at the beginning of the period	**0.1**	0.3	**528**	506
Exercised	**(0.1)**	(0.2)	**528**	500
Outstanding at the end of the period	**—**	0.1	**528**	528
Exercisable at the end of the period	**—**	0.1	**—**	528

SAYE

	Number of options		Weighted average exercise price	
	2016 m	2015 m	**2016 p**	2015 p
Outstanding at the beginning of the period	**1.9**	1.6	**570**	502
Granted	**1.0**	1.1	**726**	590
Forfeited	**(0.3)**	(0.3)	**603**	586
Exercised	**(0.3)**	(0.5)	**462**	375
Outstanding at the end of the period	**2.3**	1.9	**645**	570
Exercisable at the end of the period	**0.2**	0.2	**453**	378

LTIP

	Number of shares	
	2016 m	2015 m
Outstanding at the beginning of the period	**2.1**	2.5
Granted	**1.0**	0.7
Forfeited	**(0.2)**	(0.3)
Vested	**(0.7)**	(0.8)
Outstanding at the end of the period	**2.2**	2.1
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 (2015: £nil).

ESOS, SAYE and LTIP

Options were exercised on a range of dates. The weighted average share price through the period was 856p in 2016 and 809p in 2015.

The rights outstanding at 1 May 2016 under the LTIP had an exercise price of £nil (2015: £nil) and a weighted average remaining contractual life of 1.4 years (2015: 1.3 years).

The outstanding options for the SAYE scheme had an exercise price of between 368p and 726p (2015: 349p and 701p) and the weighted average remaining contractual life was 3.4 years (2015: 3.4 years).

In the prior year outstanding options for the ESOS scheme had an exercise price of 528p and a weighted average remaining contractual life of 0.3 years.

9 Pensions

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

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

Defined contribution pension schemes

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 £6.7m (2015: £4.6m).

Notes to the accounts continued

For the fifty-two weeks ended 1 May 2016

9 Pensions continued

Defined benefit pension schemes and post-employment benefits

The group maintains the following defined benefit schemes which are closed to new entrants and are closed to future accrual. Only administrative costs are incurred going forward. All schemes have had full actuarial valuations in the last three years: Greene King Pension Scheme (last valued as at April 2015), Belhaven Pension Scheme (last valued May 2014) and Spirit (Legacy) Scheme (last valued April 2015).

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 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 significant increase in equities and bonds is due to the acquisition of Spirit. The majority of the bonds relate to UK government and corporate bonds.

The total cost recognised in the income statement was:

	Pension schemes		Post-employment benefits	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Administrative costs	**2.1**	—	**—**	—
Total recognised in operating profit	**2.1**	—	**—**	—
Interest on pension scheme assets	**26.5**	12.0	**—**	—
Interest on scheme liabilities	**(28.4)**	(14.0)	**—**	—
Net interest on net defined liability	**(1.9)**	(2.0)	**—**	—

The values of the schemes' liabilities have been determined by a qualified actuary based on the results of the last actuarial valuation, updated to 1 May 2016 using the following principal actuarial assumptions:

	2016	2015
Discount rate	**3.4%**	3.4%
Expected pension payment increases	**3.4%**	3.2%
Rate of inflation (RPI)	**3.3%**	3.3%
Rate of inflation (CPI)	**2.3%**	2.3%
The mortality assumptions imply the following expectations of years of life from age 65:		
Man currently aged 40	**24.4**	24.5
Woman currently aged 40	**26.5**	26.7
Man currently aged 65	**22.2**	22.3
Woman currently aged 65	**24.2**	24.4

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	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Investment quoted in active markets:				
Equities	**366.6**	257.0	**—**	—
With profits	**3.1**	3.0	**—**	—
Bonds	**370.2**	62.7	**—**	—
Annuities	**1.5**	—	**—**	—
Unquoted investments:				
Property	**48.0**	—	**—**	—
Cash	**11.8**	1.7	**—**	—
Total fair value of assets	**801.2**	324.4	**—**	—
Present value of scheme liabilities:				
– Funded plans	**(853.5)**	(383.6)	**—**	—
– Unfunded plans	**—**	—	**(1.3)**	(1.3)
Non-current liability recognised	**(52.3)**	(59.2)	**(1.3)**	(1.3)

9 Pensions continued

Defined benefit pension schemes and post-employment benefits continued

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

	Pension assets		Pension liabilities		Net pension liability	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
At beginning of period	**324.4**	295.5	**(383.6)**	(347.7)	**(59.2)**	(52.2)
Net acquisition (note 17)	**480.4**	—	**(477.5)**	—	**2.9**	—
Pension costs charged to income statement						
Administrative costs	**(2.1)**	—	**—**	—	**(2.1)**	—
Net interest	**26.5**	12.0	**(28.4)**	(14.0)	**(1.9)**	(2.0)
	24.4	12.0	**(28.4)**	(14.0)	**(4.0)**	(2.0)
Benefits paid	**(35.7)**	(10.6)	**35.7**	10.6	**—**	—
Remeasurement (losses)/gains in other comprehensive income						
Return on plan assets (excluding amounts included in net interest expenses)	**(4.8)**	20.6	**—**	—	**(4.8)**	20.6
Actuarial changes arising from changes in demographic assumptions	**—**	—	**5.1**	2.1	**5.1**	2.1
Actuarial changes arising from changes in financial assumptions	**—**	—	**(19.9)**	(35.0)	**(19.9)**	(35.0)
Experience adjustments	**—**	—	**15.1**	0.4	**15.1**	0.4
	(4.8)	20.6	**0.3**	(32.5)	**(4.5)**	(11.9)
Contributions paid – employers	**12.5**	6.9	**—**	—	**12.5**	6.9
Contributions paid – employees	**—**	—	**—**	—	**—**	—
At end of period	**801.2**	324.4	**(853.5)**	(383.6)	**(52.3)**	(59.2)

Contributions on the Spirit pension scheme stopped in 2016 therefore expected future contributions have reduced accordingly.

	Post-employment benefits liability	
	2016 £m	2015 £m
At beginning and end of period	**(1.3)**	(1.3)

The sensitivities regarding the principal assumptions assessed in isolation that have been used to measure the scheme liabilities are set out below:

	Decrease/(increase) in liability	
	2016 £m	2015 £m
0.25%pts increase in discount rate	**37.1**	16.8
0.25%pts increase in inflation assumption	**(29.6)**	(13.8)
Additional one year increase to life expectancy	**(27.1)**	(12.5)

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

	2016 £m	2015 £m
Within 1 year	**3.3**	6.9
Between 2 and 5 years	**13.1**	27.5
Between 5 and 10 years	**12.4**	17.4
	28.8	51.8

The average duration of the defined benefit plan obligation at the end of the reporting period is 18 years (2015: 18 years).

Notes to the accounts continued

For the fifty-two weeks ended 1 May 2016

10 Taxation

Consolidated income statement	2016 Before exceptional items £m	2016 Exceptional items £m	2016 Total £m	2015 Before exceptional items £m	2015 Exceptional items £m	2015 Total £m
Income tax						
Corporation tax before exceptional items	**32.6**	**—**	**32.6**	38.5	—	38.5
Recoverable on exceptional items	**—**	**(3.2)**	**(3.2)**	—	(1.2)	(1.2)
Current income tax	**32.6**	**(3.2)**	**29.4**	38.5	(1.2)	37.3
Adjustment in respect of prior periods	**(1.0)**	**(0.5)**	**(1.5)**	—	9.5	9.5
	31.6	**(3.7)**	**27.9**	38.5	8.3	46.8
Deferred tax						
Origination and reversal of temporary differences	**17.3**	**(41.8)**	**(24.5)**	(3.2)	(8.1)	(11.3)
Adjustment in respect of prior periods	**0.5**	**(0.2)**	**0.3**	—	(6.6)	(6.6)
Tax credit in respect of rate change	**—**	**(4.8)**	**(4.8)**	—	—	—
	17.8	**(46.8)**	**(29.0)**	(3.2)	(14.7)	(17.9)
Tax charge/(credit) in the income statement	**49.4**	**(50.5)**	**(1.1)**	35.3	(6.4)	28.9

Group statement of comprehensive income	2016 £m	2015 £m
Deferred tax		
Loss on actuarial valuation of pension liability	**(0.8)**	(2.4)
Net loss on revaluation of cash flow hedges	**(2.3)**	(12.7)
Tax charge in respect of rate change	**7.1**	—
	4.0	(15.1)

Group statement of changes in equity	2016 £m	2015 £m
Deferred tax		
Share-based payment – future taxable benefit	**3.4**	3.4
Tax charge in respect of rate change	**0.4**	—
Deferred tax reported in equity	**3.8**	3.4
Income tax		
Share-based payments – current taxable benefit	**(3.0)**	(1.9)
Total tax reported in equity	**0.8**	1.5

Reconciliation of income tax expense for period

The effective rate of taxation is lower (2015: higher) than the full rate of corporation tax. The differences are explained below:

	2016 £m	2015 £m
Profit before tax	**189.8**	118.2
Profit before tax multiplied by the standard rate of corporation tax of 20.0% (2015: 20.9%)	**38.0**	24.7
Effects of:		
– Expenses not deductible for tax purposes	**0.5**	3.6
– Exceptional deferred tax credit in respect of licensed estate	**(33.6)**	(2.3)
– Exceptional tax credit in respect of rate change	**(4.8)**	—
– Adjustment in respect of prior periods – income tax	**(1.5)**	9.5
– Adjustment in respect of prior periods – deferred tax	**0.3**	(6.6)
Income tax (credit)/expense reported in the income statement	**(1.1)**	28.9

Income tax payable

The income tax liability of £30.3m (2015: £50.8m) includes an assessment of the expected liabilities in respect of uncertain tax positions of £10.5m (2015: £31.6m) which have yet to be agreed or are in dispute with HMRC. On 6 June 2016 a formal agreement was reached on a number of historical tax positions, in respect of which £9m remains payable at the year end, excluding Sussex which will be heard by the Court of Appeal on 4 July 2016.

10 Taxation continued

Deferred tax

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

	2016 £m	2015 £m
Deferred tax liability		
Accelerated capital allowances	**30.8**	33.7
Rolled over gains and property revaluation	**29.6**	63.8
Operating leases	**28.7**	—
Other temporary differences	**8.7**	—
	97.8	97.5
Deferred tax asset		
Post-employment liabilities	**(9.7)**	(12.1)
Other temporary differences	**(0.1)**	(0.9)
Derivative financial instruments	**(79.4)**	(47.1)
Share-based payment	**(1.5)**	(1.9)
Off market contract liabilities	**(53.7)**	—
Capital losses carried forward	**(11.7)**	(6.4)
Trading losses carried forward	**(2.5)**	—
	(158.6)	(68.4)
Net deferred tax (asset)/liability	**(60.8)**	29.1

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

	1 May 2016 £m	3 May 2015 £m
Deferred tax liability	**17.9**	57.4
Deferred tax asset	**(78.7)**	(28.3)
Net deferred tax (asset)/liability	**(60.8)**	29.1

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

	2016			2015		
	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	**3.6**	**(4.0)**	**(0.4)**	(3.5)	(0.8)	(4.3)
Rolled over gains and property revaluations	**—**	**(47.6)**	**(47.6)**	—	(14.6)	(14.6)
Operating leases	**(1.6)**	**(3.4)**	**(5.0)**	—	—	—
Post-employment liabilities	**1.5**	**(1.2)**	**0.3**	0.9	—	0.9
Other temporary differences	**0.8**	**(1.5)**	**(0.7)**	—	1.2	1.2
Derivative financial instruments	**2.2**	**(4.0)**	**(1.8)**	—	(0.5)	(0.5)
Share-based payments	**(1.7)**	**0.4**	**(1.3)**	(0.6)	—	(0.6)
Off market contract liabilities	**2.5**	**6.3**	**8.8**	—	—	—
Capital losses carried forward	**—**	**8.2**	**8.2**	—	—	—
Tax losses carried forward	**10.5**	**—**	**10.5**	—	—	—
Deferred tax credit/(expense)	**17.8**	**(46.8)**	**(29.0)**	(3.2)	(14.7)	(17.9)

Notes to the accounts continued

For the fifty-two weeks ended 1 May 2016

10 Taxation continued

Deferred tax continued

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	Operating leases £m	Other temporary differences £m	Total £m
At 4 May 2014	38.0	80.8	—	—	118.8
Credit to the income statement	(4.3)	(17.0)	—	—	(21.3)
At 3 May 2015	33.7	63.8	—	—	97.5
Credit to the income statement	(0.4)	(47.6)	(5.0)	(1.6)	(54.6)
Acquired (note 17)	(2.5)	13.4	33.7	10.3	54.9
At 1 May 2016	**30.8**	**29.6**	**28.7**	**8.7**	**97.8**

Deferred tax assets	Post-employment liabilities £m	Other temporary differences £m	Derivatives £m	Share-based payments £m	Off market contract liability £m	Capital losses carried forward £m	Trading losses carried forward £m	Total £m
At 4 May 2014	(10.6)	(2.1)	(33.9)	(4.7)	—	(8.8)	—	(60.1)
(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)	—	2.4	—	3.4
At 3 May 2015	(12.1)	(0.9)	(47.1)	(1.9)	—	(6.4)	—	(68.4)
Charge to equity/comprehensive income	1.5	—	2.5	3.8	—	—	—	7.8
Charge/(credit) to the income statement	0.3	0.9	(1.8)	(1.3)	8.8	8.2	10.5	25.6
Acquired (note 17)	0.6	—	(33.0)	(2.2)	(62.5)	(13.5)	(13.0)	(123.6)
At 1 May 2016	**(9.7)**	**—**	**(79.4)**	**(1.6)**	**(53.7)**	**(11.7)**	**(2.5)**	**(158.6)**

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

At 1 May 2016, the group had unused trading losses of £12.6m (2015: £nil) and unused capital losses of £815.5m (2015: £32.0m). A deferred tax asset of £2.5m (2015: £nil) has been recognised in respect of trading losses and a deferred tax asset of £11.7m (2015: £6.4m) in respect of capital losses where tax losses are expected to be utilised against future profits and gains. Current legislation allows all of the group's tax losses to be carried forward for an unlimited period.

Prior year restatement

The comparatives have been restated to reflect the netting of deferred tax assets and liabilities, as in the current year, the net impact being that a £33.7m (2014: £38.0m) deferred tax liability has been offset against deferred tax assets.

Factors that may affect future tax charges

The Finance Act (No.2) Act 2015 reduced the rate of corporation tax from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020. These rate reductions were substantively enacted at the balance sheet date and are therefore included in these accounts. The net deferred tax asset has been calculated using the rates at which each temporary difference is expected to reverse. The effect of these rate reductions is to reduce the net deferred tax asset by a net £2.7m comprising a credit to the income statement of £4.8m and a debit to the group statement of comprehensive income and equity of £7.5m (as explained in note 5).

In addition the Finance Bill 2016 further reduces the rate of corporation tax to 17% from 1 April 2020. This further reduction had not been substantively enacted at the balance sheet date so is not included in these accounts. However, it will further reduce the net deferred tax asset at the balance sheet date by £3.0m and the group's income tax charge in future periods.

11 Dividends paid and proposed

	2016 £m	2015 £m
Declared and paid in the period		
Interim dividend for 2016 – 8.45p (2015: 7.95p)	**26.2**	17.4
Final dividend for 2015 – 21.8p (2014: 20.8p)	**67.1**	45.4
	93.3	62.8
Proposed for approval at AGM		
Final dividend for 2016 – 23.60p (2015: 21.8p)	**73.0**	67.1
Total proposed dividend for 2016 – 32.05p (2015: 29.75p)	**99.2**	84.5

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 £190.9m (2015: £89.3m) by the weighted average number of shares in issue during the period of 296.2m (2015: 218.3m).

Diluted earnings per share has been calculated on a similar basis taking account of 1.6m (2015: 1.6m) dilutive potential shares under option, giving a weighted average number of ordinary shares adjusted for the effect of dilution of 297.8m (2015: 219.9m). There were no (2015: nil) anti-dilutive share options excluded from the diluted earnings per share calculation. The performance conditions for share options granted over 1.6m (2015: 1.5m) 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	**2016 £m**	2015 £m	**2016 p**	2015 p	**2016 p**	2015 p
Profit attributable to equity holders	**190.9**	89.3	**64.4**	40.9	**64.1**	40.6
Exceptional items	**16.2**	43.9	**5.5**	20.1	**5.4**	20.0
Profit attributable to equity holders before exceptional items	**207.1**	133.2	**69.9**	61.0	**69.5**	60.6

13 Goodwill and other intangible assets

	Brand intangibles £m	Operating lease intangible £m	Total other intangibles £m	Goodwill £m
Cost				
At 4 May 2014	—	—	—	703.8
Disposal	—	—	—	(2.9)
At 3 May 2015	—	—	—	700.9
Disposal	—	—	—	(13.0)
Acquisitions (note 17)	16.1	168.3	184.4	434.0
At 1 May 2016	**16.1**	**168.3**	**184.4**	**1,121.9**
Impairment and amortisation				
At 4 May 2014 and 3 May 2015	—	—	—	—
Amortisation	(0.9)	(8.9)	(9.8)	—
At 3 May 2015 and 1 May 2016	**(0.9)**	**(8.9)**	**(9.8)**	**—**
Net book value				
At 1 May 2016	**15.2**	**159.4**	**174.6**	**1,121.9**
At 3 May 2015	—	—	—	700.9
At 4 May 2014	—	—	—	703.8

Other intangibles consists of Brand intangibles and Operating lease intangibles both recognised as part of the acquisition made during the year (see note 17). Brand intangibles are amortised over the expected life of the asset (15 years). Operating lease intangibles are amortised on a straight-line basis over the length of the lease with a weighted average useful life of 26 years.

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

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

The carrying amount of goodwill is allocated as follows:

	2016 £m	2015 £m
Pub Company – Greene King	**566.3**	352.7
Pub Company – Spirit	**133.6**	—
Pub Partners – Greene King	**169.5**	133.7
Pub Partners – Spirit	**17.6**	—
Brewing & Brands	**234.9**	214.5
	1,121.9	700.9

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.

Notes to the accounts continued

For the fifty-two weeks ended 1 May 2016

13 Goodwill and other intangible assets continued

Goodwill disposed of in the year:

	2016 £m	2015 £m
Pub Company – Greene King	**4.3**	0.8
Pub Partners – Greene King	**8.7**	2.1
	13.0	2.9

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.

Cash flows are discounted at 8.65% (2015: 9.0%), which is used as an approximation for the risk-adjusted discount rate of the relevant operating segment. As risk factors are considered to be similar in each of the group's operating segments the same level of discount rate is applied to all. A growth rate of 1.75% in Pub Company (2015: 1.00%), 2.50% in Pub Partners (2015: 1.00%) and 1.00% in Brewing & Brands (2015: 1.00%) has been used to extrapolate cash flows. The growth rate is below the long-term average growth rate for the operating segments 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 reasonably possible changes in assumptions would be an increase in discount of 1%pt, a reduction in growth rate of 1%pt or a 10% reduction in budgeted cash flow. As an indication of sensitivity, when applied to the value-in-use calculation in isolation or individually neither a 1% reduction in growth rate, a 10% reduction in budgeted cash flow, nor a 1% increase in the discount rate would have resulted in an impairment of goodwill in the period. In the prior year a 1% increase in the discount rate would have resulted in an impairment of £4.6m 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 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
Additions during period	96.6	92.7	(0.2)	2.8	191.9
Acquisitions (note 17)	1,265.0	142.7	5.7	—	1,413.4
Transfer to property, plant and equipment held for sale	(2.6)	—	—	—	(2.6)
Disposals during period	(45.8)	(11.2)	(1.0)	(0.4)	(58.4)
Balances at 1 May 2016	**3,443.5**	**905.5**	**70.6**	**132.7**	**4,552.3**
Depreciation and impairment					
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
Provided during the year	2.0	86.6	1.8	4.5	94.9
Written back on disposals	(10.8)	(7.3)	(0.2)	(0.1)	(18.4)
Impairment (see below)	74.7	—	—	4.8	79.5
Impairment reversal (see below)	(47.3)	—	—	—	(47.3)
Transfer to property, plant and equipment held for sale	(0.3)	—	—	—	(0.3)
Balances at 1 May 2016	**196.8**	**575.6**	**16.5**	**92.1**	**881.0**
Net book value					
At 1 May 2016	**3,246.7**	**329.9**	**54.1**	**40.6**	**3,671.3**
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

14 Property, plant and equipment continued

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:

	2016 £m	2015 £m
Freehold properties	**3,171.9**	1,895.9
Leasehold properties >50 years unexpired term	**75.6**	64.7
Leasehold properties <50 years unexpired term	**53.3**	42.4
	3,300.8	2,003.0

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 £1,446.2m (2015: £1,425.2m) and £1,519.1m (2015: £nil) over which there is a first charge in favour of the securitised debt holders of the Greene King secured financing vehicle and the Spirit secured financing vehicle respectively. See details in note 23.

Assets held under finance leases

The group leases various licensed properties, offices and other commercial properties and other assets under finance leases. The leases have various terms, escalation clauses and renewal rights. Included in property, plant and equipment above are properties held under finance leases with a net book value of £22.3m (2015: £nil).

Disposals

Disposals includes properties sold during the year, some of which were required in order to complete the acquisition.

Future capital expenditure

	2016 £m	2015 £m
Contracted for	**7.6**	7.0

Impairment of property, plant and equipment

During the period to 1 May 2016 the group has recognised a net impairment loss of £32.2m (2015: £27.4m). This is comprised of an impairment charge of £79.5m (2015: £27.4m) and reversal of previously recognised impairment losses of £47.3m (2015: £nil). The recoverable amount for assets impaired was based on value in use of £25.2m and fair value less cost of disposal of £47.3m. The recoverable amount for assets with impairment reversal was based on value in use of £43.0m and fair value less cost of disposal of £4.6m.

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

	2016			2015		
	Impairment £m	Reversal of impairment £m	Net impairment £m	Impairment £m	Reversal of impairment £m	Net impairment £m
Pub Company – Greene King	**56.6**	**(33.5)**	**23.1**	21.1	—	21.1
Pub Partners – Greene King	**17.4**	**(13.8)**	**3.6**	6.3	—	6.3
Corporate	**5.5**	**—**	**5.5**	—	—	—
	79.5	**(47.3)**	**32.2**	27.4	—	27.4

The group considers that each of its individual pubs is a cash-generating unit (CGU). Each CGU is reviewed annually for indicators of impairment. When indicators of impairment are identified the carrying value of the CGU is compared to its recoverable amount. The recoverable amount is the higher of the CGU's fair value less costs of disposal and its value-in-use.

The group estimates value-in-use using a discounted cash flow model. The key assumptions used are expected cash flow projections for the next year, the discount rate applied to those cash flows of 8.65% (2015: 9.00%) and the projected cash flows extrapolated using an average growth rate of 1.75% in Pub Company (2015: 1.00%) and 2.50% in Pub Partners (2015: 1.00%) which are below the long-term average growth rate for the operating segments and reflect trends in trading performance. As risk factors are considered to be similar in each of the group's operating segments the same level of discount rate is applied to all.

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 an external valuation with the latest valuation being performed in 2015/2016. 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 24.

Notes to the accounts continued

For the fifty-two weeks ended 1 May 2016

14 Property, plant and equipment continued

Impairment of property, plant and equipment continued

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 impairment reversals have been recognised following an improvement in trading performance and an increase in amounts of estimated future cash flows for previously impaired sites.

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 net impact on the impairment charge of applying different assumptions to fair values, the growth rates used to calculate cash flow projections and the pre-tax discount rates would be as follows:

Increased net impairment resulting from:

	a 10% reduction in fair value less cost of disposal		a 1% increase in discount rate		a 1% reduction in growth rate	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Pub Company	**9.8**	10.5	**11.7**	5.0	**11.7**	5.0
Pub Partners	**2.2**	2.3	**3.1**	1.0	**3.1**	1.0
	12.0	12.8	**14.8**	6.0	**14.8**	6.0

No impairment was recognised in relation to the Spirit estate and as such the above sensitivities only include the Greene King estate.

15 Financial assets

	2016 £m	2015 £m
Trade loans (net of provision)	**9.8**	9.1
Total current	**9.8**	9.1
Trade loans (net of provision)	**16.3**	20.8
Other financial assets	**0.5**	0.5
Total non current	**16.8**	21.3

Trade loans are net of provisions of £5.1m (2015: £4.1m). During the year £0.3m (2015: £0.2m) of the provision was utilised and £1.3m (2015: £0.2m) of new provision was created. All trade loans that are neither past due nor impaired are expected to be fully recoverable. All significant overdue balances are fully provided for.

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 £19.2m (2015: £20.7m) and variable rate trade loans amounted to £12.0m (2015: £13.3m). Included in fixed rate loans are £16.4m of loans with settlement related to purchase levels (2015: £17.5m). 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 0.50% (2015: 0.64%) and a weighted average period of 3.93 years (2015: 4.55 years). Interest rates on variable rate trade loans are linked to base rate.

Trade loans (net of provision)	**2016 £m**	2015 £m
Balance at beginning of period	**29.9**	32.3
Advances	**4.1**	5.5
Repayments and amortisation	**(6.9)**	(7.9)
Provisions	**(1.0)**	—
Balance at end of period	**26.0**	29.9

16 Subsidiary undertakings

The subsidiary undertakings are:

Subsidiary undertakings	Principal activity	Country of incorporation	Held by	Holding	Proportion of voting rights and ownership
Directly held by Greene King plc					
Beards of Sussex Limited	Financing	England & Wales	Parent	Ordinary shares	100%
Greene King Debt Acquisitions Limited	Financing	England & Wales	Parent	Ordinary shares	100%
Greene King Developments Limited	Property	England & Wales	Parent	Ordinary shares	100%
Greene King EBT Investment (Jersey) Limited	Holding company	Jersey	Parent	Ordinary shares	100%
Greene King GP Limited	Dormant	England & Wales	Parent	Ordinary shares	100%
Greene King Investments Limited	Holding company	England & Wales	Parent	Ordinary shares	100%
Greene King Pension Scheme Limited	Pension trustee	England & Wales	Parent	Ordinary shares	100%
Greene King Properties Limited	Property	England & Wales	Parent	Ordinary shares	100%
Greene King Pubs Limited	Property	England & Wales	Parent	Ordinary shares	100%
Greene King Retailing Parent Limited	Holding company	England & Wales	Parent	Ordinary shares	100%
Morrells of Oxford Limited	Financing	England & Wales	Parent	Ordinary shares	100%
Norman Limited	Holding company	Channel Islands	Parent	Ordinary shares	100%
Realpubs Limited	Financing	England & Wales	Parent	Ordinary shares	100%
Rushmere Sports Club Limited	Financing	England & Wales	Parent	Ordinary shares	100%
Spirit Pub Company Limited	Holding company	England & Wales	Parent	Ordinary shares	100%
The Capital Pub Company Limited	Holding company	England & Wales	Parent	Ordinary shares	100%
Indirectly held by Greene King plc					
Allied Kunick Entertainments Limited	Property	England & Wales	Subsidiary	Ordinary shares	100%
Ashes Investment LP	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Aspect Leisure Activities Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Aspect Ventures Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
AVL (Pubs) No.1 Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
AVL (Pubs) No.2 Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Barnaby's Carvery Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Barshelf 2 Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Belhaven Brewery Company Limited	Financing	Scotland	Subsidiary	Ordinary shares	100%
Belhaven Finance Limited	Financing	Scotland	Subsidiary	Ordinary shares	100%
Belhaven Group Properties Limited	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Belhaven Pubs Limited	Financing	Scotland	Subsidiary	Ordinary shares	100%
Capital Pub Company Trading Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
				Preference shares	100%
Catertour Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Chef & Brewer Hotels Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Chef & Brewer Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Cheshire Hotels (Developments) Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Cheshire Hotels Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
				Preference shares	100%
City Limits Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Cleveland Place Holdings Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Cloverleaf Restaurants Limited	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Country Fayre Restaurants Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Country Grill Restaurants Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
CPH (R&L) No.1 Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
CPH (R&L) No.2 Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
CPH Palladium Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Dearg Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Freehouse Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Freshwild Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
G.K. Holdings No.1 Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Acquisitions (No.3) Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Acquisitions No.2 Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Brewing and Retailing Limited	Brewing and retailing	England & Wales	Subsidiary	Ordinary shares	100%

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For the fifty-two weeks ended 1 May 2016

16 Subsidiary undertakings continued

Subsidiary undertakings	Principal activity	Country of incorporation	Held by	Holding	Proportion of voting rights and ownership
Greene King Leasing No.1 Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Leasing No.2 Limited	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Neighbourhood Estate Pubs Limited	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Retail Services Limited	Employment	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Retailing Limited	Pub retailing	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Services Limited	Employment	England & Wales	Subsidiary	Ordinary shares	100%
Hardys & Hansons Limited	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Homespreads Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Huggins and Company Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
John Barras & Co Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
LFR Group Limited	Financing	Scotland	Subsidiary	Ordinary shares	100%
Little London Pubs Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
London Pub-Restaurants Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
London Tourist Pubs Limited	Non-trading	England & Wales	Subsidiary	4.9% cumulative preference shares	100%
				4.2% cumulative preference shares	100%
				Ordinary shares	100%
				Employee shares	100%
Mountloop Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Narnain	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
New Pubco Holdings Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Old English Inns Limited	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Open House Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Partstripe Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Premium Casual Dining Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Premium Dining Restaurants and Pubs Limited	Retailing	Scotland	Subsidiary	Ordinary shares	100%
R.V. Goodhew Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
				Deferred ordinary shares	100%
Readystripe Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Realpubs Developments Limited	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Realpubs II Limited	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Sapphire Food North East No.1 Limited	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Sapphire Food North West No.3 Limited	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Sapphire Food South East No.4 Limited	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Sapphire Food South West No.2 Limited	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Sapphire Rural Destinations No.5 Limited	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Schooner Inns Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Southern Inns Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Spirit (AKE Holdings) Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit (BRB) Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit (CCR) Limited	Non-trading	England & Wales	Subsidiary	7% cumulative preference shares	100%
				Ordinary shares	100%
Spirit (Faith) Limited	Property	England & Wales	Subsidiary	Ordinary shares	100%
Spirit (Legacy) Pension Trustee Limited	Pension trustee	England & Wales	Subsidiary	Ordinary shares	100%
Spirit (Lodges Holdings) Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Spirit (OOL) Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Spirit (PSC) Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Spirit (Redwood Bidco) Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Spirit (SGL) Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Acquisition Properties Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%

16 Subsidiary undertakings continued

Subsidiary undertakings	Principal activity	Country of incorporation	Held by	Holding	Proportion of voting rights and ownership
Spirit Acquisitions Guarantee Limited[1]	Non-trading	England & Wales	Subsidiary	n/a	n/a
Spirit Acquisitions Holdings Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Financial Holdings Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Finco Limited	Non-trading	Cayman Islands	Subsidiary	Ordinary shares	100%
Spirit Funding Limited	Non-trading	Cayman Islands	Subsidiary	Ordinary shares	100%
Spirit Group Equity Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Group Holdings Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Group Parent Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Group Pension Trustee Limited	Pension trustee	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Group Retail (North) Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Group Retail (Northampton) Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
				Preference shares	100%
Spirit Group Retail (Pubs) No.1 Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Group Retail (Pubs) No.2 Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Group Retail (South) Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Group Retail Hotels Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Group Retail Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
				Preference shares	100%
Spirit Group Retail Pensions Limited	Pension trustee	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Group Retail Pubs and Restaurants Limited	Non-trading	Scotland	Subsidiary	Ordinary shares	100%
Spirit Intermediate Holdings Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Managed Funding Limited	Financing	England & Wales	Subsidiary	Ordinary shares	100%
				Preference shares	100%
Spirit Managed Holdings Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Managed Inns Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Parent Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Derwent) Limited	Pub retailing	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Holdco) Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Inns) Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Investments) Limited	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Leased) Limited	Leasing of public houses	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Managed) Limited	Pub retailing	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Services) Limited	Administration	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (SGE) Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Supply) Limited	Procurement	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Trent) Limited	Pub retailing	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pubs Debenture Holdings Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pubs Parent Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Retail Bidco Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit SLB Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Springtarn Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Steward & Patteson Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Stickpad Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Telscombe Tavern Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
The Chef & Brewer Group Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
The Host Group Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
The Nice Pub Company Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Tom Cobleigh (Inns) Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Tom Cobleigh (Trading) Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Tom Cobleigh Group Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Tom Cobleigh Holdings Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Tom Cobleigh Limited	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Whitegate Taverns Limited	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%

1. Company is limited by guarantee.

Notes to the accounts continued

For the fifty-two weeks ended 1 May 2016

17 Business combinations

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

The acquisition provides the group with the opportunity to accelerate its retail expansion strategy by creating the UK's leading managed pub operator with significantly enhanced estate quality and scale. The group's tenanted business will materially benefit from the high quality of the acquired estate, and the Greene King Brewing & Brands business will benefit from additional routes to market.

The group acquired 100% of the share capital of Spirit Pub Company plc for consideration of £763.1m, made up of 89,095,959 shares of Greene King plc with a market value of £8.565 per share on completion.

Fair value of assets acquired	£m
Property, plant and equipment	1,413.4
Brand intangibles	16.1
Operating leases (intangible assets)	168.3
Inventories	9.0
Trade receivables	7.5
Other receivables/prepayments	33.6
Property, plant and equipment held for sale	6.0
Cash and cash equivalents	147.5
Trade payables	(52.9)
Other payables/accruals	(160.7)
Off-market contract liabilities	(312.7)
Retirement benefit asset	2.9
Provisions	(30.4)
Deferred tax	68.7
Derivatives	(165.2)
Finance lease	(22.7)
Borrowings	(799.3)
Fair value of net assets acquired	329.1
Goodwill	434.0
Consideration	**763.1**

The net cash flow impact of the acquisition is:

	£m
Special dividend paid to Spirit Pub Company shareholders	(43.2)
Cash acquired	147.5
	104.3
Fair value of debt and finance leases acquired	(822.0)
	(717.7)

At the interim provisional fair values of assets acquired and liabilities assumed were presented. As a result of the work completed since the interim goodwill has changed from £456.4m to £434.0m.

Goodwill has arisen primarily due to expected operating synergies, in recognition of management's proven track record, and as a result of opportunities that are expected to arise to optimise performance in the enlarged group's pub estate. The amount of goodwill expected to be deductible for tax purposes is £nil. The goodwill arising on acquisition has been allocated to the operating segments based on the forecast level of synergies expected by operating segment.

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

Off-market contract liabilities of £312.7m have been recognised upon acquisition where contracts are at unfavourable terms relative to current market terms. For leases where the current rentals are below market terms, the related asset is considered to be included within the residual value of the leasehold pub. For other acquired pubs an off-market liability has been calculated as the difference between the present value of future contracted rentals and the present value of future market rate rentals. External qualified surveyors were engaged to provide a formal evaluation of current market rentals for the acquired leased pub assets. Rental growth rates of 2.0–2.5% were taken from market consensus forecasts for the retail sector and a discount rate of 5% was applied, being the estimated incremental borrowing costs of the acquired business, to arrive at the present value of market rentals.

Brand Intangibles of £16.1m have been recognised to the extent that a format provides a profit benefit versus similar unbranded pubs. Brand intangibles are being amortised over a useful economic life of 15 years.

Trade receivables acquired have gross contractual value of £8.9m, the best estimate of amounts not expected to be collected is £1.4m and therefore the fair value recognised is £7.5m. Other receivables and prepayments have a gross contracted amount of £35.1m; the best estimate of amounts not expected to be collected is £1.5m and therefore a fair value of £33.6m has been recognised.

Further details on provisions acquired are disclosed in note 26.

17 Business combinations continued

In the period to 1 May 2016 acquisition related costs of £1.3m have been recognised within exceptional acquisition and integration costs totalling £17.5m (see note 5), and a further £2.1m of share issue costs have been recognised in retained earnings. In the year to 3 May 2015 acquisition costs, which included amounts contingent on completion, of £13.4m were recognised.

Since 24 June 2015 Spirit Pub Company has contributed revenue of £705.1m, pre-exceptional operating profit of £128.3m and profit before tax and exceptional items of £79.3m.

If the acquisition of Spirit Pub Company had taken place at the start of the financial period, the enlarged Greene King group would have recognised revenue of £2,193.6m, pre-exceptional operating profit of £414.6m and profit before tax and exceptional items of £270.6m.

18 Inventories

	2016 £m	2015 £m
Raw materials and work in progress	**4.7**	4.5
Finished goods and goods for resale	**34.2**	25.4
Consumable stores	**2.4**	2.2
	41.3	32.1

19 Trade and other receivables

	2016 £m	2015 £m
Other receivables	**0.1**	0.1
Total non current	**0.1**	0.1
Trade receivables	**63.2**	50.5
Other receivables	**19.5**	8.4
Total current	**82.7**	58.9

Trade and other receivables are non-interest bearing.

The ageing analysis of trade receivables is as follows:

	2016 £m	2015 £m
Neither past due nor impaired	**55.5**	47.5
Past due but not impaired		
– Less than 30 days	**3.6**	2.2
– 30–60 days	**1.0**	0.5
– Greater than 60 days	**3.1**	0.3
	63.2	50.5

Trade receivables are shown net of a provision of £5.4m (2015: £4.0m).

20 Cash and cash equivalents

	2016 £m	2015 £m
Cash at bank and in hand	**155.2**	50.0
Short-term deposits	**69.0**	2.8
Liquidity facility reserve (note 23)	**157.5**	157.5
Cash and cash equivalents for balance sheet	**381.7**	210.3
Bank overdrafts (note 23)	**(5.8)**	—
Cash and cash equivalents for cash flow	**375.9**	210.3

Included within cash at bank and in hand and short-term deposits is £109.1m (2015: £34.3m) and £113.0m (2015: £nil) held within securitised bank accounts which are only available for use by the Greene King secured financing vehicle and the Spirit secured financing vehicle respectively.

The Greene King secured financing vehicle comprises Greene King Retailing Parent Limited and its subsidiaries and the Spirit secured financing vehicle comprises Spirit Pubs Debenture Holdings Limited and certain of its subsidiaries.

The liquidity facility reserve is restricted cash as explained in note 23.

Interest receivable on cash and short-term deposits is linked to base rate and is received either monthly or in line with the term of the deposit.

21 Property, plant and equipment held for sale

	2016 £m	2015 £m
Property, plant and equipment held for sale	**2.3**	0.4

At the year end, property, plant and equipment held for sale of £2.3m (2015: £0.4m) represents pubs that are being actively marketed for sale with expected completion dates within 1 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 (2015: £nil).

Notes to the accounts continued

For the fifty-two weeks ended 1 May 2016

22 Trade and other payables

	2016 £m	2015 £m
Trade payables	**112.2**	107.2
Other payables:		
– Other taxation and social security costs	**87.2**	49.5
– Accruals and deferred income	**194.2**	108.9
– Interest payable	**30.4**	28.5
Total current	**424.0**	294.1
Other payables	**1.5**	1.0
Total non-current	**1.5**	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. Interest payable also includes interest on uncertain tax positions including £5.9m for Sussex.

Prior year accruals and interest payable have been reclassified to more appropriately reflect the nature of the balances recognised.

23 Borrowings

		2016			2015		
	Repayment date	Current £m	Non-current £m	Total £m	Current £m	Non-current £m	Total £m
Bank overdrafts	On demand	**5.8**	**—**	**5.8**	—	—	—
Liquidity facility loan	On demand	**157.5**	**—**	**157.5**	157.5	—	157.5
Bank loans – floating rate	2018	**—**	**315.0**	**315.0**	—	248.3	248.3
Secured debt:							—
– Issued by Greene King Finance plc	2005 to 2036	**34.3**	**1,106.6**	**1,140.9**	32.4	1,140.8	1,173.2
– Issued by Spirit Issuer plc	2015 to 2036	**11.1**	**777.6**	**788.7**	—	—	—
Obligations under finance leases	2015 to 2084	**1.6**	**20.6**	**22.2**	—	—	—
		210.3	**2,219.8**	**2,430.1**	189.9	1,389.1	1,579.0

Bank overdrafts

Overdrafts are utilised for the day-to-day management of cash. The group has facilities of £25.0m (2015: £25.0m) available with interest linked to base rate.

Bank loans – unsecured

The group has a 5 year revolving credit facility of £460m, of which £315.0m (2015: £248.2m) 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.

Greene King secured financing vehicle

The group has issued various tranches of bonds in connection with the securitisation of pubs operated by Greene King Retailing Limited. The bonds are secured over the properties and their future income streams and were issued by Greene King Finance plc.

The securitised debt issued by Greene King Finance plc consists of the following tranches:

Tranche	Nominal value (£m)	Carrying value (£m)[1] 2016	Carrying value (£m)[1] 2015	Interest	Interest rate (%)[2]	Last repayment period	Average life[3]
A1	113.8	**112.8**	122.0	Floating	6.11%[2]	2031	6.3 years
A2	237.9	**235.7**	240.4	Fixed	5.32%	2031	10.0 years
A3	73.4	**72.6**	84.0	Floating	6.09%[2]	2021	3.0 years
A4	258.9	**257.6**	257.4	Fixed	5.11%	2034	12.4 years
A5	242.9	**242.9**	250.2	Floating	7.76%[2]	2033	10.6 years
B1	120.9	**120.0**	119.9	Fixed/floating	5.70%	2034	17.2 years
B2	99.9	**99.3**	99.3	Floating	6.92%[2]	2036	19.3 years
	1,147.7	**1,140.9**	1,173.2				

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

2. Includes the effect of interest rate swaps.

3. This assumes notes are held until final maturity.

23 Borrowings continued

Greene King secured financing vehicle continued

Repayment of nominal is made by quarterly instalments, in accordance with the repayment schedule, over the period shown on the previous page. Payment of interest is made on quarterly dates for all classes of bond. All of the floating rate bonds are fully hedged using interest rate swaps.

The Class A1, A2, A3, A4 and A5 bonds rank pari passu in point of security and as to payment of interest and principal, and have preferential interest payment and repayment rights over the Class 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.

Liquidity facility

In 2014 the standby liquidity facility provider to the Greene King secured financing vehicle 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 (2015: £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.

Spirit secured financing vehicle

Following the acquisition of Spirit Pub Company on 23 June 2015, the group now has various secured loan notes issued by Spirit Issuer plc. The secured loan notes have been secured by way of fixed and floating charges over various property assets of Spirit Pub Company (Managed) Ltd and Spirit Pub Company (Leased) Ltd.

The securitised debt issued by Spirit Issuer plc consist of the following:

Tranche	Nominal value (£m)	Carrying value (£m)[1] 2016	Carrying value (£m)[1] 2015	Interest	Interest rate (%)[2]	Last repayment period	Expected average life[3]
Class A1	29.5	**25.9**	—	Floating	8.37%[2]	2026	9.7 years
Class A2	186.6	**181.3**	—	Floating	9.42%[2]	2029	11.7 years
Class A3	38.6	**37.2**	—	Fixed/floating	6.13%[2]	2019	1.8 years
Class A4	207.7	**220.5**	—	Fixed/floating	6.58%	2025	6.3 years
Class A5	158.5	**166.1**	—	Fixed/floating	6.49%	2032	14.9 years
Class A6	101.3	**98.3**	—	Floating	8.52%[2]	2036	18.8 years
Class A7	58.3	**59.4**	—	Fixed/floating	8.48%[2]	2036	18.8 years
	780.5	**788.7**	—				

1. Carrying value includes premium arising from fair value adjustment.
2. Includes the effect of interest rate swaps.
3. This assumes notes are held until final maturity.

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

The debenture bonds rank pari passu in point of security and as to payment of interest and principal.

The debenture is governed by various covenants, warranties and events of default, many of which apply to Spirit Pub Company (Managed) Ltd and Spirit Pub Company (Leased) Ltd, group companies. These include covenants regarding the maintenance and disposal of debenture properties and restrictions on its ability to move cash to other group companies and utilisation of disposal proceeds.

Obligations under finance leases

Upon acquisition of Spirit Pub Company on 23 June 2015, the group acquired leases of property, plant and equipment, where it substantially has all the risks and reward of ownership, and which have been classified as finance leases. In the balance sheet a corresponding liability has been included as a finance lease obligation.

The minimum lease payments under finance leases fall due as follows:

	2016 Minimum lease payments £m	**2016** Present value of future obligations £m	2015 Minimum lease payments £m	2015 Present value of future obligations £m
Within 1 year	**1.6**	**1.6**	—	—
Within 1 to 5 years	**5.3**	**4.5**	—	—
Over 5 years	**53.1**	**16.1**	—	—
	60.0	**22.2**	—	—

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For the fifty-two weeks ended 1 May 2016

24 Financial instruments

The primary treasury objectives of the group are to identify and manage the financial risks that arise in relation to underlying business needs, and provide secure and competitively priced funding for the activities of the group. If appropriate, the group uses financial instruments and derivatives to manage these risks.

The principal financial instruments held for the purpose of raising finance for operations are bank loans and overdrafts, secured bonds, cash and short-term deposits. Other financial instruments arise directly from the operations of the group, such as trade and other receivables, trade 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 and credit 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 at a fixed rate. The group enters into interest rate swaps to manage the exposure. Certain swaps are designated as cash flow hedges at the date of contract included within the accounts, and tested for effectiveness every 6 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 1 May 2016 and 3 May 2015. 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.

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 £50.6m (2015: £0.6m) and the group's OCI by £82.9m (2015: £87.6m).

Whilst cash flow interest rate risk is largely eliminated, the use of fixed rate borrowings and derivative financial instruments exposes the group to fair value interest rate risk such that the group would not significantly benefit from falls in interest rates and would be exposed to unplanned costs, such as break costs, should debt or derivative financial instruments be restructured or repaid early.

The percentage of net debt that was fixed as at the year end was 96.1% (2015: 95.5%), in line with the group's policy of fixing at least 95% of all net debt.

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 (2015: 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 under the group's revolving credit facility.

The table below summarises the maturity profile of the group's financial liabilities at 1 May 2016 and 3 May 2015 based on contractual undiscounted payments including interest.

Period ended 1 May 2016	Within 1 year £m	1–2 years £m	2–5 years £m	>5 years £m	Total £m
Interest-bearing loans and borrowings:					
– Capital	208.8	48.0	511.6	1,638.1	2,406.5
– Interest	92.2	94.3	243.5	671.9	1,101.9
	301.0	142.3	755.1	2,310.0	3,508.4
Interest rate swaps settled net	48.9	44.3	134.8	329.7	557.7
	349.9	186.6	889.9	2,639.7	4,066.1
Trade payables and accruals	318.3	—	—	—	318.3
Finance lease obligations	1.6	1.6	3.7	53.1	60.0
Off-market contract liabilities	2.7	2.2	27.7	—	32.6
	672.5	190.4	921.3	2,692.8	4,477.0

24 Financial instruments continued

Liquidity risk continued

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	234.3	—	—	—	234.3
Finance lease obligations	—	—	—	—	—
Off-market contract liabilities	—	—	—	—	—
	508.1	115.9	580.4	1,574.9	2,779.3

Credit risk

Financial assets include trade loans, cash and cash equivalents and trade and other receivables. Credit risk is the risk of default by the counterparty to discharge their obligation and the maximum exposure of the group is the carrying amount of these instruments. The credit risk on cash and cash equivalents is limited by investment of surplus funds with banks and financial institutions with high credit ratings assigned by international credit agencies.

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

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

Financial instruments qualifying for hedge accounting

At 1 May 2016 the group held 2 (2015: 3) interest rate swap contracts for a nominal value of £100m (2015: £135m), designated as a hedge of the cash flow interest rate risk of the £315.0m (2015: £248.3m) drawn 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 £34.6m (2015: £32.8m). The cash flows occurred quarterly based a variable rate of interest based on LIBOR.

At 1 May 2016 the group held 5 (2015: 5) interest rate swap contracts for a nominal value of £530.0m (2015: £558.1m), entered into as part of the securitisation and subsequent securitisation taps. A fair value liability of £214.6m (2015: £204.1m) has been recognised on the balance sheet in respect of these contracts which are designated cash flow hedges against £530.0m (2015: £558.1m) of variable rate bonds, receiving a variable rate of interest based on LIBOR and paying a weighted average fixed rate of 7.0% (2015: 7.0%). The contract maturity dates range from September 2021 to March 2036. Retrospective quantitative hedge effectiveness testing is performed and 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 a £0.3m gain (2015: £0.8m loss) has been recognised within finance costs/income.

Financial instruments not qualifying for hedge accounting

Interest rate swap agreements have been acquired as part of the business combination with Spirit Pub Company which swap the LIBOR interest rate to a fixed rate of 6.681% on the Class A1, Class A2 and Class A6 notes and, after their respective step-up dates, 4.555% on the Class A3, Class A4, Class A5 and Class A7 notes. The swaps were deemed ineffective hedges and therefore do not qualify for hedge accounting, with movements in their fair value being recognised in the income statement. The interest rate swaps are held on the balance sheet as a fair value liability of £191.7m (2015: £nil). The cash flows occurred quarterly based a variable rate of interest based on LIBOR.

The fair value movement from acquisition splits into cash payments made of £21.7m recognised in pre-exceptional finance costs net of amortisation of fair value on acquisition of £12.3m. The remainder of the fair value movement is recognised as a charge in exceptional finance costs amounting to £39.1m.

Where the nominal value of the derivative exceeds that of the related secured note (for example, due to early repayment of floating rate notes) the group will seek to eliminate the over-hedging where this is financially practicable. At 1 May 2016, there were £5.7m of interest swaps outstanding on cancelled floating rate notes which relate to the Spirit secured debt.

Fair values

Set out in the table below is a comparison of carrying amounts and fair values of all of the group's financial instruments.

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

Cash and cash equivalents (comprising cash at bank and in hand and short-term deposits) – approximates to the carrying amount stated in the accounts.

Trade receivables – approximates to the carrying amount because of the short maturity of these instruments.

Financial assets – these are carried at amortised cost using the effective interest method and fair value is deemed to be the same as this.

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.

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24 Financial instruments continued

Fair values continued

Interest rate swaps – calculated by discounting all future cash flows by the market yield curve at the balance sheet date and adjusting, where appropriate, for 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.

Trade payables and accruals – approximates to the carrying amount because of the short maturity of these instruments.

Finance lease obligations and off-market contract liabilities (excludes off-market lease liability) – estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

	Hierarchical classification	**Fair value 2016 £m**	**Carrying value 2016 £m**	Fair value 2015 £m	Carrying value 2015 £m
Financial liabilities					
Overdraft	Level 2	**5.8**	**5.8**	—	—
Interest-bearing loans and borrowings:					
– Secured debt:					
Issued by Greene King Finance plc	Level 1	**1,158.0**	**1,140.9**	1,247.0	1,173.2
Issued by Spirit Issuer plc	Level 1	**757.3**	**788.7**	—	—
– Floating rate bank loans	Level 2	**315.0**	**315.0**	248.3	248.3
– Liquidity facility loan	Level 2	**157.5**	**157.5**	157.5	157.5
Interest rate swaps	Level 2	**440.9**	**440.9**	236.9	236.9
Trade payables and accruals	Level 2	**318.3**	**318.3**	216.1	216.1
Finance lease obligations	Level 2	**22.2**	**22.2**	—	—
Off-market contract liabilities	Level 2	**22.6**	**22.6**	—	—
Financial assets					
Cash	Level 2	**(224.2)**	**(224.2)**	(52.8)	(52.8)
Trade receivables	Level 2	**(63.2)**	**(63.2)**	(50.5)	(50.5)
Liquidity facility reserve	Level 2	**(157.5)**	**(157.5)**	(157.5)	(157.5)
Financial assets	Level 3	**(26.6)**	**(26.6)**	(30.4)	(30.4)

Carrying values are stated net of any deferred finance fees which amounted to £6.9m (2015: £9.2m). The carrying values of the secured debt issued by Spirit Issuer plc includes premium arising from fair value adjustment of £8.2m (2015: £nil).

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 1 May 2016 and 3 May 2015 there were no transfers between level 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 net debt and equity levels (together referred to as capital) as disclosed on the balance sheet, as appropriate in light of economic and trading conditions. To maintain or adjust the capital structure, the group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes during the period.

The group monitors capital using 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 interest on debt before exceptional items (note 7). For the period to 1 May 2016 interest cover was 3.3x (2015: 3.0x). All covenants in relation to the securitisation vehicles and bank loans have been fully complied with. The board's dividend policy is to maintain a minimum dividend cover of two times adjusted basic earnings per share.

25 Off-market contract liabilities

	Off-market liabilities £m
At 4 May 2014 and 3 May 2015	—
Acquisitions (note 17)	312.7
Unwinding of discount element of provisions	12.2
Utilised during the period	(25.0)
At 1 May 2016	**299.9**

Off-market contract liabilities are analysed between current and non-current as follows

	1 May 2016 £m	3 May 2015 £m
Current	**22.4**	—
Non-current	**277.5**	—
	299.9	—

Off-market contract liabilities are recognised where contracts are at unfavourable terms relative to current market terms on acquisition. For leases where the current rentals are below market terms, the related asset is considered to be included within the residual value of the leasehold pub. For other acquired pubs an off-market liability has been calculated as the difference between the present value of future contracted rentals and the present value of future market rate rentals. The liability unwinds against the rental expense so that the income statement charge reflects current market terms over an average period of 19 years. The remainder of the balance held relates to an unfavourable guarantee contract.

26 Provisions

	VAT provision £m	Property leases £m	Total £m
At 4 May 2014	—	6.5	6.5
Unwinding of discount element of provisions	—	0.4	0.4
Provided for during the period	—	0.5	0.5
Utilised during the period	—	(0.8)	(0.8)
At 3 May 2015	—	6.6	6.6
Acquisitions (note 17)	23.0	7.4	30.4
Unwinding of discount element of provisions	—	0.4	0.4
Provided for during the period	0.4	—	0.4
Utilised during the period	—	(0.4)	(0.4)
At 1 May 2016	**23.4**	**14.0**	**37.4**

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

	VAT provision 1 May 2016 £m	**Property leases 1 May 2016 £m**	**Total 1 May 2016 £m**	VAT provision 3 May 2015 £m	Property leases 3 May 2015 £m	Total 3 May 2015 £m
Current	**23.4**	**1.3**	**24.7**	—	0.5	0.5
Non-current	**—**	**12.7**	**12.7**	—	6.1	6.1
	23.4	**14.0**	**37.4**	—	6.6	6.6

Property leases

The provision for property leases has been set up to cover operating costs of vacant or loss making premises as well as dilapidation requirements. Payments are expected to be ongoing on these properties for an average of 15 years (2015: 15 years).

VAT provision

During a previous period Spirit received VAT refunds of £7.0m and £17.9m from HMRC in respect of gaming machines following a ruling involving The Rank Group plc (Rank) that the application of VAT contravened the EU's principal of fiscal neutrality. HMRC successfully appealed the decision in October 2013 and Spirit was therefore required to repay the VAT refund of £7.0m and associated interest of £1.7m. However, HMRC did not seek to recover the VAT refund of £17.9m and associated interest of £5.5m because it had accepted a guarantee from Spirit that it would only repay this VAT if Rank's litigation is finally determined in HMRC's favour. Rank's latest appeal was rejected by the Supreme Court in July 2015 and the group is currently awaiting the outcome of related litigation.

Notes to the accounts continued

For the fifty-two weeks ended 1 May 2016

27 Share capital

	2016 Number of issued shares m	2016 Share capital £m	2015 Number of issued shares m	2015 Share capital £m
Called up, allotted and fully paid				
At beginning of period	**219.7**	**27.5**	219.0	27.4
Issue of share capital – Spirit acquisition	**89.1**	**11.1**	—	—
Issue of share capital – share options exercised	**0.4**	**—**	0.7	0.1
At end of period	**309.2**	**38.6**	219.7	27.5

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

28 Reserves

Share premium account

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

Merger reserve

The merger reserve represents capital contributions received and amounts recognised on the acquisition of Spirit Pub Company Limited being the difference between the value of the consideration and the nominal value of the shares issued as consideration.

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 1 May 2016 nil shares (2015: 0.13m) were held in treasury, 0.04m shares (2015: 0.61m) were held by the employee benefit trust and nil (2015: nil) were held to fulfil awards under the deferred share bonus scheme. The market value at 1 May 2016 of the treasury shares was £nil (2015: £1.1m), of the shares held by the employee benefit trust was £0.3m (2015: £5.0m) and of the shares held for the deferred share bonus scheme was £nil (2015: £nil).

The employee benefit trust is independently managed and has purchased shares in order to satisfy outstanding employee share options and potential awards under the long-term incentive plan.

At the year end nil (2015: nil) treasury shares and nil (2015: 0.31m) shares in the employee benefit trust were allocated to meet awards under the long-term incentive plan.

A transfer of £4.7m (2015: £5.6m) 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 (2015: nil) shares were repurchased at a cost of £nil (2015: £nil) to fulfil awards made under the deferred share bonus scheme with nil (2015: 0.04m) shares transferred to individuals to satisfy awards. The employee benefit trust purchased nil shares (2015: 0.5m) at a cost of £nil (2015: £4.2m) and 0.57m (2015: 0.82m) 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.

29 Working capital and non-cash movements

	2016 £m	2015 £m
Increase in inventories	**(0.2)**	(1.6)
Decrease/(increase) in trade and other receivables	**4.9**	(1.4)
(Decrease)/increase in trade and other payables	**(28.7)**	16.8
Decrease in off-market contract liabilities	**(25.0)**	—
Decrease in provisions	**—**	(0.3)
Other non-cash movement	**3.1**	—
Share-based payment expense	**6.2**	3.7
Difference between defined benefit pension contributions paid and amounts charged	**(10.4)**	(7.0)
Exceptional items	**(25.0)**	(5.6)
Working capital and other movements	**(75.1)**	4.6

30 Analysis of and movements in net debt

	2016 £m	2015 £m
Cash at bank and in hand and short term deposits[1]	**224.2**	52.8
Liquidity facility reserve[1]	**157.5**	157.5
Overdrafts	**(5.8)**	—
Current portion of borrowings	**(47.0)**	(32.4)
Liquidity facility loan	**(157.5)**	(157.5)
Non-current portion of borrowings	**(2,219.8)**	(1,389.1)
Closing net debt	**(2,048.4)**	(1,368.7)

1. Included in cash and cash equivalents on the balance sheet.

Movement in net debt

	2016 £m	2015 £m
Net increase in cash and cash equivalents	**165.6**	7.9
Proceeds – advances of borrowings	**(65.0)**	—
Repayment of principal	**44.0**	61.1
Debt acquired through acquisitions (note 17)	**(822.0)**	—
Decrease in net debt arising from cash flows	**(677.4)**	69.0
Other non-cash movements	**(2.3)**	(2.1)
Decrease in net debt	**(679.7)**	66.9
Opening net debt	**(1,368.7)**	(1,435.6)
Closing net debt	**(2,048.4)**	(1,368.7)

31 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 up to 6 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:

	2016 £m	2015 £m
Within 1 year	**81.9**	12.9
Between 1 and 5 years	**315.2**	43.9
After 5 years	**1,281.7**	134.2
	1,678.8	191.0

Operating leases for which an off-market liability has been recognised on acquisition has been included in the above.

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:

	2016 £m	2015 £m
Within 1 year	**47.0**	28.5
Between 1 and 5 years	**145.0**	81.8
After 5 years	**133.1**	54.6
	325.1	164.9

Future minimum lease rentals include £1.5m (2015: £2.9m) receivable in respect of non-cancellable subleases.

Notes to the accounts continued

For the fifty-two weeks ended 1 May 2016

32 Related party transactions

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

Greene King Finance plc and Spirit Issuer plc are structured entities set up to raise bond finance for the group, and as such are deemed to be related parties. The results and financial position of the entities have been consolidated.

Compensation of directors and other key management personnel of the group

	2016 £m	2015 £m
Short-term employee benefits (including national insurance contributions)	**4.9**	4.6
Post-employment pension and medical benefits	**0.5**	0.6
Termination benefits	**1.0**	0.4
Share-based payments	**2.3**	2.1
	8.7	7.7

Key management personnel

Key management personnel are deemed to be those employees who are directors of Greene King plc or its subsidiaries.

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.

33 Post balance sheet events

Final dividend

A final dividend of 23.6p per share (2015: 21.8p) amounting to a dividend of £73.0m (2015: £67.1m) was proposed by the directors at their meeting on 28 June 2016. These financial statements do not reflect the dividend payable.

Financing

On 26 May 2016 the group issued a £300m A6 bond at a coupon of 4.0643%, taking the outstanding nominal value of bonds issued by Greene King Finance plc to £1,447.7m. These bonds are secured against 1,543 pubs in the Greene King estate which had a market value of £2,178.0m and a carrying value of £1,637.9m. Proceeds of £116.6m were used to meet the mark to market liability in respect of interest swaps with a nominal value of £302.9m.

34 Contingent liabilities

The group has provided guarantees totalling £0.8m at 1 May 2016 (2015: £1.0m) in respect of free trade customers' bank borrowings.

Company balance sheet

As at 1 May 2016

Registered number: 24511

	Note	As at 1 May 2016 £m	As at 3 May 2015 £m
Fixed assets			
Investments	39	**3,381.9**	2,597.9
Current assets			
Debtors			
Amounts due from subsidiaries		**270.7**	68.3
Prepayment		**—**	2.1
Cash		**—**	11.7
Creditors: amounts falling due within one year			
Bank overdraft		**(4.4)**	—
Derivative financial instruments	41	**—**	(1.0)
Income tax payable		**(6.4)**	(1.5)
Other creditors	40	**(1,921.1)**	(1,722.9)
Net current liabilities		**(1,661.2)**	(1,643.3)
Total assets less current liabilities		**1,720.7**	954.6
Creditors: amounts falling due after more than one year			
Borrowings	41	**(315.0)**	(248.2)
Derivative financial instruments	41	**—**	(0.2)
Net assets		**1,405.7**	706.2
Capital and reserves			
Called up share capital	42	**38.6**	27.5
Share premium account	43	**261.0**	259.3
Merger reserve	43	**752.0**	—
Revaluation reserve		**2.5**	2.5
Hedging reserve	43	**—**	(1.2)
Other reserve	43	**93.9**	93.9
Own shares	43	**(0.2)**	(4.9)
Retained earnings		**257.9**	329.1
Equity attributable to owners of the parent		**1,405.7**	706.2

Signed on behalf of the board on 28 June 2016.

P Yea
Director

R Anand
Director

Company statement of changes in equity

For the fifty-two weeks ended 1 May 2016

	Called up share capital £m	Share premium account £m	Merger reserve £m	Revaluation reserve £m	Hedging reserve £m	Other reserve £m	Own shares £m	Retained earnings £m	Total £m
At 4 May 2014	**27.4**	**256.6**	**—**	**2.5**	**(1.9)**	**93.9**	**(6.3)**	**169.1**	**541.3**
Profit for the period	—	—	—	—	—	—	—	225.3	225.3
Other comprehensive income:									
Cash flow hedges – loss taken to equity	—	—	—	—	0.7	—	—	—	0.7
Total comprehensive income	**—**	**—**	**—**	**—**	**0.7**	**—**	**—**	**225.3**	**226.0**
Issue of ordinary share capital	0.1	2.7	—	—	—	—	—	—	2.8
Release of shares	—	—	—	—	—	—	5.6	(5.6)	—
Repurchase of shares	—	—	—	—	—	—	(4.2)	—	(4.2)
Share-based payments	—	—	—	—	—	—	—	3.1	3.1
Equity dividends paid	—	—	—	—	—	—	—	(62.8)	(62.8)
At 3 May 2015	**27.5**	**259.3**	**—**	**2.5**	**(1.2)**	**93.9**	**(4.9)**	**329.1**	**706.2**
Profit for the period	—	—	—	—	—	—	—	22.7	22.7
Other comprehensive income:									
Cash flow hedges – loss taken to equity	—	—	—	—	1.2	—	—	—	1.2
Total comprehensive income	**—**	**—**	**—**	**—**	**1.2**	**—**	**—**	**22.7**	**23.9**
Issue of ordinary share capital	11.1	1.7	752.0	—	—	—	—	—	764.8
Transaction costs for share issue	—	—	—	—	—	—	—	(2.1)	(2.1)
Release of shares	—	—	—	—	—	—	4.7	(4.7)	—
Share-based payments	—	—	—	—	—	—	—	6.2	6.2
Equity dividends paid	—	—	—	—	—	—	—	(93.3)	(93.3)
At 1 May 2016	**38.6**	**261.0**	**752.0**	**2.5**	**—**	**93.9**	**(0.2)**	**257.9**	**1,405.7**

35 Accounting policies

Basis of accounting and presentation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

The company meets the definition of a qualifying entity under FRS 100 Application of Financial Reporting Requirements as issued by the Financial Reporting Council (FRC). Therefore in the period ended 1 May 2016, the company has transitioned from reporting under UK GAAP to reporting under FRS 101 Reduced Disclosure Framework. The financial statements have therefore been prepared in accordance with FRS 101. This transition is not considered to have had a material impact on the financial statements.

The company has taken advantage of the following disclosure exemptions under FRS 101:

– the requirements of IAS 7 Statement of Cash Flows

– the requirements of IAS 8 IFRSs Issued but not Effective

– the requirements of IFRS 2 Share-based Payments

– the requirements of IFRS 7 Financial Instruments: Disclosures

– the requirements of IFRS 13 Fair Value Measurements

– the requirements of IAS 24 Related Party Disclosures, to present key management personnel compensation and intragroup transactions including wholly owned subsidiaries

– the requirements of IAS 1 Presentation of Financial Statements, to present certain comparative information and capital management disclosures

– the requirements of IFRS 1, to present an opening statement of financial position when adopting FRS 101 for the first time

There were no transitional adjustments in the transition from UK GAAP to FRS 101 in the opening balance sheet as at 5 May 2014, and therefore no third balance sheet has been prepared.

The basis for all of the above exemptions is because equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

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. On transition to FRS 101, the previous GAAP carrying amount at the date of transition was regarded as deemed cost.

Taxation

Corporation tax payable is provided on taxable profits using the tax rates and laws that have been enacted or substantively enacted by 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.

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.

Notes to the company accounts continued

For the fifty-two weeks ended 1 May 2016

35 Accounting policies continued

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 income statement. Amounts taken to equity are transferred to the profit and loss account when the hedged transaction affects the income statement.

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.

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 retained earnings. No gain or loss is recognised in the financial statements on transactions in treasury shares.

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 because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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 company bases its estimates and judgments on historical experience and other factors deemed reasonable under the circumstances, including any expectations of future events. Actual results may differ from these estimates. No estimates and judgments were considered to be significant.

36 Profit for the period

No income statement is presented for the company as permitted by section 408 of the Companies Act 2006. The profit after tax for the period is £22.7m (2015: £225.3m).

37 Auditor's remuneration

Auditor's remuneration in respect of the company audit was £16,500 (2015: £16,500). The figures for auditor's remuneration for the company required by regulation 5(1)(b) of the Companies Regulations 2008 are not presented here as the group accounts comply with this regulation on a consolidated basis.

38 Directors’ remuneration and employee costs

Details of directors’ remuneration are contained in the directors’ remuneration report on pages 59 to 64. 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.

39 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
Additions	777.8	—	777.8
Share-based payment awards to employees of subsidiaries	6.2	—	6.2
Cost at 1 May 2016	**2,366.9**	**1,038.2**	**3,405.1**
Impairment at 4 May 2014	—	—	—
Impairment of non-trading subsidiaries	(23.2)	—	(23.2)
Impairment at 3 May 2015 and 1 May 2016	**(23.2)**	**—**	**(23.2)**
NBV at 1 May 2016	**2,343.7**	**1,038.2**	**3,381.9**
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

For a full list of all subsidiaries see note 16.

40 Other creditors

	2016 £m	2015 £m
Accruals	**2.3**	16.7
Amounts owed to subsidiaries	**1,918.8**	1,706.2
	1,921.1	1,722.9

Interest on amounts owed to and from group undertakings accrues at a rate of LIBOR + 1.0% and is payable at interim and year-end dates.

41 Borrowings

	2016			2015		
	Within one year £m	After one year £m	Total £m	Within one year £m	After one year £m	Total £m
Bank loans – floating rate	**—**	**315.0**	**315.0**	—	248.2	248.2

At 1 May 2016 the company held 1 (2015: 2) interest rate swap contract to hedge cash flow interest rate risk related to floating rate debt. The swap had a nominal value of £40m (2015: £75m) and is held on the balance sheet as a net fair value liability of £nil (2015: £1.2m). The term of the swap ends June 2016.

Bank loans due after 1 year are repayable as follows:

	2016 £m	2015 £m
Due between 2 and 5 years	**315.0**	248.2

Although the drawdown is repayable within 12 months of the balance sheet date, immediate renewal is available until June 2018 (2015: June 2018) for the facility.

Notes to the company accounts continued

For the fifty-two weeks ended 1 May 2016

42 Allotted and issued share capital

Allotted, called up and fully paid	2016 £m	2015 £m
Ordinary shares of 12.5p each		
309.2m shares (2015: 219.7m)	**38.6**	27.5

Further information on share capital is given in note 27. Details of options granted and outstanding are included in note 8.

43 Reserves

Share premium account

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

Merger reserve

The merger reserve represents capital contributions received and amounts recognised on the acquisition of Spirit Pub Company Limited being the difference between the value of the consideration and the nominal value of the shares issued as consideration.

Other reserve

The other reserve consists of a £3.3m (2015: £3.3m) capital redemption reserve arising from the purchase of own share capital and £90.6m (2015: £90.6m) arising from the 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 35.

Own shares

Own shares relates to shares held in treasury and by the employee benefit trust. Movement in own shares is described in note 28.

44 Contingent liabilities

The company has provided a guarantee to the Greene King Pension Scheme in respect of the payment obligations to the scheme of its subsidiaries Greene King Services Limited and Belhaven Brewery Company Limited. In the event that these obligations are not met the company will become liable for amounts due to the pension scheme; such an event is not considered probable.

Details of the group's pension schemes are included in note 9.

45 Post balance sheet events

Final dividend

A final dividend of 23.6p per share (2015: 21.8p) amounting to a dividend of £73.0m (2015: £67.1m) was proposed by the directors at their meeting on 28 June 2016. These financial statements do not reflect the dividend payable.

Group financial record

Income statement

	2016 (52 weeks) £m	2015 (52 weeks) £m	2014 (53 weeks) £m	2013[3] (52 weeks) £m	2012[3] (52 weeks) £m
Revenue	**2,073.0**	1,315.3	1,301.6	1,194.7	1,140.4
Operating profit before exceptionals	**392.2**	256.2	265.6	248.2	236.2
Profit before taxation and exceptionals	**256.5**	168.5	173.1	158.2	147.2
Profit before taxation	**189.8**	118.2	105.2	111.0	125.1
Basic earnings per share[1]	**64.4p**	40.9p	44.2p	44.1p	46.0p
Adjusted basic earnings per share[1]	**69.9p**	61.0p	61.4p	55.6p	51.3p
Adjusted dividend per share[1]	**32.1p**	29.8p	28.4p	26.6p	24.8p
Adjusted operating profit/revenue	**18.9%**	19.5%	20.4%	20.8%	20.7%
Adjusted tax expense/profit before tax	**19.3%**	20.9%	23.0%	24.0%	25.0%
Adjusted interest cover (times)	**2.9**	2.9	3.0	2.9	2.7
Adjusted dividend cover (times)[2]	**2.2**	2.1	2.1	2.1	2.1

Balance sheet

	£m	£m	£m	£m	£m
Property, plant and equipment	**3,671.3**	2,235.4	2,169.7	2,211.1	2,191.3
Intangibles	**174.6**	—	—	—	—
Goodwill	**1,121.9**	700.9	703.8	724.8	729.3
Financial assets	**26.6**	30.4	32.8	34.1	39.0
Property, plant and equipment held for sale	**2.3**	0.4	81.7	8.4	6.2
Working capital	**(303.7)**	(236.4)	(198.6)	(174.2)	(168.6)
Derivatives	**(440.9)**	(236.9)	(172.4)	(239.2)	(200.8)
Off-market contract liabilities	**(299.9)**	—	—	—	—
Provisions	**(30.2)**	(96.2)	(118.7)	(143.1)	(157.9)
Net debt	**(2,048.4)**	(1,368.7)	(1,435.6)	(1,450.4)	(1,493.2)
Net assets	**1,873.6**	1,028.9	1,062.7	971.5	945.3
Gearing	**109%**	133%	135%	149%	158%

Cash flow and investment

	£m	£m	£m	£m	£m
EBITDA before exceptionals	**496.9**	319.0	329.7	306.5	292.0
Cash inflow from operations	**421.8**	323.6	325.2	312.5	282.0
Interest, tax and dividends	**(270.3)**	(189.1)	(179.6)	(170.7)	(167.1)
Capital expenditure	**(194.1)**	(160.5)	(169.6)	(123.6)	(126.8)
Proceeds from sales of property, plant and equipment	**82.6**	94.0	38.4	28.0	29.9
Trade loans and investments	**0.7**	2.4	1.3	3.0	2.2
Acquisitions	**—**	—	—	(0.9)	(70.8)
Other	**(720.4)**	(3.5)	(0.9)	(5.5)	(32.4)
(Increase)/decrease in debt	**(679.7)**	66.9	14.8	42.8	(83.0)

1. Adjusted earnings per share, operating profit, taxation, interest cover and dividend cover exclude the effect of exceptional items.
2. 2014 assumes adjusted earnings per share on a 52 week basis.
3. 2012–2013 restated for the impact of IAS 19(R).

Shareholder information

Financial calendar

Ex-dividend date	11 August 2016
Record date for final dividend	12 August 2016
Annual general meeting	9 September 2016
Payment of final dividend	12 September 2016
Announcement of interim results	30 November 2016
Payment of interim dividend	January 2017
Preliminary announcement of the 2016/17 results	June 2017

Registrars

Capita Asset Services

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

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 and 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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Glossary

EBITDA – Earnings before interest, tax, depreciation, amortisation and exceptional items. Calculated by taking operating profit before exceptional items and adding back depreciation.

Fixed charge cover – Calculated by dividing EBITDAR (operating profit before depreciation, rent and exceptional items) less maintenance capex by the sum of interest and rent.

Free cash flow – 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.

LFL – Like for like. LFL performance is calculated against a comparable period in the prior year for pubs that were trading in both periods. Figures for the Spirit business and combined group business therefore take account of Spirit trading prior to the acquisition date. Pub Company like-for-like sales include revenue from the sale of drink, food and accommodation.

NPS – Net promoter score. Calculated by asking customers how likely they are to recommend the pub on a scale of 0–10 (10 being the most favourable). The percentage of responses where the score is 0–6 (brand detractors) is subtracted from the percentage of responses where the score is 9 or 10 (brand promoters) to give the NPS. Scores of 7 or 8 (passive responses) are ignored.

OBV – Own-brewed volume. The volume of beer brewed at our Greene King and Belhaven breweries sold in the period.

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

Core capex – Cash outflow in respect of ongoing development and maintenance capital investment on pubs in the group's estate. Core capex excludes integration capex, investment in the brand optimisation programme and investments in single-site acquisitions and new-build developments.

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