GREENE KING
BURY ST EDMUNDS

TIME WELL SPENT

Annual report 2018

THE LEADING PUB COMPANY AND BREWER

Greene King is the country's leading integrated pub retailer and brewer. At our year end we operated 2,855 managed, tenanted, leased and franchised pubs, restaurants and hotels, including well-known brands such as Greene King local pubs, Hungry Horse, Chef & Brewer and Farmhouse Inns. We also have a proud history of brewing award-winning ales for more than 200 years and our leading ale brand portfolio includes Greene King IPA, Old Speckled Hen, Abbot Ale and Belhaven Best.

2,855

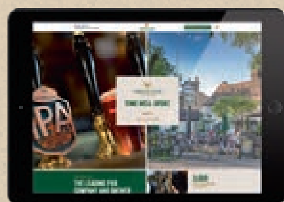
PUBS, RESTAURANTS AND HOTELS

39,000

EMPLOYEES

33.2P

DIVIDEND PER SHARE



VIEW THIS REPORT ONLINE
greenekingreports.com/ar18

STRATEGIC REPORT

2 Performance highlights
3 Chairman's statement
5 Focus area – Best for customers
6 Focus area – Best for team
7 Focus area – Best for communities
8 Chief executive's review
12 Our business model
14 Our markets
16 Our strategy
18 Key performance indicators
20 Operational review
- 20 Pub Company
- 24 Pub Partners
- 26 Brewing & Brands

28 Financial review
31 Risks and uncertainties
38 Our people
40 Corporate responsibility

CORPORATE GOVERNANCE

48 Board of directors
50 Corporate governance statement
54 Nomination committee report
55 Audit and risk committee report
58 Directors' remuneration report
72 Directors' report and disclosures
75 Directors' responsibilities statements

FINANCIAL STATEMENTS

76 Independent auditor's report
83 Group income statement
84 Group statement of comprehensive income
85 Group balance sheet
86 Group cash flow statement
87 Group statement of changes in equity
88 Notes to the accounts
123 Company balance sheet
124 Company statement of changes in equity
125 Notes to the company accounts
128 Glossary – alternative performance measures

SHAREHOLDER INFORMATION

132 Shareholder information

Performance highlights

SUCCESSFUL CUSTOMER INVESTMENT

Successful customer investment and cost mitigation programmes

- Pub Company like-for-like (LFL) sales -1.2% excluding the impact of snow, up 20 bps since the half year; improved customer service scores
- Driven by investment in value, service and quality (VSQ) and good Christmas/Easter trading
- £44m cost savings delivered through mitigation programme and Spirit synergies
- Brand optimisation programme delivered 25% return on investment; Fayre & Square fully debranded
- Pub Partners LFL net profit +0.4%; Brewing & Brands revenue +7.4%

Resilient financial metrics

- Strong cash generation; £89.9m post core capex and dividends, more than covers debt amortisation
- Net debt to EBITDA[1,2] 4.2x
- Well-invested and located pub estate; 82% freehold or long leasehold
- Dividend per share[3] of 33.2p; long-term track record of attractive, sustainable dividend

Strategic priorities to continue driving momentum

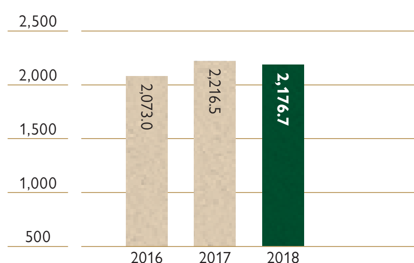
- Improve underlying sales growth in Pub Company
- Develop a more efficient and effective organisation
- Further strengthen the capital structure

Current trading and outlook

- Pub Company LFL sales +2.2% over the last eight weeks, aided by good weather and sporting fixtures; Pub Partners and Brewing & Brands trading in line with expectations
- Strong World Cup trading; 59% of consumers expect to watch an England game at the pub
- Expect £45–50m cost inflation; £30–35m cost savings and targeting Pub Company LFL growth

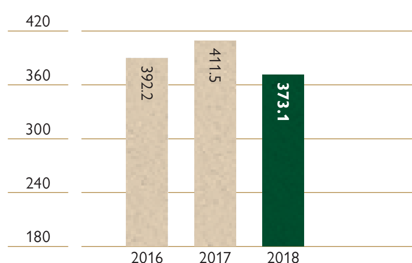
REVENUE (£m)

£2,176.7m -1.8%



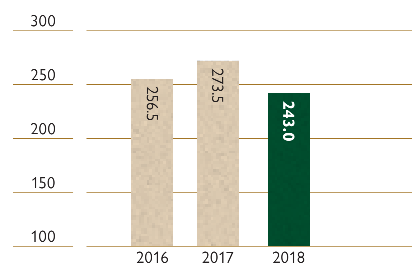
OPERATING PROFIT BEFORE EXCEPTIONAL AND NON-UNDERLYING ITEMS[1,2] (£m)

£373.1m -9.3%



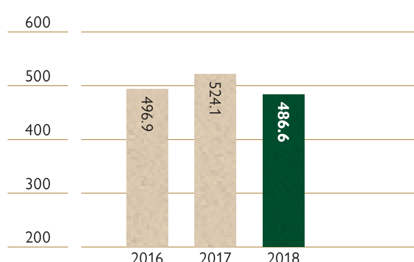
PROFIT BEFORE TAX AND EXCEPTIONAL AND NON-UNDERLYING ITEMS[1,2] (£m)

£243.0m -11.2%



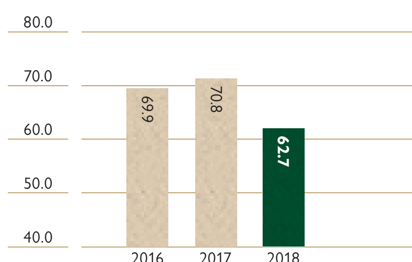
EBITDA[1,2,3] (£m)

£486.6m -7.2%



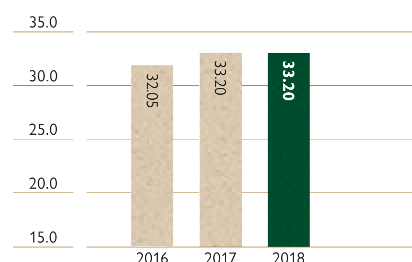
ADJUSTED BASIC EARNINGS PER SHARE[1,2] (p)

62.7p -11.4%



DIVIDEND PER SHARE[4] (p)

33.20p +0.0%



1. Adjusted measures exclude the impact of exceptional and non-underlying items as detailed in note 5 of the financial statements.
2. The directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the group's performance. APMs are explained on page 128 of this annual report.
3. EBITDA represents earnings before interest, tax, depreciation, amortisation and exceptional and non-underlying items and is calculated as operating profit before exceptional and non-underlying items adjusted for the depreciation and amortisation charge for the year.
4. Dividend per share paid and proposed in respect of the year.

Chairman's statement

“

UNDERLYING TRADING IMPROVED IN THE SECOND HALF AND WE HAVE CONFIDENCE IN THE LONG-TERM PROSPECTS OF THE BUSINESS.

STRATEGIC REPORT

Overview

Greene King is a strong business with an excellent track record of delivery and resilience in tough market conditions. This has been a challenging financial year with pressures on both revenue and margins as consumer confidence remains fragile and a number of industry-specific input costs continue to rise ahead of headline inflation. Moreover, adverse weather in the second half and stronger competition across the year have given us additional challenges. I am pleased that the investments we made in the customer offer and other actions taken in the second half are starting to pay off and that underlying trading is improving. We are fully focused on delivering our aim of building the best pub and beer company in Britain.

Performance

Group revenue was down 1.8% to £2,176.7m and group operating profit before tax and exceptional and non-underlying items[1,2] was down 9.3% to £373.1m. Group profit before tax rose by 6.8% to £197.5m while group profit before tax and exceptional and non-underlying items[1,2] was down 11.2% to £243.0m. Adjusted earnings per share[1,2] was down 11.4% to 62.7p.

Dividend

While trading this year was below our initial expectations, the board has recommended a final dividend of 24.4p, reflecting our confidence in the long-term prospects of the business. This takes the total dividend for the year to 33.2p, in line with last year. We have a long-term track record of covering our debt amortisation, core capital expenditure and dividend from our free cash flow and the board continues to target a dividend covered approximately two times by earnings.

People

We have 39,000 talented and hard-working team members who are responsible for the continued success of the business. Under the leadership of our strong management team, they responded well to the challenges we are experiencing in the market place and, supported by the £10m investment into value, service and quality, helped to deliver an improvement in underlying trading in the second half of the year. I should like to record our thanks for their effort and commitment.

Board changes

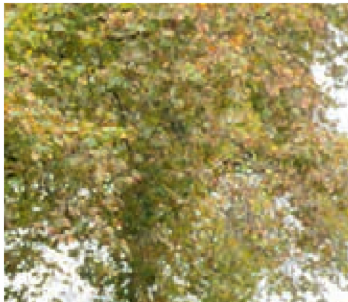
In February this year, Richard Smothers joined the board of Greene King as chief financial officer in succession to Kirk Davis. Richard has 20 years of experience at blue-chip retail and consumer-focused companies in senior financial roles. He is a strong addition to both the board and executive team. I should like to record the board's thanks to Kirk for his contribution to Greene King, particularly during the integration of Spirit.

Looking ahead

We are pleased with the most recent trading performance although we are aware that we have benefited from better weather and sporting events. Building pub brands that customers admire remains central to our strategy and we are focused on providing the customer with offers that deliver compelling value, service and quality. We shall maintain our discipline in investing in both our estate and our people to generate long-term value, while continuing to manage our capital structure prudently. Our aim is that Greene King will emerge from the current challenging environment stronger than ever and I look forward to reporting on our progress next year.

Philip Yea
Chairman
27 June 2018

1. Adjusted measures exclude the impact of exceptional and non-underlying items as detailed in note 5 of the financial statements.
2. The directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the group's performance. APMs are explained on page 128 of this annual report.



FOCUS AREAS

BEST FOR CUSTOMERS

BEST FOR TEAM

BEST FOR COMMUNITIES

BEST FOR CUSTOMERS

We aim to be the best in the eyes of the customer, which means offering them industry-leading value, service and quality.

With our market place becoming even more dynamic and competitive, it is critical for us to deliver industry-leading value, service and quality in order to attract customers again and again to our pubs. We took the decision earlier in the year to invest an additional £10m in enhancing the customer offer, to improve the underlying trading in Pub Company and to help achieve our long-term goal of becoming the best pub and beer company in Britain.

The £10m investment was focused on three main areas: pricing, 'Acting Local' and labour redeployment. In terms of pricing, we made some key strategic investments in the value segment, focusing on known value items (KVIs) promotions at key trading occasions to drive footfall. To promote 'Acting Local' in our pubs, we gave our general managers more capacity to invest in in-pub events, such as high profile pay-per-view boxing and live music nights. Finally, we put an emphasis on improving the effectiveness of our labour deployment at key trading occasions, including adding 10% more weekend hours into our main brands.

We are pleased that this investment has shown early signs of success, reflected in the improvements in underlying LFL sales in the second half of the year as well as in our guest experience metrics.

Recent results:

- Improvements in guest metrics including TripAdvisor, guest satisfaction and mystery guest service scores.
- 96% of our managed pubs in England and Wales received a four or five-star rating in food standards.
- Farmhouse Inns rated highest of all major pub brands for Overall Experience, Food Quality and Taste (source: MCA Pub Brand Monitor).
- Chef & Brewer improved its customer score by 0.2pts to 8.4/10 for Friendly Service and 0.3pts to 8.1/10 in Overall Experience (source: MCA Pub Brand Monitor).

"OUR OFFERING IS DELIVERED BY THE BEST PEOPLE AND IN HIGH QUALITY, APPEALING PUBS WITH CLEAR AND EXCITING BRANDS AND FORMATS.

BEST FOR TEAM

Our ambition is for Greene King to be a great place to work for our 39,000 employees.

We want to create an environment where our team members can reach their full potential and to do this it is important we are aware of and care for our teams' wellbeing and mental health. We have done a number of things this year to promote wellbeing.

We ran an extensive Wellbeing Week for our office and field-based teams, which was designed to promote health awareness at work and at home. It included workshops, challenges, health promotion activities, mental health webinars, a mindfulness mural, advice from wellness experts and even free fresh fruit. We also provided a 'Know Your Numbers' mini health check, where employees could have their blood cholesterol, blood glucose, blood pressure and body mass checked.

We also recognise the importance of raising the awareness of mental health. Beyond the Wellbeing Week, we trained our Pub Company HR teams in mental health awareness to help them to support our team members in our pubs.

Our new training portal, TAP, includes training for wellbeing. This training is available to all our employees and includes focus areas on being active, healthy eating, workplace hygiene and mental health at work.

All of our team members have access to an Employee Assistance programmes (EAP) which provides information, advice, training and services to help them deal with events and issues in their work and personal lives, such as legal advice to help with family health issues. We raised awareness of our EAP this year through video content which we delivered through our wellbeing experts and via webinars to maximise exposure and promotion of the programme to all team members.

> **"WE WANT TO CREATE AN ENVIRONMENT WHERE OUR TEAM MEMBERS CAN REACH THEIR FULL POTENTIAL.**

BEST FOR COMMUNITIES

Our pubs play an important role in their local communities, by employing local people, raising funds for charity and serving our customers.

This year, we were proud to announce that we have now raised £4m for Macmillan Cancer Support thanks to the incredible efforts of our teams and customers. One of the ways we raised money was through our participation in the Lord Mayor's Show in London.

The Lord Mayor's Show, which dates back to 1215, is a magnificent procession for the newly elected Lord Mayor of the City of London to Westminster and we were delighted to be part of such a historic event. The Greene King float joined 70 other organisations and 20 military and civilian bands and our theme was 'Bringing our iconic London pubs to life'. Greene King is London's biggest pub company and we are privileged to have some of the most historic and characterful pubs in the city, so we decorated the float with pub signs and our team members brought them to life with enthusiasm by dressing up as the character of their pub.

Macmillan joined us for the procession to help us to create a real carnival atmosphere for those watching on the streets of London. All of our London pubs fundraised during the weekend and we donated money from every fish and chips meal we sold to Macmillan.

"WE HAVE NOW RAISED £4M FOR MACMILLAN CANCER SUPPORT.

RESILIENCE AND GOOD PROGRESS

> "WE HAVE MADE GOOD PROGRESS ON KEY INITIATIVES AND WE HAVE A STRONG STRATEGY TO DRIVE MOMENTUM.

GROUP REVENUE WAS:

£2,176.7m

OPERATING PROFIT BEFORE EXCEPTIONAL AND NON-UNDERLYING ITEMS WAS:

£243.0m

DIVIDEND IN LINE WITH LAST YEAR:

33.2p

Greene King has shown its resilience and made good progress on key initiatives which drove an improvement in the momentum of the business during a year of unprecedented cost inflation, weak consumer confidence and increased competition. Snowy weather impacted trading in the second half of the year but our £10m VSQ customer investment helped to improve underlying Pub Company trading. Pub Partners delivered another year of increased LFL net profit while Brewing & Brands grew revenue by 7.4% in a declining beer market. We have a strong strategy in place to continue driving momentum in the top line, to mitigate costs and to deliver value to our customers, our employees, our shareholders and our communities.

Performance summary

Total revenue was down 1.8% to £2,176.7m as a result of the challenging market conditions and poor weather. EBITDA[1,2,3] was £486.6m, down 7.2% and operating margin[1,2] decreased 1.5%pts to 17.1%, reflecting the net cost inflation seen in the year as well as the VSQ investment in Pub Company. Profit before tax, exceptional and non-underlying items[1,2] was £243.0m, in line with market expectations.

Pub Company revenue was £1,767.7m, down 2.7% due to the tough trading conditions and the 4.4% decrease in the average number of pubs trading, while average weekly take (AWT) was up 1.6% to £19.6k. Pub Company EBITDA[1,2,3] was down 10.0% to £362.9m and operating profit margin[1,2] was down 1.8%pts to 15.2% due to the increased cost pressures, as well as the VSQ investment.

1. Adjusted measures exclude the impact of exceptional and non-underlying items as detailed in note 5 of the financial statements.
2. The directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the group's performance. APMs are explained on page 128 of this annual report.
3. EBITDA represents earnings before interest, tax, depreciation, amortisation and exceptional and non-underlying items and is calculated as operating profit before exceptional and non-underlying items adjusted for the depreciation and amortisation charge for the year.

Pub Partners revenue was £193.9m, down 2.5% on last year, driven by the 4.7% decrease in average pubs trading. EBITDA[1,2,3] was down 1.7% to £101.3m while average EBITDA[1,2,3] per pub was up 3.1% to £88.9k, reflecting our continued estate optimisation.

Brewing & Brands achieved strong revenue growth, up 7.4% to £215.1m, driven by increased sales from free trade and exports. EBITDA[1,2,3] was down 0.6% to £36.0m and operating profit margin[1,2] was down 1.2%pts to 14.3%, reflecting the change in product and channel mix.

Free cash flow before disposal proceeds was down 24.8% to £89.9m and our cash generated more than covers our debt service obligation, core capex expenditure and dividend payments.

Adjusted earnings per share[1,2] was down 11.4% to 62.7p and the board has recommended a dividend per share of 33.2p, in line with last year.

The businesses generated a strong return on capital employed (ROCE) of 8.5%, which remains comfortably above our weighted average cost of capital (WACC).

Trading environment

The current trading environment is still characterised by subdued consumer confidence, intense competition and rising costs.

Consumer confidence improved slightly since the lows of December 2017, but remains negative (source: GfK) and consumers expect to continue reducing leisure spend (source: Deloitte Consumer Tracker Q1 2018).

Consumers are keeping a keen eye on costs and continue to expect more for their money. Other aspects of their behaviour are changing faster than ever. Spirit-based drinks and breakfast are growth areas for pubs, as are event-driven customer occasions, both in terms of key calendar events and in terms of our customers' own events. Health and diet remain key trends and consumers also favour brands associated with local and fresh produce. Quick service and convenience are also important to the consumer and have driven technological innovation such as order and pay apps and the rise of delivery services.

Competition for market share is intense, particularly in the food-led sector, with the overall number of restaurant outlets in the UK still on the rise, up 16.7% over the last five years, and food-led pub numbers up 4.7%. Total pub numbers reduced by 10.3% however, driven by a 16.9% reduction in drink-led pub numbers since 2012 (source: CGA and AlixPartners Market Growth Monitor, April 2018). Demand for drink-led pubs is holding up though with LFL sales growth of 1.7% over the last 12 months versus a decline of 0.4% in pub restaurants and a 0.1% decline in restaurants (source: Coffer Peach Business Tracker, April 2018).

The cost environment remains challenging and, while we succeeded in mitigating £44m of the £60m gross inflation in the year, we expect there to be further cost inflation of around £45–50m in the new financial year, driven by the National Living Wage, sugar tax, utility taxes and business rates. Through the execution of our strategy outlined below we are targeting a return to LFL sales growth in the new financial year supported by additional cost mitigation of £30–35m. Through our planned cost savings programme, we will seek to increase our agility and competitiveness and be more effective at capturing sales opportunities in our main markets.

The garden at The Didsbury, a Chef & Brewer pub in Didsbury

"

2,700 APPRENTICES JOINED OUR APPRENTICESHIP SCHEME THIS YEAR.

People

We spent over £3m in training and development in the year. We also launched our new online training platform, available to all our 39,000 employees, enabling company-wide training on areas such as safety and compliance, as well as more reactive and targeted training programmes, such as early stage inductions and social media training. Around 150,000 courses have been completed on the platform so far. We also launched Wellbeing Week to raise awareness about physical and mental health in the workplace and we launched networks for women and members of the LGBT+ community.

Our continued investment in training and development, together with our competitive employee benefits scheme, has led to improved engagement levels and a steady rate of turnover. Our average length of service for pub general managers is 7.4 years and for kitchen managers it is 4.5 years. We will seek to improve the future retention rate through the training initiatives detailed above, especially a quality induction programme, and greater engagement with our employees through digital HR and ongoing focus on our Winning Ways programme, which we launched last year.

The apprenticeship scheme has now supported over 10,000 apprentices with 92% of our pubs having benefited from the programme and 71% of our pubs with an apprentice currently in training. The scheme continues to attract high levels of applicants and 2,700 apprentices joined the scheme this year. We were pleased to win awards from the National Apprenticeship Service (Top 100 Apprenticeship Employer), East of England Apprenticeship Awards (Macro Employer of the Year), and the Training Journal (Best Apprenticeship Programme) in recognition of our investment in apprentices.

Community

Pubs are at the heart of communities across the country and are a force for good in those communities.

We are extremely proud of our national charity partnership with Macmillan Cancer Support, which to date has raised over £4m with record fundraising results of over £1m over the last year.

We ran eight Get into Hospitality programmes this year in association with The Prince's Trust and were able to celebrate one of our first Prince's Trust recruits going on to complete our apprenticeship programme. A further 20 Prince's Trust recruits are currently enrolled on an apprenticeship with Greene King.

In addition, this was our fifth year donating to the Pub is the Hub Communities Fund, supporting rural pubs that want to diversify their services for the benefit of their local communities.

Outlook

Over the first eight weeks of the new financial year LFL sales in Pub Company were up 2.2%, benefiting from better weather and strong sporting fixtures as well as the investments we made in the second half of the year on value, service and quality for our customers. We are continuing to see strong drink sales growth, achieving record Pub Company drink sales in May, and we are starting to see the benefits from the World Cup, as more than half of consumers expect to watch an England game at the pub. Pub Partners and Brewing & Brands are trading in line with expectations. For the new financial year we expect £45–50m cost inflation and we are targeting £30–35m cost savings and Pub Company LFL sales growth.

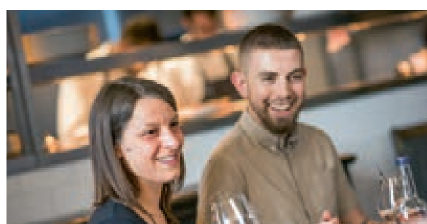
Rooney Anand
Chief executive officer
27 June 2018

Our business model

DELIVERING LONG-TERM GROWTH AND RETURNS

Our business model

Leading UK pub company and brewer	Large, category-leading brands	Well-invested estate	Experienced management team	Strong financial management



PUB COMPANY

Our Pub Company consists of both food-focused destination pubs and restaurants and 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 (1,745 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.

Operational review page 20

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 and with the right offer. Revenue in our Pub Partners business of 1,110 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.

Operational review page 24

BREWING & BRANDS

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

Operational review page 26

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 sales.

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 estate and selectively acquiring new sites, while maintaining our long-term progressive dividend policy.

Value created

GROUP RETURN ON INVESTMENT
25.4%

GROUP RETURN ON CAPITAL EMPLOYED
8.5%

FREE CASH FLOW
£89.9m

ADJUSTED BASIC EARNINGS PER SHARE
62.7p

INVESTED IN TRAINING AND DEVELOPMENT
£3m

TOTAL DIVERSION OF WASTE FROM LANDFILL
98%

Value shared with

CUSTOMERS

We place customers at the heart of what we do, aiming for industry-leading value, service and quality and regularly benchmarking against the best in class.

2,900
PUBS, RESTAURANTS AND HOTELS

EMPLOYEES

We employ around 39,000 people and work hard to make sure that every member of our team gets the opportunity to learn and progress. We maintain high employee engagement scores and were pleased to receive awards from the National Apprenticeship Service, East of England Apprenticeship Awards and the Training Journal in recognition of our investment in apprentices.

39,000
EMPLOYEES

SHAREHOLDERS

Greene King has a long-term track record of earnings growth, a disciplined approach to capital management and strong cash flow generation supporting an attractive and sustainable dividend.

33.2p
DIVIDEND PER SHARE

COMMUNITIES

Our communities support includes: our partnership with Macmillan Cancer Support, for which we have raised over £4m; our sponsorship of Pub is the Hub; and our scheme with The Prince's Trust, offering unemployed young people an opportunity to work and gain skills in the leisure sectors.

£4m
RAISED FOR MACMILLAN CANCER SUPPORT

ENVIRONMENT

Greene King is committed to operating its business in a sustainable way and was the first pub company to apply for a licence to self-supply water, enabling us to reduce water usage in our business. We were the first major pub company in the UK to pledge that by 2020 we will send zero waste to landfill.

Zero
WASTE TO LANDFILL BY 2020 PLEDGE

OUR CORE MARKETS

Overview

Our core markets are the UK eating out and UK drinking out markets. We also compete in the UK ale market through brewing our industry-leading ale portfolio and have a foothold in the UK staying out market through accommodation at our pubs, and in our hotels and lodges.

The last 12 months have been characterised by negative consumer confidence, unprecedented cost headwinds, increasing competition – particularly in the eating out market – and high levels of discounting. The combination of these factors has led to numerous company voluntary arrangements (CVAs) announced in the casual dining segment over the course of the year and a slowdown in the growth rate of dining outlets.

Economic environment

Consumer confidence remains subdued, with an average monthly score of -10 recorded over the year driving continued caution in discretionary expenditure (source: GfK Consumer Confidence Index and Deloitte UK Consumer Tracker Q1 2018). Confidence has slightly improved more recently, rebounding off a low of -13 in December 2017 to -9 in April 2018. With inflation now on a downward trajectory and signs of a revival in pay growth, combined with the continued fall in the unemployment rate, there is plenty of data to suggest some improvement in consumer spending is possible over the next 12–24 months. However, we suspect that the Brexit overhang on sentiment will weigh on this until there is clarity on the outcome of the negotiations.

Political environment

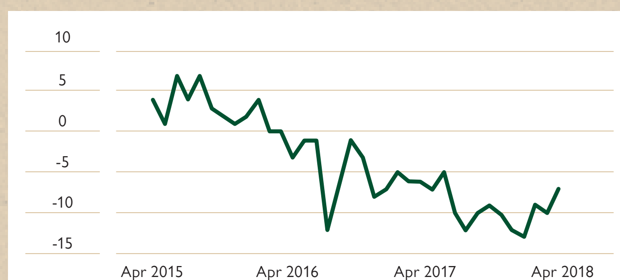
Elsewhere in politics, further challenges to the industry are being added through unprecedented cost increases, driven by the National Living Wage, the Apprenticeship Levy and sugar and utility taxes. All these policy initiatives will impact on margins within the hospitality industry going forward. We successfully reached our target of £40–45m in cost mitigation in the financial year and will target a further £30–35m next year.

The impact from the statutory Pubs Code of 2016 and market rent-only (MRO) option remains insignificant at a group level. We have been able to mitigate a large number of valid MRO requests through the range and flexibility of our Pub Partners agreements and at the year end had four pubs with MRO arrangements in place.

Consumer trends

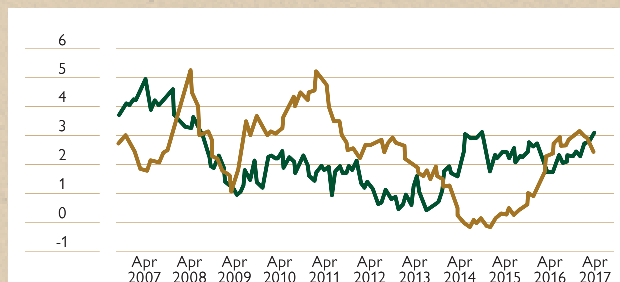
Consumer behaviour and demands are changing faster than ever. Spirit-based drinks and breakfast are particular growth areas for pubs, as are event-driven customer occasions, both in terms of key calendar events, such as the World Cup, and in terms of our customers' own events like birthday celebrations. Health and diet remain key trends and consumers also favour brands associated with local and fresh produce. Quick service and convenience are also important to the consumer's choice and have driven technological innovation such as order and pay apps and the rise of delivery services. We are developing our offer and strategy in response to these consumer trends, while maintaining our long-term focus on being the best pub and beer company in Britain.

CONSUMER CONFIDENCE



Source: GfK Consumer Confidence, Index April 2018.

AVERAGE EARNINGS GROWTH STARTING TO OUTSTRIP INFLATION



CPI inflation (% y/y) Average earnings (ex bonuses, % y/y)

Source: Capital Economics/Reuters.

CONSUMER TRENDS

EATING BETTER AND DEMANDING MORE

- Customisation
- Health and diet
- Local and fresh
- Value scrutiny

CONVENIENCE AND INNOVATION IS KEY

- Quick service
- Delivery and the night in
- Role of technology
- New experiences

CHANGING THE WAY THEY USE PUBS

- Third space
- Drink resurgence
- Growth in breakfast

UK eating and drinking out

We offer a variety of eating and drinking out options and experiences across both our destination pubs and local community pubs. The UK eating and drinking out market is made up of 330,000 outlets and an annual total spend of £88bn (source: MCA Eating Out Report 2017). Within this market, the pubs and bars segment consists of 47,000 outlets and a total spend of £22bn, or 25% of the overall eating and drinking out spend.

Competition for market share is intense with the number of licensed premises in the UK down just 0.3% on last year despite the host of economic and political challenges challenging the sector (source: CGA and AlixPartners Market Growth Monitor, April 2018). The bulk of the 0.3% decline in outlet numbers was drink-led pubs and bars, which declined 16.9% between 2012 and 2017 and 1.9% last year. Meanwhile, the overall number of restaurant outlets in the UK rose by 16.7% in 2012–2017 and food led-pub numbers are up 4.7% over the same period. The pace of growth in food-led outlets has slowed more recently with restaurant numbers growing just 0.6% last year and food-led pubs declining 1.3%.

While the supply of wet-led pubs remains in decline, demand is holding up. The monthly average trend (MAT) LFL sales growth for wet-led pubs over the last 12 months was 1.7%. Meanwhile, pub restaurants MAT LFL sales over the last 12 months declined 0.4% and restaurant MAT LFL sales were down 0.1% (source: Coffer Peach Business Tracker, April 2018).

UK ale market

The overall UK ale market declined by 3.7% in volume for the year to April 2018. Greene King own-brewed volumes were down 1.2% and our market share was therefore up 0.2%pts.

With increasing interest from consumers for beers with heritage and provenance, as well as new drinkers looking for new styles of beer, we feel that we are well placed to capitalise on these trends, as the UK brewer with the leading premium ale brand Old Speckled Hen, the leading premium cask ale brand Abbot Ale, and one of the top 15 fastest-growing key ales in East Coast IPA, coupled with an exciting range of seasonal and 'craft' beers.

We expect the UK ale market to continue to evolve and improve but the focus will move away from volume and towards value as the trend towards premiumisation continues. 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

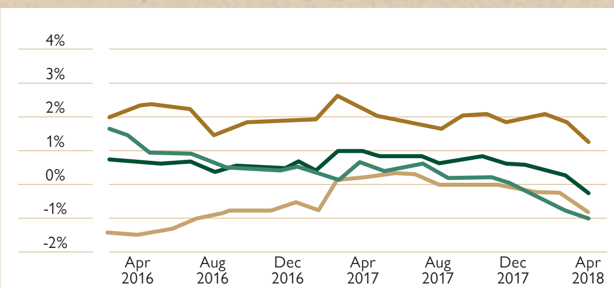
We compete in the UK provincial staying out market and offer great value and convenience to guests on both business and leisure visits. We see the combination of a pub and adjacent rooms to be an attractive guest proposition in the context of increasing business and leisure travel, and therefore one which offers plenty of opportunity for pubs to take share from the more traditional branded hotel chains. We have 3,389 bedrooms in our estate and see scope for this to grow under the well-established and trusted Greene King local pubs brand.

2017 saw occupancy in provincial hotels grow slightly to 76% and we expect further growth over the next two years. RevPAR growth in 2017 was 3.7% and is expected to grow another 1.1% in 2018 (source: PWC UK hotels forecast update 2018 and 2019).

OUTLET GROWTH 2012–2017 CAGR

Source: CGA and AlixPartners Market Growth Monitor, April 2018.

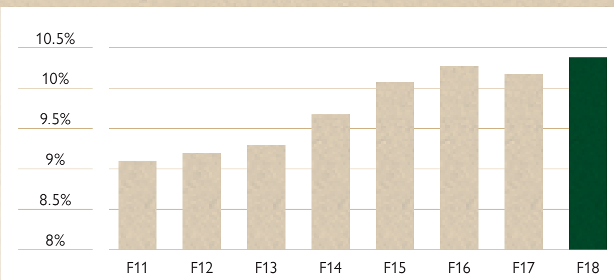
WET-LED OUTPERFORMING FOOD-LED VENUES



Total index · Wet-led pubs · Pub restaurants · Restaurants

Source: Coffer Peach Business Tracker, April 2018.

GREENE KING % SHARE OF TOTAL UK ALE MARKET



Source: BBPA.

Our strategy

TO BE THE BEST PUB AND BEER COMPANY IN BRITAIN

Priorities for the next year

To help us deliver on the five key pillars of our long-term strategy, we have three near-term priorities:

1. Improve underlying sales growth

We are focused on delivering improved LFL sales and ultimately market outperformance. We will not drive LFL sales at any cost but seek to strike the right balance between sales growth and margin delivery. Some of the key activities over the next three years to help deliver better LFL sales include:

- clearer brand and price propositions;
- industry-leading VSQ;
- investment in becoming the pub leader in digital;
- optimising our labour deployment;
- maximising event-driven sales opportunities; and
- further estate quality improvement.

2. Develop a more efficient and effective organisation

We will continue to operate a diversified but integrated business model covering managed pubs, tenanted pubs and brewing. Within this, given the ongoing industry cost pressures and the fast pace of consumer change, we have to become a more efficient and effective organisation. Actions to deliver this include:

- further cost savings programmes;
- a realignment of the Pub Company support centre to match the simpler brand portfolio;
- a simplification of our business systems and processes; and
- improved employee engagement to help drive better productivity.

3. Further strengthen our capital structure

We have a strong and flexible balance sheet supported by our relentless focus on generating enough cash, pre-disposals, to cover our debt service obligations, our core estate capex requirements and an attractive dividend to our shareholders. To further strengthen our capital structure and maintain the delivery of this strategy, we will use our targeted leverage levels to continue to invest in growth opportunities while looking to complete the refinancing of the Spirit debenture. Our Spirit refinancing plan will both reduce the overall cost of debt and increase the flexibility within our debt platform. Strengthening our capital structure will help ensure that, in the challenging trading environment, we can continue to pay attractive dividends and return dividend cover to around 2x in the longer term.

Our overall vision is to be the best pub and beer company in Britain and our mission is to be the best for our customers, our employees, our shareholders and our communities. The five key pillars of our long-term strategy are to:

Strategy

1 BUILD BRANDS THAT CUSTOMERS ADMIRE

We will focus on four brands going forward.

- The Greene King pub brand has significant untapped provenance based on 219 years of history and we have redeveloped the brand's proposition to reflect its ambition to be 'the best pub in the neighbourhood'. We are extending the brand into more food-led pubs where appropriate and, in addition, both Pub Partners and Brewing & Brands will continue to play an important role in supporting the delivery of the Greene King brand proposition through our branded tenanted and leased pubs and through our beer range.
- Chef & Brewer is our country pub brand with its focus on both the 'chef' and the 'brewer' essential for success. It caters effectively for customers looking to refuel on a casual basis, as well as customers treating their visit as a special occasion.
- Farmhouse Inns is our out-of-town, food-led brand where families and friends can 'feast together' from either our carvery offer or our main menu. It is an extremely popular brand with customers, as shown by the latest MCA Pub Brand Monitor, in which customers placed Farmhouse Inns first across all large pub brands for food quality, drink quality, friendly service, menu choice and value for money.
- Hungry Horse offers 'generous value, every day'. It is located in both local communities and in destination sites and is able to cater for a broad set of customer occasions ranging from adult football watching to family dining due to the average pub size and internal segmentation of the pub.

All our other pub brands have either been replaced (e.g. Fayre & Square) or will be subsumed into these four brands over the course of the new year. This emphasis on four brands will help to deliver significant business simplification and efficiency improvements while at the same time allow us to continue tailoring a pub's offer to local customer needs. Using this simpler brand structure will help us keep a tighter focus on the four brand propositions and drive up net promoter scores (NPS) and customer satisfaction.

2 PROVIDE OFFERS THAT DELIVER COMPELLING VALUE, SERVICE AND QUALITY

Increased consumer expectations, combined with the growth in alternative dining opportunities such as takeaway and delivery, mean that all eating and drinking out providers need to deliver more compelling experiences to customers. We continue to monitor the success of our £10m customer investment as we look to strike the right balance between the inherent value of a pub brand and the requirement to target specific customers through promotional activity. We increased the emphasis on delivering better service this year, incentivising pub teams on TripAdvisor scores, guest satisfaction reviews and mystery guest scores, which all improved against the previous year. We also increased the frequency of food quality benchmarking and we are increasing our focus on drink quality with an integrated end-to-end plan covering all three of our businesses.

3 DEVELOP PEOPLE WHO EXCEED EXPECTATIONS

Running pubs is primarily a people business and having a team that not only meets customer expectations, but consistently exceeds them, will stand us apart from our peers and create material competitive advantage. Our 39,000 employees will start to see changes in the amount, the quality and the effectiveness of their training programmes over the next two to three years. We are addressing our recruitment capabilities and skills, investing in improving core management and front-line service skills, and focusing on further developing leadership skills throughout the business.

4 MAINTAIN A WELL-LOCATED AND INVESTED ESTATE

Our pub estate is 82% freehold or long leasehold and we are committed to ensuring in both Pub Company and in Pub Partners that the core estate is well invested (on a five to six-year cycle) and that we constantly improve the overall quality of the estate. We spent £193m in the financial year on our estate, covering core capital expenditure, new builds, brand conversions and freehold reversion purchases. We expect to spend between £180m and £210m in the new financial year. All investment options create value for shareholders including delivering normalised core capital investment returns of 25% and new build returns of 17%. Our new build programme, which has previously been focused on Farmhouse Inns, will diversify to include lodges, Chef & Brewer and specific formats within the Greene King estate. In addition, we will continue to make a small number of single-site acquisitions and opportunistic freehold reversions. The other important element of our strategy is to dispose of non-core pubs. This has been a successful programme to date, having sold 295 pubs over the last three years and raising proceeds of £288m at an average multiple of 14x EBITDA. These pubs are mainly tail pubs that we do not believe have a long-term future within Greene King, but are also 'gold bricks', where a buyer places a materially higher alternative use value on a pub.

5 MANAGE OUR FINANCES PRUDENTLY

We have a long-term track record of generating enough cash, pre-disposals, to cover our debt servicing obligations, our core capex requirements and our attractive dividend. Our balance sheet and cash flow management is aimed at continuing this into the future. As a consequence, we believe a net debt to EBITDA ratio of between 4 and 4.5x is the right range for our predominantly freehold estate and strong cash conversion.

Key performance indicators

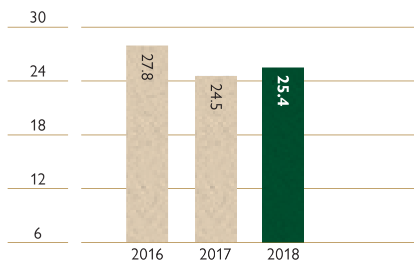
For the year ended 30 April 2018

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

Group

RETURN ON INVESTMENT[1] (%)

25.4%



SUMMARY

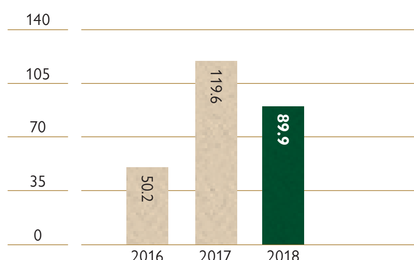
We assess projected and actual investment returns to ensure that we continue to focus capital expenditure on areas that generate the highest possible sustainable returns. In the year we achieved a return on investment of 25.4%.

DEFINITION

Return on investment across our core pub businesses. Calculated as the average incremental increase in pub EBITDA post investment divided by the total core capex invested in completed developments.

FREE CASH FLOW[1] (£m)

£89.9m



SUMMARY

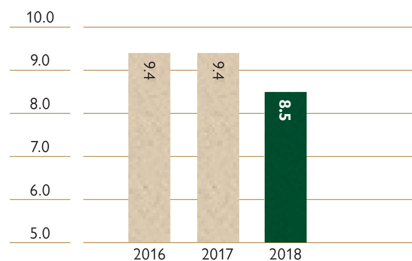
The group has a strong record of organic cash generation and we use free cash flow as a measure of this. During the financial period the group's free cash flow was £89.9m.

DEFINITION

EBITDA less working capital and non-cash movements (excluding exceptional items), tax payments (excluding amounts paid in respect of settlements of historical tax positions and adjusted for the impact of HMRC payment regime changes), interest payments (excluding payment of interest in respect of tax settlements), core capex, dividends and other non-cash movements.

RETURN ON CAPITAL EMPLOYED (ROCE)[1] (%)

8.5%



SUMMARY

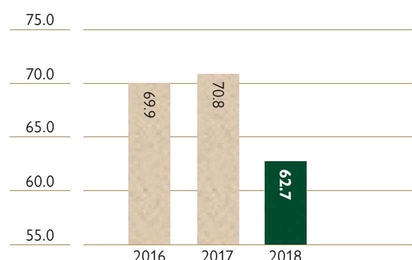
We monitor return on capital employed in comparison to our overall weighted average costs of capital. ROCE for the financial year of 8.5% remains comfortably ahead of our cost of capital.

DEFINITION

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

ADJUSTED BASIC EARNINGS PER SHARE[1] (p)

62.7p



SUMMARY

Adjusted basic earnings per share was 62.7p.a, decrease of 11.4% compared to the prior year.

DEFINITION

Earnings per share excluding the impact of exceptional and non-underlying items.

NON-FINANCIAL KPIs

SUMMARY

During a difficult trading period and, more generally, a challenge in the industry finding, retaining and developing enough people to work in our pubs, staff turnover has remained broadly stable. We made encouraging progress in improving engagement; we saw our primary employee engagement score improve by 4% during the year[2], driven by significant improvements in communication and recognition and moderate improvements in training. With our focus on training and development through our new online learning platform we aim to improve this further in the coming 12 months. Our other core measure of engagement, our employer advocacy score, was 69% at the year end.

Our investment in improving the customer offer helped deliver both improved TripAdvisor scores and an increase in our Pub Company net promoter score, to 59.0%.

DEFINITIONS

Staff turnover – The percentage of leavers against the average headcount over a rolling annual period, excluding any student leavers.

Employee engagement score – The proportion of respondents selecting the response 'I feel engaged and committed at present'.

Employer advocacy score – The proportion of respondents who agreed with the statement 'I would recommend Greene King as great place to work to others'.

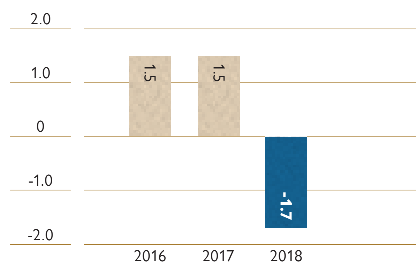
Net promoter score (NPS) – Calculated by asking customers how likely they are to recommend the pub on a scale of 0–10 (10 being the most favourable). The percentage of responses where the score is 0–6 (brand detractors) is subtracted from the percentage of responses where the score is 9 or 10 (brand promoters) to give the NPS. Scores of 7 or 8 (passive) are ignored.

1. An explanation of the group's use of alternative performance measures (APMs), including definitions and reconciliations, is included in the glossary on page 128.
2. Measured over the period from October 2017 to April 2018.

Pub Company

LIKE-FOR-LIKE SALES[1] (%)

-1.7%



SUMMARY

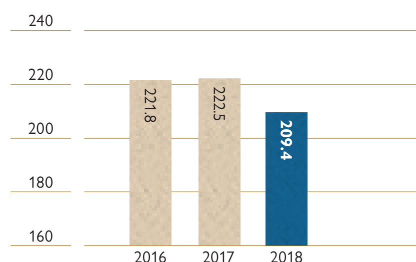
We monitor LFL sales in order to understand the performance of our estate excluding the impact of new sites and disposals. LFL sales declined by 1.7%.

DEFINITION

Pub Company LFL sales include revenue from the sale of drink, food and accommodation but exclude machine income. LFL sales performance is calculated against a comparable 52-week period in the prior year for pubs that were trading for the entirety of both 52-week periods. The calculations include figures for acquired Spirit pubs for a comparable 52-week period in both the current and comparative financial year.

EBITDA PER PUB[1] (£k)

£209.4k



SUMMARY

Average EBITDA per pub for our managed pub business declined by 5.9% compared to the prior year. We monitor EBITDA per pub to assess the overall quality of the pubs in our estate.

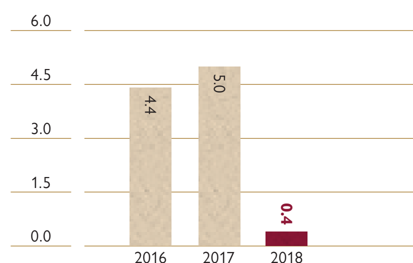
DEFINITION

Pub Company EBITDA divided by the average number of pubs trading in the financial period.

Pub Partners

LIKE-FOR-LIKE NET PROFIT[1] (%)

+0.4%



SUMMARY

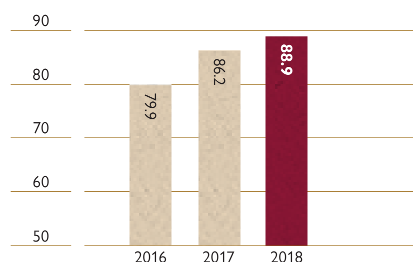
We monitor LFL profit in order to understand the performance of our tenanted estate excluding the impact of disposals. LFL net profit grew by 0.4% compared to the prior year.

DEFINITION

Pub Partners LFL profit includes pub operating profit and central overheads but excludes exceptional items. LFL profit performance is calculated against a comparable 52-week period in the prior year for pubs that were trading for the entirety of both 52-week periods. The calculation include figures for acquired Spirit pubs for a comparable 52-week period in both the current and comparative financial year.

EBITDA PER PUB[1] (£k)

£88.9k



SUMMARY

Average EBITDA per pub for our tenanted pub business grew by 3.1% compared to the prior year. We monitor EBITDA per pub to assess the overall quality of the pubs in our estate.

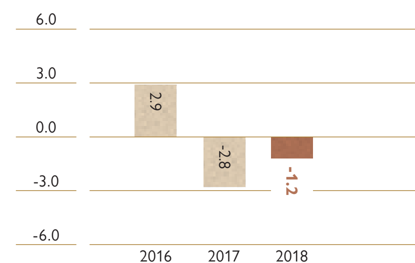
DEFINITION

Pub Partners EBITDA divided by the average number of pubs trading in the financial period.

Brewing & Brands

OBV GROWTH[1] (%)

-1.2%



SUMMARY

We monitor OBV growth to assess relative performance of our beer brands. OBV volumes declined by 1.2% compared to a cask ale market down 6.5%[3] and total ale market down 3.7%[3] over the same period.

DEFINITION

Year-on-year growth in the volume of sales of beer brewed at our Greene King and Belhaven breweries.

1. An explanation of the group's use of alternative performance measures (APMs), including definitions and reconciliations, is included in the glossary on page 128.
2. Source: Coffer Peach Business Tracker.
3. BBPA May 2017–April 2018.

PUB COMPANY

At the year end our Pub Company division comprised 1,745 pubs and restaurants open across Britain, appealing to a broad range of the population.

OUR FOCUS BRANDS

AVERAGE NUMBER OF PUBS TRADING
1,733 -4.4%

REVENUE
£1,767.7m -2.7%

EBITDA[1,2]
£362.9m -10.0%

OPERATING PROFIT[1,2]
£268.2m -13.0%

OPERATING PROFIT MARGIN[1,2]
15.2% -1.8%pts

AVERAGE EBITDA PER PUB[1,2]
£209.4k -5.9%

1. Adjusted measures exclude the impact of exceptional and non-underlying items.
2. An explanation of the group's use of alternative performance measures (APMs), including definitions and reconciliations, is included in the glossary on page 128.

Total Pub Company LFL sales were -1.7% and underlying LFL sales, adjusting for the impact of snow, were -1.2%. Slower food sales was the main driver of the negative LFL sales, partially offset by positive drink and accommodation sales growth. AWT was up 1.6% to £19.6k, reflecting ongoing estate quality improvement.

Operating profit was £268.2m, 13.0% or £39.9m lower than last year and the operating margin was down 1.8%pts to 15.2%, driven primarily by external cost pressures. The fall in operating profit was due to the 4.4% reduction in the size of the estate, the fall in LFL sales and the net cost inflation in the year.

In response to the challenging environment and negative LFL sales performance in the first half of the year, we took the decision to invest £10m in improving our customer offer. The investment was targeted at three main areas:

1. Strategic price investment in the value segment
2. 'Acting Local' or empowering general managers to invest in in-pub events, such as high profile pay-per-view boxing and live music nights
3. Effective labour redeployment at key customer occasions

The investment has shown early signs of success, reflected in the improvements in underlying LFL sales from -1.4% at the half year to -1.2% and in guest experience metrics including TripAdvisor, guest satisfaction and mystery guest service scores. 96% of our pubs in England and Wales received four or five-star ratings this year in food standards. We will draw on the outcomes of the three initiatives to target further improvements in the offers of our four brands and continue to drive LFL sales momentum.

“WE INVESTED £10M IN IMPROVING OUR CUSTOMER OFFER, AND IT HAS SHOWN EARLY SIGNS OF SUCCESS.

WE HAVE AN EXCELLENT QUALITY ESTATE IN PUB COMPANY AND A DISCIPLINED APPROACH TO INVESTMENT.

We laid solid foundations for growth in our digital offering. Our Season Ticket app is live in 750 pubs following an accelerated rollout in time for the World Cup. The app allows users to find upcoming sports fixtures and their nearest Greene King Season Ticket pubs and enables personalised offers and loyalty points. We signed up a total of 100,000 Season Ticket users in the run up to the World Cup. Our Order and Pay app is available at 32 Greene King and Hungry Horse pubs and has had 33,000 downloads so far. We are learning from these trial sites to improve the app as we look to roll it out further going forward. In addition, we launched a new platform onto which all of our pub websites were transferred, taking the total number of websites we run down from over 500 to 80. It provides us with a cost-effective, user-friendly platform which will better support Greene King's digital ambitions.

We have an excellent quality estate in Pub Company, achieved through the active management of our portfolio, primarily selling pubs at the tail of our portfolio and opportunistically disposing of a small number of high end pubs. We disposed of 38 managed pubs in the year, raising over £84m in proceeds, which was above expectations due to the sale of three high value leasehold pubs. There were five internal transfers of managed pubs into Pub Partners, where we believe the tenanted model will drive greater returns on investment. Meanwhile, we completed nine new builds in the year, mostly under the Farmhouse Inns brand.

Our disciplined approach to investment in our estate saw £96m of maintenance and development capex deployed over the year, maintaining our five to six-year core capital investment cycle. We spent £27m on 106 brand conversions and have now fully debranded Fayre & Square, in line with our strategy of reducing exposure to the value food segment. Our brand optimisation programme continues to generate returns of around 25%.

'Time Well Spent'

– Local wet-led estate of over 1,000 pubs

– Recognised brand being extended within the estate

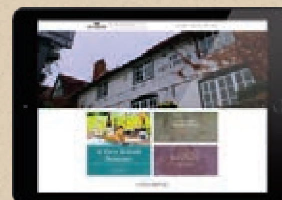
– Over 2,000 Greene King branded pubs across Pub Company and Pub Partners estate

VIEW MORE ONLINE
www.greeneking-pubs.co.uk

'Beautiful country pubs'

– Mid-market, food-led, suburban and semi-rural offer

– Highly ranked brand for service and overall experience[1]



VIEW MORE ONLINE
www.chefandbrewer.co.uk

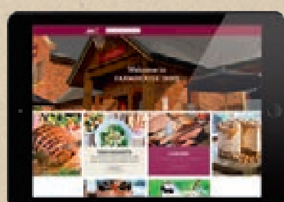
1. MCA Pub Brand Monitor Q1 2018.

FARMHOUSE INNS
DINING & CARVERY

'Feast together'

– Suburban and out-of-town carvery offer

– Voted top pub brand in four of five categories, including Overall Experience and Food Quality and Taste[1]



VIEW MORE ONLINE
www.farmhouseinns.co.uk

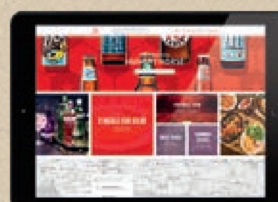
1. MCA Pub Brand Monitor Q1 2018.

HUNGRY HORSE

'Generous value every day'

– Value-for-money community and destination pub offer

– Putting the pub back into community Hungry Horse



VIEW MORE ONLINE
www.hungryhorse.co.uk

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
- Standard lease agreement
- Franchise lease
- Local Hero franchise-style agreement
- Turnover tenancy
- Turnover lease
- Retail ready agreement
- Joint venture agreement
- Scholarship agreement

AVERAGE NUMBER OF PUBS TRADING

1,140 -4.7%

REVENUE

£193.9m -2.5%

EBITDA[1,2]

£101.3m -1.7%

OPERATING PROFIT[1,2]

£91.4m -1.5%

OPERATING PROFIT MARGIN[1,2]

47.1% +0.4%pts

AVERAGE EBITDA PER PUB[1,2]

£88.9k +3.1%

1. Adjusted measures exclude the impact of exceptional and non-underlying items.
2. An explanation of the group's use of alternative performance measures (APMs), including definitions and reconciliations, is included in the glossary on page 128.

14% of Pub Partners pubs buy food through the Greene King supply chain

In Pub Partners we have a high quality portfolio of 1,100 mainly drink-led pubs. It generates significant cash for the group, adds purchasing scale, enhances the Greene King brand and provides flexibility in our estate planning.

Pub Partners revenue was down 2.5% to £193.9m due to the 4.7% decrease in the average number of pubs trading. Rental income grew and offset a decline in LFL beer volumes. Operating profit was down 1.5% but operating profit margin was up 0.4%pts at 47.1% benefiting from estate optimisation, an increase in turnover agreements and cost savings initiatives.

We have a clear aim to be the preferred partner for the best independent operators in the market and therefore have an absolute focus on helping our tenants grow sustainable, successful businesses.

This starts with maintaining the best tenanted, leased and franchised pub estate. We have an excellent quality Pub Partners estate which we have achieved through active management of the portfolio and disciplined capital allocation. We sold 50 sites in the Pub Partners portfolio this year, raising £35m in disposals proceeds, and we invested £26m in the core Pub Partners estate. In addition, the estate benefited from the internal transfer of five managed sites from Pub Company.

We then provide our operators with the right agreement for them. While our most common agreement is our traditional tenancy agreement, we also have a number of alternatives to suit particular licensees and particular pubs. These include commercial free-of-tie leases, tied leases, franchises and an increasing number of turnover agreements. The range and flexibility of our agreements has enabled us to agree new terms in response to the majority of market rent only (MRO) requests and we have just four MRO agreements in place as a result.

> **“WE HAVE AN ABSOLUTE FOCUS ON HELPING OUR TENANTS GROW SUSTAINABLE SUCCESSFUL BUSINESSES.**

Our support to licensees in driving footfall and maximising profit has resulted in average EBITDA per pub of £88.9k this year, an increase of 3.1%. We are providing 14% of Pub Partners' pubs with food through the Greene King supply chain and have 142 pubs signed up to our digital services package for online purchasing. In addition, 190 of our operators currently use our Sports Club package, delivering customer promotions around sports events.

Finally, investment in training, for both the licensees and the support system, is also critical to the success of Pub Partners. Over 2,000 delegates attended training programmes over the year, driving a further improvement in the average term of our licensees to five years and 11 months. Last year Yvonne Fraser was named business development manager (BDM) of the year at the Association of Licensed Multiple Retailers Awards, becoming the fourth winner from Pub Partners in the last five years of this award, and reflecting our ongoing commitment to investment in our BDMs.

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.

OUR CORE BRANDS

REVENUE

£215.1m +7.4%

EBITDA[1,2]

£36.0m -0.6%

OPERATING PROFIT[1,2]

£30.7m -1.0%

OPERATING PROFIT MARGIN[1,2]

14.3% -1.2%pts

1. Adjusted measures exclude the impact of exceptional and non-underlying items.
2. An explanation of the group's use of alternative performance measures (APMs), including definitions and reconciliations, is included in the glossary on page 128.

In Brewing & Brands, our proven long-term strategy is to build consumer loyalty to Greene King through consistent investment in our core ale brands and innovative range of seasonal and craft ales. Through this we continue to win market share and contribute to Greene King's strong returns and cash generation.

Own-brewed volumes (OBV) were down 1.2% with strong growth in free trade and exports offset by declines elsewhere in the on-trade. Greene King outperformed the total ale market, which was down 3.7%, thereby increasing its share of the total ale market by 0.2%pts (source: BBPA).

Operating profit was down 1.0% and operating profit margin was down 1.2%pts, driven by the increased cost of goods sold and changes in sales channel and customer mix, including the disposals made over the year across the estate.

> **GREENE KING'S CORE BRANDS MAINTAINED THEIR UK MARKET-LEADING POSITIONS.**

Greene King's core brands maintained their UK market-leading positions: Greene King IPA continues to be the fastest-selling top ten cask ale brand in the on-trade; Abbot Ale is the no. 1 premium cask ale brand and the fourth largest ale brand in the UK; Old Speckled Hen is the number one premium ale in the UK; Old Speckled Hen Gluten Free is the fastest-selling gluten-free ale in Britain; and Belhaven Best remains the number one draught ale in Scotland and number four keg ale in the UK. East Coast IPA also had a strong year, with total volume growth of 39%, making it one of the top 15 fastest-growing keg ales in the UK.

The success of our brands is supported by our dedicated brand investment programme. Greene King IPA continues to be the official beer of England Cricket and the official sponsor of the Greene King IPA Rugby Championship. A new contemporary brand identity was fully rolled out for Abbot Ale Reserve, reinforcing the quality and premium attributes of the brand. We launched our largest ever new brand campaign for Old Speckled Hen; our Seek a Richer Life television and digital campaign reached over 7.5m consumers over its first six weeks. The Belhaven Brewery celebrates its 300th birthday in 2019 and we will pursue a high profile PR and marketing campaign to mark the occasion and drive another year of growth for the brand.

Once again our beers won multiple awards over the year. We received a Grand Gold prize at the Monde Selection Awards 2018 for Vintage Heritage Pale Ale, a Gold award for Belhaven Twisted Mango IPA, and Silver for Craft Academy's Big Bang. In addition, Vintage Heritage Fine Ale was shortlisted for the Monde Selection Awards' Prize of the Jury 2018 for the best product in all beer, water and soft drinks categories. We were particularly pleased to be the first UK company to receive the Crystal Prestige Trophy, which is awarded to businesses that have received Grand Gold, Gold, Silver or Bronze Awards for ten consecutive years.

STRONG AND FLEXIBLE BALANCE SHEET

"OUR NEW BANK FACILITY WILL IMPROVE THE GROUP'S ABILITY TO REFINANCE SPIRIT SECURED LOANS.

FREE CASH FLOW[2]:
£89.9m

ROCE[2]:
8.5%

DIVIDEND:
33.2p

Income statement

£ million	52 weeks ended 29 April 2018	52 weeks ended 30 April 2017
Revenue	**2,176.7**	2,216.5
Adjusted operating profit[1]	**373.1**	411.5
Adjusted net finance costs[1]	**(130.1)**	(138.0)
Adjusted profit before tax[1]	**243.0**	273.5
Exceptional and non-underlying items	**(45.5)**	(88.6)
Profit before tax	**197.5**	184.9

Revenue was £2,176.7m, a decline of 1.8% compared to the prior year, reflecting lower Pub Company LFL sales, somewhat impacted by snow, and the impact of the non-core pub disposal programme. Pub Company was the biggest driver, with revenue down 2.7% to £1,767.7m. Non-core disposals helped AWT per pub rise 1.6%. The Pub Company business accounts for 81% of group revenue. Total revenue in Pub Partners was £193.9m. Tenanted and leased AWT per pub increased 2.4% and average EBITDA per pub grew 3.1% due to the continuing improvement in the quality of the pub estate. Brewing & Brands grew revenue 7.4% to £215.1m due to increasing the number of new customers.

1. Adjusted measures exclude the impact of exceptional and non-underlying items.
2. An explanation of the group's use of alternative performance measures (APMs), including definitions and reconciliations, is included in the glossary on page 128.

Operating profit before exceptional and non-underlying items was £373.1m, which was a decline of 9.3% on the prior year. Group operating profit margin before exceptional and non-underlying items was down 1.5%pts to 17.1%, reflecting a reduction in both Pub Company margin from 17.0% to 15.2% and Brewing & Brands margin from 15.5% to 14.3%. The reduction in the Pub Company margin reflected the group's ongoing investment in value, service and quality, alongside significant inflationary increases in cost of goods sold and labour, which were not fully mitigated through management actions.

Net interest costs before exceptional and non-underlying items were £130.1m, 5.7% lower than last year due in part to the impact of refinancing activities in the year.

Profit before tax, exceptional and non-underlying items was £243.0m, 11.2% lower than last year.

Basic earnings per share before exceptional and non-underlying items of 62.7p was down 11.4%. Statutory profit before tax was £197.5m, up 6.8% on last year.

Tax

The effective rate of corporation tax (before exceptional and non-underlying items) of 20.0% is higher than the standard UK corporation tax rate of 19.0% due to non-qualifying depreciation, compared to 19.9% in the previous year. This resulted in a charge to operating profits (before exceptional and non-underlying items) of £48.6m (2017: £54.3m). The exceptional and non-underlying tax credit of £13.6m (2017: £21.1m) is discussed under exceptional and non-underlying items.

The group generates revenue, profits and employment that deliver substantial tax revenues for the UK government in the form of VAT, duties, income tax and corporation tax. In the year, total tax revenues paid and collected by the group were £580m (2017: £580m). The group's tax policy, which has been approved by the board, has the objective of ensuring that the group fulfils its obligations as a responsible UK taxpayer.

On 16 October 2017 agreement was reached with HMRC regarding an internal property arrangement, the group's only material unresolved historical tax position. As a result, the group settled tax of £9.4m and interest of £2.1m during the year.

Exceptional and non-underlying items

Exceptional and non-underlying charges were £31.9m, consisting of a £56.1m charge to operating profit, a £10.6m credit to finance costs and a net exceptional and non-underlying tax credit of £13.6m. Items recognised in the year included the following:

1. A £5.6m charge for legal, professional and integration costs following the Spirit acquisition and in relation to group refinancing activities and defending uncertain tax positions.
2. A net impairment charge of £70.4m (2017: £58.6m). Of this total, a net £63.3m charge was made against the carrying value of pubs and other assets.
3. A net surplus on disposal of property, plant and equipment of £19.7m (2017: £3.4m).
4. The £10.6m credit for exceptional and non-underlying finance costs includes a £19.2m gain in respect of the mark-to-market movements in the fair value of interest rate swaps not qualifying for hedge accounting, £11.6m of costs recycled from the hedging reserve in respect of settled interest rate swap liabilities and a £3.0m gain on the settlement of financial liabilities.
5. The exceptional and non-underlying tax credit of £13.6m consists of a £0.2m tax charge on exceptional items, a £2.9m tax credit on non-underlying items, a £3.1m tax charge in respect of prior periods and a £14.0m tax credit in respect of the licensed estate.

Cash flow and capital structure

£ million	52 weeks ended 29 April 2018	52 weeks ended 30 April 2017
Adjusted EBITDA[1]	**486.6**	524.1
Working capital and other movements[2]	**(22.9)**	(14.8)
Net interest paid[2]	**(127.1)**	(134.9)
Tax paid[2]	**(9.4)**	(28.0)
Adjusted cash generated from operations	**327.2**	346.4
Core capital expenditure	**(132.2)**	(126.0)
Dividend	**(102.9)**	(100.1)
Net repayment of trade loans/ other non-cash movements	**(2.2)**	(0.7)
Free cash flow	**89.9**	119.6
Disposal proceeds	**117.5**	88.6
New build/brand conversion capital expenditure	**(61.0)**	(68.9)
Exceptional and non-underlying items/share issues	**(61.6)**	(48.0)
Payment of derivative liabilities	**(42.6)**	(117.4)
Change in net debt	**42.2**	(26.1)

The group continued to be highly cash generative with free cash flow of £89.9m, after funding core capital expenditure of £132.2m and dividend payments of £102.9m. This is significantly ahead of scheduled debt repayments of £52.6m. Disposal proceeds at £117.5m reflected our ongoing programme of estate optimisation and we invested £61.0m in nine new builds and 106 brand conversions.

The group disposed of 38 pubs in Pub Company, 50 pubs in Pub Partners and four closed pubs, raising proceeds of £123.9m, which was partially offset by exiting a small number of leases.

In November 2017 the group amended its existing £400m revolving credit facility to incorporate an additional £350m three-year revolving facility, taking total bank facilities to £750m. The new facility is available to fund the internal transfer of pubs from the Spirit secured financing vehicle, improving the group's ability to refinance Spirit secured loan notes and related interest rate swaps. Pubs released from the Spirit debenture increase the group's unsecuritised portfolio, improving flexibility.

During the year the group settled financial liabilities in relation to the Spirit secured financing vehicle, recognising a net gain of £3.0m. The financial guarantee provided by Ambac in respect of a number of Spirit secured bonds was terminated for a cash consideration of £12.6m with a further £2.2m being paid in respect of consent and other fees. The fair value of this off-market contract liability was initially recognised as part of the acquisition fair values of Spirit Pub Company. An exceptional gain of £5.9m has been recognised, being the difference between the carrying value of the liability and the total cash consideration and fees incurred in order to terminate it.

In addition the A1, A3, A6, and A7 Spirit secured bonds were fully repaid at their par value of £216.9m. This eliminates the cash sweep and 1.5% margin step-up on the £160m A6 and A7 bonds which was due to commence in September 2018.

1. Adjusted EBITDA represents earnings before interest, tax, depreciation, amortisation and exceptional and non-underlying items.
2. Adjusted measures exclude the impact of exceptional and non-underlying items.

Financial review continued

Cash flow and capital structure continued

The group has recognised exceptional losses on early settlement of £4.1m, being the difference between the carrying value of the bonds and their par value on prepayment. The group also terminated two interest rate swap contracts for cash consideration of £42.6m in connection with the repayment of these notes, recognising an exceptional gain of £1.2m amounting to the discount received on termination.

The total cash flow impact of refinancing accounted for £14.8m of the £61.6m exceptional/non-underlying cash flow reported.

In line with our strategic priorities, the group's objective is to maximise the strength and flexibility of its balance sheet, and maintain 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 its revolving credit facilities that were £277m drawn at the year end and two long-term asset-backed financing vehicles.

At the year end, the Greene King securitisation had secured bonds with a carrying value of £1,343.5m and an average life of ten years, secured against 1,429 pubs with a carrying value of £1.7bn. The Spirit debenture had secured bonds with a carrying value of £563.6m and an average life of nine years, secured against 872 pubs with a carrying value of £1.1bn.

The group's credit metrics remain strong with 94.4% of net interest costs at a fixed rate and an average cash cost of debt of 6.1%. Fixed charge cover slightly reduced to 2.2x from 2.3x last year and net debt to EBITDA increased slightly to 4.2x from 4.0x last year. The Greene King secured vehicle had a free cash flow debt service cover ratio of 1.5x at the year end, giving 28% headroom. The Spirit debenture vehicle had a free cash flow debt service cover ratio of 1.9x, giving 33% headroom.

Overall our net debt reduced in the year by £42.2m to £2,032.3m.

Balance sheet

£ million	29 April 2018	30 April 2017
Goodwill and other intangibles	**1,214.4**	1,272.5
Property, plant and equipment	**3,597.8**	3,627.0
Post-employment assets/(liabilities)	**13.6**	(11.2)
Net debt	**(2,032.3)**	(2,074.5)
Derivative financial instruments	**(241.1)**	(344.8)
Other net liabilities	**(495.5)**	(524.8)
Net assets	**2,056.9**	1,944.2
Share capital and premium	**300.7**	300.4
Reserves	**1,756.2**	1,643.8
Total equity	**2,056.9**	1,944.2

THE GROUP'S CREDIT METRICS REMAIN STRONG.

Pensions

The group maintains three defined contribution schemes, which are open to all new employees, and two defined benefit schemes, which are closed to new entrants and to future accrual.

At 29 April 2018, there was an IAS 19 pension asset of £13.6m representing an improvement of £24.8m since the previous year end. The closing assets of the group's two pension schemes totalled £859.2m and closing liabilities were £845.6m compared to £888.0m and £899.2m respectively at the previous year end.

The improvement in position is due to contributions made by the group during the year, combined with the impact of changes to market-based discount rates and inflation assumptions.

Total cash contributions in the year were £3.6m for past service.

The triennial reviews for both the Greene King and Spirit pension schemes will be as at April 2018 and are due to be finalised by July 2019.

Return on capital employed

The group is focused on delivering the best possible returns on its assets and on the investments it makes and is focused on capital discipline, through targeted investment in new build pubs, single-site acquisitions and in developing its existing estate to drive organic growth with disposals of non-core pubs. ROCE of 8.5% has declined 90 bps compared to the prior year primarily due to lower Pub Company profits. ROCE remains comfortably ahead of the group's cost of capital.

Dividend

The board has recommended a final dividend of 24.4p per share, in line with last year, subject to shareholder approval. This will be paid on 14 September 2018 to shareholders on the register at the close of business on 3 August 2018.

The proposed final dividend brings the total dividend for the year to 33.2p per share, in line with last year. This is in keeping with the board's policy of maintaining dividend cover of around two times underlying earnings, while continuing to invest for future growth.

Richard Smothers
Chief financial officer
27 June 2018

RISK MANAGEMENT

Greene King is not alone in facing a range of risks and uncertainties in the course of its business. Our aim is to identify and manage these risks effectively so that we can deliver on our strategic objective of being the best pub and beer company in the UK and to maximise shareholder returns.

BOARD

Overall responsibility for risk management

Sets the group's risk tolerance

AUDIT AND RISK COMMITTEE

Delegated responsibility for monitoring risk profile and mitigation

Regularly reviews risk management process 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

BUSINESS UNIT AND FUNCTIONAL AREA SENIOR MANAGEMENT

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

Risks and uncertainties continued

APPROACH TO RISK MANAGEMENT

Board

The board has overall responsibility for ensuring that there is a robust assessment of the principal risks facing the group, being those which would threaten our business model, future performance and solvency and liquidity. The board has defined the group-level risk tolerances 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 tolerance is an expression of the types and amount of risk we are willing to take or accept to achieve our plan, and enables us to better determine the mitigating activities required to manage our principal risks to within acceptable risk levels.

Whilst the nature of our principal risks have remained largely unchanged during the year, we have disaggregated one key risk relating to data security and cyber risks to provide greater focus and clarity, reflecting the increasing importance of ensuring compliance with the General Data Protection Regulation, which came into force on 25 May 2018. Many of the risks have increased during the year, largely as a result of external factors, although the board has noted the additional steps being taken to monitor and mitigate against these external factors. One such external factor is outcome of the Brexit negotiations with the EU, which has been specifically considered by the board. Whilst Brexit related risks are not included in the list of the group's principal risks, Brexit does pose a number of risks to our business, including heightened macro-economic uncertainty, and more specifically at a recruitment level, and these have been reflected in the detail of the relevant risks already facing the business.

Details of our broad risk tolerance in relation to each of our key risks is set out in the table starting on page 33.

Audit and risk committee

The audit and risk committee, which has delegated responsibility for reviewing the effectiveness of the group's risk management processes, regularly reviews the risk management processes for each business unit and functional area, on a rotational basis, reviewing presentations from relevant management and challenging their analyses.

Management

Executive directors and other senior management are responsible for the implementation of risk management and internal control systems, 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 in place to manage their risks, drawing up plans to improve controls and managing new risks as and when they arise. Each key risk has an 'action owner' to ensure that responsibilities are formally aligned. To ensure continuous improvement across the business, progress of these risk implementation plans is monitored by senior management on a regular basis.

Further, 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.

VIABILITY STATEMENT

In accordance with provision C2.2 of the 2016 UK Corporate Governance Code, the board is required to assess the prospects of the company over an appropriate period of time selected by them.

The board concluded that for these purposes the three-year period to the end of the 2020/21 financial year was appropriate as it is consistent with the group's strategic planning horizon and provides the longer-term view of the group's viability required by the Code. The board also considers it to be a reasonable period over which the group's key risks can be assessed, given the fast-moving nature of the market in which it operates and where it can be difficult to predict the future impact of political and economic uncertainties.

Long-term financing is provided by the group's securitisation and debenture vehicles, which have remaining weighted average lives of ten years and nine years respectively. The group also has available £750m under revolving credit facilities, of which £400m, which expires in October 2021, is available to provide liquidity and to manage its seasonal cash flows. The remaining £350m, which expires in November 2020, is available to fund the internal transfer of pubs from the debenture vehicle, improving the group's ability to refinance its Spirit secured loan notes and related interest rate swaps.

The group's latest three-year plan (the plan), covering the period to the end of the 2020/21 financial year, was approved by the board in February 2018. The 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 plan and the associated cash flow forecasts are the economic outlook, revenue growth expectations, expected inflationary cost pressures, and estate development and disposal opportunities. The plan considers cash flows and compliance with the financial covenants contained within the group's revolving credit facility and structured finance vehicles.

As detailed above the board has conducted a robust assessment of the principal risks facing the company. This included consideration of strategic risks, economic and market risks, operational and people 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 included modelling the effect of reduced consumer confidence and therefore spending, the failure of the group's 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 to in operation and meet its liabilities as they fall due over the three-year period of assessment.

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.

STRATEGIC PRIORITIES

1. Build brands that customers admire
2. Provide offers that deliver compelling value, service and quality
3. Develop people who exceed expectations
4. Maintain a well-located and invested estate
5. Manage our finances prudently

Our strategy page 16

Audit and risk committee report page 55

STRATEGIC RISKS

Business strategy

LINKS TO OUR STRATEGIC PRIORITIES

1 2 3 4

SPECIFIC RISK AREAS

Failure to adopt the right strategy for the group or poor execution of the group's strategy could lead to reduced revenue and profitability and lower growth rates than our strategic objectives.

MITIGATION

Our strategy is focused on building brands that customers admire, creating offers that deliver compelling value, service and quality, developing people who exceed expectations, maintaining a well-located and invested estate and managing our finances prudently. Overall strategy is determined by the board at an annual two-day strategy meeting, and progress against strategic plans is reviewed regularly by the board and the operating board, which is tasked with the execution of the plans on a day-to-day basis. There is regular review of the execution of strategic plans by management in operating board meetings and at other relevant meetings, with a particular focus on our Pub Company business.

RISK TOLERANCE

We are comfortable managing risks which we understand and are consistent with the delivery of our strategic objectives.

CHANGE SINCE LAST YEAR

Customer offer

LINKS TO OUR STRATEGIC PRIORITIES

1 2 3 4 5

SPECIFIC RISK AREAS

Failure to deliver an appealing customer offer, to identify and respond to fast-changing consumer tastes and habits (including the use of digital media), to respond to increased competition, to price products appropriately and to align the portfolio to the market could all lead to reduced revenue and profitability and lower market share and growth rates than anticipated. It is unclear how consumers will respond to the outcome of the Brexit negotiations.

MITIGATION

We will focus on our four main brands going forward, as explained elsewhere in this report, although we retain the ability to tailor a pub's offer to its local customer requirements. We use guest satisfaction tools, TripAdvisor scores and net promoter scores to collect customer feedback and measure performance of our pubs. Competitor activity is monitored at both a strategic and tactical level and each brand has its own pricing strategy, while discounts and promotions are carefully targeted. The success of the £10m we invested this year in the customer offer continues to be monitored. Food and drink quality remain a high priority, as does a focus on team training and digital enhancements.

RISK TOLERANCE

With our vision to be the best pub and beer company in the UK we expect to be able to react swiftly and appropriately to changing consumer trends to maintain earnings and the achievement of our strategic objectives.

CHANGE SINCE LAST YEAR

Risks and uncertainties continued

STRATEGIC PRIORITIES

1 Build brands that customers admire
2 Provide offers that deliver compelling value, service and quality
3 Develop people who exceed expectations
4 Maintain a well-located and invested estate
5 Manage our finances prudently

ECONOMIC AND MARKET RISKS

Economic uncertainty and cost pressures

LINKS TO OUR STRATEGIC PRIORITIES

1 2 3 4

SPECIFIC RISK AREAS

We are at risk of a weakening economy and softer consumer confidence in the UK, which may become more volatile as Brexit looms. We also continue to face significant cost headwinds, including the National Living Wage, the Apprenticeship Levy, the sugar tax and utilities taxes, which could all lead to reduced revenue, profitability and lower growth rates. In Pub Partners any difficulties our tenants are facing, such as cost/revenue pressure and the availability of finance to fund investment, also impact us.

MITIGATION

We have a relentless focus on value, service and quality and are continuing to invest in our pubs. Plans have been developed to mitigate many of the anticipated cost increases facing the business, including changes to the management structure to increase our competitiveness and agility. We have a broad geographic spread of pubs across the country, including in London and the South East.

RISK TOLERANCE

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.

CHANGE SINCE LAST YEAR

OPERATIONAL AND PEOPLE RISKS

GDPR compliance

LINKS TO OUR STRATEGIC PRIORITIES

1 3 5

SPECIFIC RISK AREAS

The implementation of the General Data Protection Regulation in the UK has highlighted the need to ensure that all our data processing activities are compliant with the new legislation and that we have the technical and operational systems in place to secure the data we hold. A significant personal data breach could impact our ability to do business, impacting both revenue and profitability. In addition the risk of reputational damage and financial damage from fines or compensation has increased.

MITIGATION

A GDPR implementation team, under the sponsorship of senior management, has implemented a range of policy, procedural, and compliance control improvements across the business, covering all aspects of the new requirements, and activities will continue to improve the management of these risks, led by our data governance committee, data protection officer and data protection champions across the business. Staff training has been introduced for all employees and further specialist follow-up training will be provided to employees whose roles involve significant processing of personal data. Solutions are being implemented for a number of issues identified during the implementation programme. There will be an ongoing programme to monitor data processing activities and ensure compliance going forward.

RISK TOLERANCE

We have a low tolerance for significant breaches of GDPR.

CHANGE SINCE LAST YEAR

NEW

Cyber/IT security

LINKS TO OUR STRATEGIC PRIORITIES
1 3 5

SPECIFIC RISK AREAS
A significant cyber security breach or other loss of data could impact the company financially or our ability to do business, impacting both revenue and profitability as well as potentially compromising employee, customer and supplier data. Deliberate acts of cyber crime are on the increase, targeting all markets and heightening risk exposure.

MITIGATION
We constantly monitor cyber threats to our business and have a programme of works to counter ongoing cyber threats. Our cyber programme focuses on a continuous evaluation of threat and a programme of strengthening controls to mitigate the evolving threats such as ransomware, IT security controls, threat surveillance, patching, retirement of legacy systems and user education – to ensure our defences are strong and evolve as necessary. Disaster recovery plans for our critical applications have been successfully tested, and the architecture is constantly being updated and tested to improve the scale of speed of recovery of our IT systems.

RISK TOLERANCE
We have a low tolerance for significant breaches within our IT operations.

CHANGE SINCE LAST YEAR

Recruitment, retention and development of employees and licensees

LINKS TO OUR STRATEGIC PRIORITIES
1 2 3

SPECIFIC RISK AREAS
If we are unable to recruit, develop and retain key employees it may be more difficult to execute our business plans and strategy, impacting our revenue and profitability. The impact of Brexit negotiations is yet to be fully understood. For our Pub Partners division we face similar issues with regard to licensees.

MITIGATION
We have both a branded recruitment plan to ensure that we attract suitable candidates and operate a range of apprenticeship programmes. More effective recruitment processes have been put in place for key roles in our pubs and we have improved induction training to improve retention in the early few months. We spent over £3m in the year on training and development, and have rolled out a company-wide training platform to all employees. Career development plans are in place to retain key employees, whilst remuneration packages are benchmarked to ensure that they remain competitive. We plan to improve retention through greater engagement with our staff through digital HR and through our ongoing focus on the Winning Ways values programme. Key leaver reasons are monitored so that specific issues can be dealt with, and our annual employee engagement survey is used to obtain direct feedback from employees on a range of issues. Managers are tasked with developing action plans to deal with the feedback received. For our tenanted pub business we have a range of tenancy agreements, training programmes and support available to attract and retain the best quality licensees.

RISK TOLERANCE
The nature of the sector in which we operate is predisposed to high employee turnover levels, but we have a low tolerance for levels which exceed the sector average, and we expect our staff to have the appropriate skills to deliver the functions of the business.

CHANGE SINCE LAST YEAR

Suppliers, distributors and our own production facilities

LINKS TO OUR STRATEGIC PRIORITIES
1 2

SPECIFIC RISK AREAS
We are reliant on a number of key suppliers and third party distributors to supply goods to our pubs and on our own ability to produce, package and distribute our own beers. Short-term supply disruption could impact customer satisfaction and lead to loss of revenue whilst the long-term failure or withdrawal of key suppliers or distributors could also lead to increased costs. If we were unable to brew, package and distribute our own beers for long periods we could suffer loss of revenue and profitability.

MITIGATION
We maintain back-up plans in case of the failure by or loss of a key supplier, and we expect our key suppliers to maintain disaster recovery plans which we review on a regular basis. Regular monitoring is undertaken of KPIs applicable to both third party suppliers and distributors, with issues flagged for resolution. In the event of a failure in our own production and distribution activities a range of alternative solutions exist to enable us to continue to brew, package and distribute our own beers.

RISK TOLERANCE
We recognise that we carry an inherent risk in relation to both our own production facilities and third party suppliers but we seek to minimise this risk through management and control.

CHANGE SINCE LAST YEAR

Risks and uncertainties continued

STRATEGIC PRIORITIES

1. Build brands that customers admire
2. Provide offers that deliver compelling value, service and quality
3. Develop people who exceed expectations
4. Maintain a well-located and invested estate
5. Manage our finances prudently

OPERATIONAL AND PEOPLE RISKS

Compliance with a range of legislation including health and safety, food safety and employment legislation

LINKS TO OUR STRATEGIC PRIORITIES

1 2 3 4

SPECIFIC RISK AREAS

If we fail to comply with major health and safety legislation and cause serious injury or loss of life to one of our customers, employees or tenants, this could have a significant impact on our reputation, leading to financial loss. If there is an issue in our food supply chain, including the provision of incorrect allergen information, that leads to serious illness or loss of life to one of our customers this could lead to restrictions in supply, potential increases in the cost of goods and reduced sales. Failure to comply with employment related legislation such as those relating to the National Minimum Wage and right to work could lead to HMRC fines and additional expense.

MITIGATION

We have a comprehensive range of formally documented policies and procedures in place, including centrally managed systems of compliance KPI tracking and internal and independent audits to ensure compliance with current legislation and approved guidance. Our health and safety policies have been reviewed by our primary authority partner, Reading Borough Council, which has rated our safety management system, which includes training for all relevant staff, as very good. We have also established a link between environmental health 'Scores on the Doors' and remuneration incentives for relevant employees, and we have introduced procedures to improve in-pub support at times of change of general manager. In our tenanted estate we have a detailed compliance programme to ensure that pubs are safely handed over to new tenants and we provide technical support and audit to our key tenanted food businesses and those with the poorest hygiene ratings. In relation to our food supply chain we require all suppliers to have BRC or SALSA accreditation as a minimum and we risk rate suppliers on an annual basis to determine audit type and frequency. Regular meetings are held with key suppliers to review issues and follow up on any corrective actions required. We have systems designed to ensure compliance with right to work and National Minimum Wage legislation.

RISK TOLERANCE

We have no tolerance for health and safety or food safety breaches within our operations.

CHANGE SINCE LAST YEAR

FINANCIAL RISKS

Funding requirements

LINKS TO OUR STRATEGIC PRIORITIES

1 4 5

SPECIFIC RISK AREAS

If we are unable to meet the funding requirements of the group we risk reduced revenue and lower profitability than our strategic plan.

MITIGATION

The group's debt structures and financing requirements are reviewed by the board, which ensures that the capital structure plan continues to support the requirements of the strategic three-year plan. The group has a £400m revolving credit facility for general corporate purposes outside the securitisation and debenture vehicles, which expires in 2021. In November 2017 we signed a new three-year revolving credit facility for £350m to finance the purchase of pubs from the Spirit debenture to refinance the debenture debt. In December 2017 we prepaid the Spirit debenture A1, A6 and A7 bonds, eliminating cash sweep and margin step-up in the debenture.

RISK TOLERANCE

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.

CHANGE SINCE LAST YEAR

Covenant risks

LINKS TO OUR STRATEGIC PRIORITIES
1 4 5

SPECIFIC RISK AREAS
If we are unable to meet the covenant requirements of the group's debenture, securitisation and other financing arrangements, our ability to pay dividends or reinvest cash could be affected, which in turn would damage our reputation and ongoing creditworthiness.

MITIGATION
Long-term strategy and business plans are formulated to ensure that headroom against financial covenants is maintained at a prudent level. Forward-looking covenant headroom is reviewed by the board on an ongoing basis. Working capital performance is regularly reviewed and closely managed by the finance teams. The refinancing model closely tracks future covenant headroom across all debt platforms through all transactions considered.

RISK TOLERANCE
We expect to be able to meet all our payment obligations and have adequate headroom against our covenant levels under a range of cautious but plausible liquidity scenarios.

CHANGE SINCE LAST YEAR

Pension scheme funding

LINKS TO OUR STRATEGIC PRIORITIES
5

SPECIFIC RISK AREAS
Any inability to meet the 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, could impact our balance sheet, whilst the volatility of the deficit makes longer-term planning more difficult.

MITIGATION
All our final salary schemes are closed to future accrual to reduce volatility. Liability management programmes are in place and there is an ongoing dialogues with the trustees regarding funding requirements. There is regular monitoring of the schemes' investments and plans are in place to de-risk the investment strategy of the Greene King pension scheme.

RISK TOLERANCE
We expect to maintain funding levels for our pension schemes at manageable levels.

CHANGE SINCE LAST YEAR

DEVELOPING PEOPLE WHO EXCEED EXPECTATIONS

As an employer of 39,000 people we are focused on and committed to making Greene King a great place to work.

Recruitment, training and development

It is our 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.

Managing talent, succession planning and investing in our people are priorities for us and this year we spent over £3m on training and development, including our new online training platform, available to all our 39,000 employees.

Our focus in the last 12 months has been the quality of induction we provide to colleagues joining the business and we have seen an improvement in both the take-up and quality of our induction programmes.

With our new online training platform we have launched a range of online courses which are available to all colleagues. It is also the platform which we now use to support the introduction of new initiatives and changes, for example, the introduction of the new GDPR provisions.

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.

We are proud that we have supported more than 10,000 of our team members through our apprenticeship programme since 2011, which has been repeatedly recognised externally for its dedication to high quality training and development.

The scheme expanded this year to offer roles for leadership and management, brewing, chefs, bar and front of house staff, and helped team members achieve industry-leading qualifications and build a long-term career in hospitality. We have seen an 89% increase in externally recruited apprentices, compared to 2016/17, thanks to promotion at over 250 events with schools, colleges, career fairs and MPs.

We also support young people into work through our Get into Hospitality programme with The Prince's Trust. For more information on this, please see our corporate responsibility section on page 40.

Engagement

Improving engagement has been a significant focus of activity, especially in the second half of the year. The engagement survey completed in April 2018 showed overall engagement at 63%. This is an encouraging result and more activity will be planned in the coming year to drive further improvement. Another focus for this year has been recognition and communications and significant progress has been seen in his area. We have also made improvements in our staff discount benefit and usage has increased significantly.

The company values employee engagement across the business and produces a monthly publication that is circulated to all employees containing company news and articles. In addition, the company provides regular briefings and presentations to staff on the company's performance and strategy as well as annual and interim results. The company operates an HMRC-approved share save scheme open to all employees which helps to align employees with the performance of the company.

Wellbeing

We held our second Wellbeing Week at Greene King head offices this year, building on the success of the previous year, which raised awareness about physical and mental health in the workplace. We will seek to roll this out to the rest of the company going forward. There is more information in our best for team section on page 5.

Diversity

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).

To further build an inclusive and accepting workplace for everyone, this year we have introduced new networking groups. The LGBT network is open to team members from across the business – whether part of the LGBT community or allies – and is a forum where they can share ideas, offer support and provide input on topics that can be fed back to the business.

Gender pay gap

We strive to build a business which is fair and equal and we are committed to working towards closing the gender pay gap. We have made good progress with our pub general manager roles with 40% now being held by women and we are working to make further progress to increase the number of women in more senior roles through improved flexible working and clear development plans.

We recognise that we have more to do to increase the number of women in more senior roles. One of the things we are doing is creating a network to help women within the business to flourish and develop into more senior positions and ensure we are as effective as we can be with assisting women's career development.

Human rights, anti-corruption and anti-bribery policies

While we do not have a formal human rights policy, we are absolutely committed to conducting business with integrity and fairness. Our code of conduct provides that all employees are to be treated with respect, and their health, safety and basic human rights protected and promoted. It covers a range of topics including modern slavery, working conditions, child labour, discrimination and anti-corruption and anti-bribery measures, including a specific anti-bribery policy.

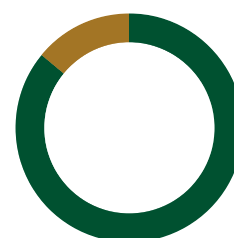
We expect our suppliers and sub-contractors to comply with the provisions of our code or meet the same standard through their own code.

Our whistle blowing policy for our employees encourages staff to report any wrongdoing, including human rights violations such as modern slavery or human trafficking and any concerns with bribery. Our teams are able to report via a confidential email or hotline and no significant issues were raised through these during the year.

DIRECTORS

14% female

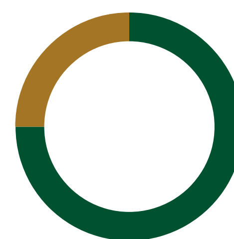
Male	6
Female	1



SENIOR MANAGEMENT (excluding directors)

25% female

Male	153
Female	52



ALL EMPLOYEES

53% female

Male	18,371
Female	20,709

COMMUNITY AND SUSTAINABILITY

As a company with a 219-year history, community and sustainability are at the heart of Greene King as we strive to make a positive contribution to society in everything we do.

Our corporate responsibility strategy is a core part of this commitment and the key areas of focus are to:

- **make a difference to the local communities we serve;**
- **drive the responsible retailing agenda;**
- **support young people into work; and**
- **operate in a more sustainable way.**

We are continuing to make robust developments in these important areas, for example with our flagship partnership with Macmillan Cancer Support and our zero waste to landfill pledge.

> WE STRIVE TO MAKE A POSITIVE CONTRIBUTION TO SOCIETY IN EVERYTHING WE DO.

SERVING LOCAL COMMUNITIES

Our pubs are in the privileged position of being at the heart of their local communities. While Macmillan Cancer Support is our national charity partner, our fundraising by pubs takes place locally and this year we have communicated to our employees and customers in local areas the positive impact they have made in their region. In addition to supporting Macmillan, our pubs and offices also champion local causes which are important to their teams and customers.

2017 marked six years of our partnership with Macmillan Cancer Support, with record fundraising results in the year of £1.1m and seeing us reach an incredible £4.1 million raised since 2012.

To achieve these amazing results, our pubs threw themselves into an array of activities including Macmillan May, which has become Greene King's biggest annual fundraising event, Pub Aid's 'World's Biggest Pub Quiz', and Macmillan's 'World's Biggest Coffee Morning'.

Our Miles for Macmillan campaign, which encourages our team members to walk, run, bike or swim, stepped up a gear this year, as they took on a London to Paris bike ride and climbed Mount Kilimanjaro.

Beyond our fundraising activity, we also launched Macmillan at Work, which is a training programme designed to give line managers and HR teams the tools and information to effectively support employees affected by cancer. By 2020, one in two people will be diagnosed with cancer in their lifetime, so we have an important role to support our people if they or their families face a cancer diagnosis.

£1.1M

RAISED FOR MACMILLAN THIS YEAR, BRINGING THE TOTAL TO £4.1M SO FAR

34

EMPLOYEES CYCLED FROM LONDON TO PARIS

24

EMPLOYEES CLIMBED MOUNT KILIMANJARO

>100

LOCAL CAUSES SUPPORTED

£15,000

DONATED TO PUB IS THE HUB, BRINGING THE TOTAL TO £75,000

We think it is important for our people and our customers to understand the difference their fundraising makes locally to people living with cancer. This year, each pub received information on local cancer statistics and the nursing hours they had funded and how this is positively supporting people living with cancer in their area.

Corporate responsibility continued

Keeping it local

We continue to support Pub is the Hub, and this year donated £15,000 towards its Community Services Fund, supporting rural pubs who want to diversify their services for the benefit of their communities. This is the fifth year Greene King has given to the fund, bringing the total donated to £75,000.

We are passionate about supporting local communities and this year supported more than 100 local causes close to our head office in Bury St Edmunds and our Pub Company support centre in Burton upon Trent, through raffle prize donations and event sponsorship.

To manage social matters in areas in which we operate, we have a dedicated corporate responsibility email address promoted on our website, where people can contact us to raise concerns about local issues. We also receive and respond to local questions or concerns via telephone.

We have a positive relationship with local residents close to our brewery in Bury St Edmunds. We actively communicate any relevant news or events to them and attend local meetings as required to ensure we continue a constructive and engaging association.

Our site in Bury St Edmunds is situated in a sensitive location with the River Linnet, a tributary of the River Lark, running through it. As such we are active members of the River Lark Catchment Partnership, a group which aims to pool resources, expertise and knowledge to help sustain a vibrant and healthy waterway.

Looking forward…

- The whole business will continue to fundraise for our national charity partner, Macmillan Cancer Support, with the aim of raising £1.2m in 2018/19.
- We will continue to roll out the Macmillan at Work programme across the business.
- We will sponsor Macmillan's Mighty Hikes programme as part of our Miles for Macmillan campaign, which promotes fundraising, health and fitness, encouraging our team members to get involved.

Celebrating the completion of the London to Paris charity bike ride,…

reaching the top of Mount Kilimanjaro,…

…and raising money at the Big Sing for Macmillan May

DRIVING RESPONSIBLE RETAILING

As the country's leading pub retailer, we recognise our responsibility to provide our customers with a wide choice of food, including healthier options.

In order to improve nutritional choice, we constantly review all of the products on our menus. We continue to work towards full compliance with the 2017 salt targets issued by the Food Standards Agency, regulating the salt content of the products which are supplied to us. We are also working to reduce sugar on our menus, in line with Public Health England's sugar targets. During the year we briefed our suppliers on our expectations of sugar content in the food we source and are prioritising reducing sugar in a number of items, such as ice creams and sweet sauces.

Providing choice and information

A vital part of our menu development process this year has been to review and develop our menus in order to continue to expand our dish range and nutritional expertise and provide more information.

We continue to show calorie-counted labelling on our lighter choices on some of our menus and we highlight where swaps can be made such as 'swap your sides to a large side salad' to help our customers looking for a healthier option.

The full allergen information of all of our meals is accessible from a member of the team at pub level, as well as on our branded websites.

Gluten

We continue to respond to growing demands for more choice from customers wishing to avoid gluten. As part of our autumn/winter 2017 and spring/summer 2018 menu cycle, over ten of our menus now have no-gluten options.

Gluten-free versions of two of our most popular beers, Old Speckled Hen and Greene King IPA, saw increased demand this year, selling the equivalent of almost 650,000 bottles.

Vegan dishes

In order to cater to the rising popularity of vegan diets, we challenged our suppliers to provide new innovative products, which could progress onto our menus as vegan dishes.

We have now added vegan dish choices to seven of our menus and we will endeavour to increase this range in the future across more of our menus. Chef & Brewer, for example, offers courgette and harissa flavoured rice skewers as well as the ultimate vegan burger – a delicious meat-free burger, topped with fried onions and a melting vegan slice served in a vegan poppy seed bun.

Children's menus

Our nutrition team has created some guidelines for children's menus as we continue to improve the dishes we provide. We follow the below principles:

- remain compliant with any nutritional guidelines and legislation;
- continue to improve the nutritional profile of our dishes to ensure that we are actively reducing the levels of salt, sugar and fat; and
- encourage healthier meal choices for our younger customers.

In line with the publication of the government's Childhood Obesity: A Plan for Action report in 2016, we are reviewing the sugar content in a number of our product ranges, as well as working closely with our suppliers, in order to nutritionally improve the dishes on our menus. We have replaced high sugar dishes, such as the candy wafer boat, with a strawberry delight sundae, which has 46% less sugar.

Another important area we have focused on is how to improve children's meals across all of our menus, ensuring that as many of our starter and main dishes have at least one portion of the recommended five-a-day. For a number of our Hungry Horse dishes, such as our mac and cheese, DIY wrapper and build your own pasta, we have increased the vegetable portion size so that these deliver one of the recommended five-a-day target. For our pick and mix section, we have also increased the portion size of our vegetable choice in order to support our diners in meeting the daily recommendations for fruit and vegetable intake.

Corporate responsibility continued

Food standards

We are proud that, out of the 1,598 Greene King managed pubs in England and Wales, 1,536 (96.1%) were awarded a four or five-star rating. Scotland operates a simple pass/improvement required scheme. 99% of our managed pubs in Scotland have achieved a pass rating. It is paramount that we provide our customers with consistently high quality food and so we actively promote excellent kitchen standards. In Pub Company this is achieved through training, internal and external audits and operational incentive schemes.

Promoting responsible drinking

We recognise our important role in promoting responsible drinking to our customers. In addition to the mandatory age verification policy condition under the Licensing Act 2003 we operate as a minimum 'Challenge 21' across the whole of our Pub Company, and in accordance with the Licensing Act (Scotland) 2005 our Scottish premises operate 'Challenge 25'. In addition all team members must pass an online training course before they can serve alcohol.

Our Enjoy Responsibly website provides information and advice on enjoying alcohol responsibly. All of our brands promote this website on their marketing materials www.enjoyresponsibly.co.uk

As part of a Christmas 2017 anti-drink drive campaign, we ran a buy-one-get-one-free soft drink offer in 717 of our pubs and gave away over 33,000 soft drinks. We are planning to make it bigger this year with over 1,000 pubs participating, increased digital and PR communication and a broader range of drinks.

We are proud that a number of our venues across the UK achieved Best Bar None accreditations this year. Our pubs belong to Pub Watch, Best Bar None, Purple Flag and Safety Thirst, where access to these schemes is available.

Quality standards for our beers

Our Westgate Brewery in Bury St Edmunds has once again achieved an A-grade rating with the British Retail Consortium, and additionally our Belhaven Brewery in Dunbar achieved the highest AA grading confirming that our beers are always brewed to the very highest of quality and food safety standards.

Looking forward...

- We are reviewing how to increase five-a-day menu choices for children across all of our menu brands.
- We plan to further increase the vegan dishes we offer next year.

1,660 PUBS

WERE AWARDED A FOUR OR FIVE-STAR RATING

The ultimate vegan burger, on sale in our Chef & Brewer pubs

Courgette and harissa flavoured rice skewers, also from Chef & Brewer

SUPPORTING YOUNG PEOPLE

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.

Our Get into Hospitality programme with youth charity The Prince's Trust is now in its second year. This year, we ran eight programmes across the UK, reaching out to 110 young people in difficult personal circumstances. For the first time we also piloted a Ready to Work programme – enabling us to offer roles to young people who are ready to take on a role at Greene King.

Many of the young people supported by our partnership go on to make a positive impact on the local community and deliver important social value. The Prince's Trust calculates that supporting each unemployed young person for a year costs society £4,250 and our partnership has generated over £450,000 in social value so far.

We were proud that four of our first Prince's Trust recruits went on to complete our award-winning Greene King apprenticeship programme and a further 20 Prince's Trust recruits are now enrolled on the programme. To find out more about our apprenticeship programme, see page 38.

Achievements

- Delivered eight Get into Hospitality programmes with The Prince's Trust.
- Supported 110 young people through our programme.
- £450,000 of social value generated by our Prince's Trust partnership so far.
- Supported 10,000 people through our apprenticeship programme.
- 23% of our apprenticeship learners have additional learning support needs.
- 79% of our apprenticeship achievers are still with us – underlining the importance of investing in our people's careers.
- We won five awards for our apprenticeships this year.

Looking forward…

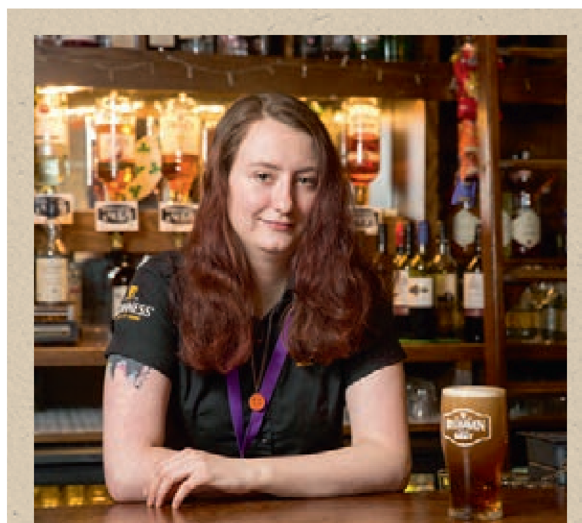
- We are aiming to deliver ten more programmes with The Prince's Trust to support more young people into work.
- We plan to introduce a new Ready to Work programme with The Prince's Trust, expanding our offer to young people and making a bigger impact with our resources.

110

YOUNG PEOPLE SUPPORTED THROUGH GET INTO HOSPITALITY

£450K

IN SOCIAL VALUE GENERATED



Rachael McAtee was one of our original Prince's Trust candidates in Glasgow who went on to complete a Greene King apprenticeship this year. She said: "The Get Into Hospitality programme really gave me the confidence to explore a career in hospitality, and it was fantastic to be offered a front of house role with Greene King at the end of it. I settled into that role quickly and it did not take long before I was recommended to apply for the Greene King apprenticeship programme. I have not only achieved a Level 2 in Food and Beverage Services, an industry-recognised qualification, but I am working my way up the ranks and exploring further opportunities available to me. For those wondering what a career in the hospitality industry would be like, I encourage them to take the leap. It is definitely worth it!"

Some Prince's Trust participants visiting the Bury St Edmunds brewhouse

OPERATING SUSTAINABLY

Zero waste to landfill by 2020

We are constantly looking to lead by operating in a sustainable way and in 2016 we became the first major pub company to pledge that by 2020 we will send zero waste to landfill. We are proud to report that our landfill diversion has increased again, from 95% in 2016 to 98% in 2017.

Our ongoing supplier consolidation programme has removed 50,000 deliveries, saving 62 tonnes in CO_2 per annum. We have also worked with our suppliers and distributors to move more pubs to returnable assets to deliver their meat; this has reduced cardboard box usage by over 100,000 boxes per annum.

In the drive to reduce plastic straw usage we have moved straws to the back of the bar areas, and only offer them to customers when requested. We have seen a reduction of around 60% so far. In addition, all of our straws are then recycled via our supply-chain process.

A Greener Thinking forum was set up at our head office this year, involving office, production, packaging and distribution teams to discuss environmental improvements within our Bury St Edmunds sites, where 1,000 of our people are based. This forum has implemented a new waste and recycling system to support our business aim to achieve zero waste to landfill by 2020. We are already seeing reduction in general waste, which will reduce general waste by up to 10 tonnes per year from this office alone.

Energy and carbon

In 2017 we tested new technologies to attempt to further reduce energy use in our pubs. We have successfully trialled a system that will reduce the energy used by our main cellar chillers by up to 30% and plan to roll this out in 2018.

Our Brewing & Brands division is continually seeking to reduce energy consumption and carbon emissions. Initiatives this year included modifying a main refrigeration plant compressor to reduce electricity, water and chemical usage, as well as introducing a system to reduce compressed air usage during filling of casks, saving over 50,000kWh per annum.

We have seen reductions in fuel consumption as a result of a telematics system in our depots which monitors the driving behaviours and identifies training needs. As a result our Bury St Edmunds depot has emitted 3.6 tonnes less carbon dioxide into the atmosphere, which is equivalent to more than the energy used by an average person for the whole year.

Other

Our Brewing & Brands Bury St Edmunds site has successfully transitioned to the new ISO 14001, a benchmark for best environmental practice that is recognised worldwide. The new standard, which was reached five months ahead of the required deadline, reflects a comprehensive update of our commitments to ensure we remain relevant in today's business environment and has led to operational improvements. It places greater emphasis on risk-based thinking, integration with business systems and strategy and requires demonstrable senior management leadership.

Following our partnership with waste management company SWR in April 2016 and our continued partnership with K+N we extended our unique recycling solutions which have not only reduced our waste collections by 4,433 bins this year, but also created some dramatic recycling results:

FOOD WASTE:

10,933 TONNES

of food waste recycled, reducing 5,466,560 kg of CO_2 emissions in the above time frame. This amount of food waste Greene King recycled has produced enough electricity to power 9,840 UK homes for an entire month (based on an average consumption of 4,000kWh per year)

COOKING OIL:

3,275,446 LITRES

of oil have been recycled. The energy created could be used to boil a 3kWh kettle non-stop for 5,877 months

PLASTICS:

440 TONNES

of plastic that are given a second life as recycled material

CARDBOARD:

4,300 TONNES

of card recycled which goes to a UK paper mill

Water

We were the first to apply for and obtain a Water Supply and Sewerage Licence (WSSL) and switched all of our 3,000+ supply points on 1 April 2017 and were the first to switch in the new open water market.

Since commencing self-supply, we have saved in excess of 140,000m^3 of water. This equates to 384.32m^3 per day in consumption savings: the equivalent of 676,313 pints. Further benefits being realised are site level engagement which is driving efficiency, improved savings and greater control over supply.

Further initiatives in our brewery included continual recycling of the water we use to lubricate seals within the brewing process and the introduction of an ECO mode on our blender, saving 2,325m^3 per year.

Mandatory greenhouse gases

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

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

We have used the UK government's Greenhouse Gas (GHG) Conversion Factors for Company Reporting for all scope 1 emissions (2016 for 2016/17 and 2017 for 2017/18). 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 (2016 for 2016/17 and 2017 for 2017/18).

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

Looking forward...

- We will be rolling out a technology in the next year which will reduce the energy used by our main cellar chillers by up to 30%.
- We have a programme to roll out further energy saving measures in our breweries next year.

CO_2 emissions by type

	Source of emissions	**2017/18 tonnes of CO_2e**	2016/17 tonnes of CO_2e
Direct emissions Scope 1	Natural gas	**65,247**	69,855
	Gas oil	**760**	666
	Kerosene	**367**	338
	LPG	**3,943**	4,146
	Red diesel	**58**	84
	Refrigerants	**3,979**	5,273
	Owned vehicles	**8,942**	8,613
Total direct emissions Scope 1		**83,296**	88,975
Indirect emissions Scope 2	Electricity	**116,912**	164,166
Gross emissions		**200,208**	253,141
Turnover in Retail and Brewing & Brands (£'000)		**21,770**	20,177
Tonnes CO_2e per £100k turnover		**9.197**	12.546

Board of directors

Philip Yea (63)
Chairman

COMMENCED ROLE
2016

COMMITTEE MEMBERSHIP
N

EXTERNAL APPOINTMENTS
Chairman of Equiniti Group plc. Non-executive director of Aberdeen Asian Smaller Companies Investment Trust plc and Marshall of Cambridge (Holdings) Ltd. Independent director and trustee of the Francis Crick Institute.

RELEVANT PREVIOUS EXPERIENCE
Philip Yea's prior executive career included roles as finance director of Diageo plc and chief executive of 3i Group plc. He has chaired a number of companies both public and private across a wide range of sectors and has been a director of UK listed companies for over 20 years.

Rooney Anand (54)
Chief executive

COMMENCED ROLE
2005 (appointed to board in 2001)

COMMITTEE MEMBERSHIP
None

EXTERNAL APPOINTMENTS
Senior independent non-executive director at Wm Morrison Supermarkets Plc. Chairman of Purity Soft Drinks (a Langholm Capital-owned business).

RELEVANT PREVIOUS EXPERIENCE
Rooney Anand joined Greene King 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.

Richard Smothers (50)
Chief financial officer

COMMENCED ROLE
February 2018

COMMITTEE MEMBERSHIP
None

EXTERNAL APPOINTMENTS
None

RELEVANT PREVIOUS EXPERIENCE
Richard joined Greene King in December 2017 from Mothercare plc, where he was CFO for three years. Prior to this he was director of group finance at Rexam plc and he has also held a number of senior finance roles during 14 years at Tesco plc.

Mike Coupe (57)
Non-executive director

COMMENCED ROLE
2011

COMMITTEE MEMBERSHIP
A N R

EXTERNAL APPOINTMENTS
Chief executive of J Sainsbury plc.

RELEVANT PREVIOUS EXPERIENCE
Mike Coupe brings knowledge and experience from working for other large, multi-site retail organisations, including Asda and Tesco.

Rob Rowley (68)
Senior independent non-executive director

COMMENCED ROLE

2014 (appointed senior independent director 2015)

COMMITTEE MEMBERSHIP

EXTERNAL APPOINTMENTS

Non-executive director and chairman of the audit, risk and security committee at Camelot UK Lotteries Ltd.

RELEVANT PREVIOUS EXPERIENCE

Rob Rowley has extensive board experience gained as a former finance director of Reuters Group plc. He has also been non-executive director of Moneysupermarket.com Group plc, Taylor Wimpey plc and Morgan Advanced Materials plc.

Gordon Fryett (64)
Non-executive director

COMMENCED ROLE

2016

COMMITTEE MEMBERSHIP

EXTERNAL APPOINTMENTS

Non-executive director of WJL Group Ltd.

RELEVANT PREVIOUS EXPERIENCE

Gordon Fryett has many years' experience in retail operations and property matters having held a number of senior positions within the Tesco Group including that of group property director. Gordon was also non-executive director of Severn Trent plc from 2009 until 2016.

Lynne Weedall (51)
Non-executive director

COMMENCED ROLE

2012

COMMITTEE MEMBERSHIP

EXTERNAL APPOINTMENTS

Group HR director for Selfridges Group.

RELEVANT PREVIOUS EXPERIENCE

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.

KEY TO COMMITTEES

- N Nomination committee
- A Audit and risk committee
- R Remuneration committee
- Committee chairman

Senior management

The senior management team comprises Rooney Anand, chief executive, Richard Smothers, 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.

Corporate governance statement

WE HAVE A WELL-BALANCED AND EFFECTIVE BOARD AND ALL OF THE NON-EXECUTIVE DIRECTORS ARE INDEPENDENT.

Chairman's introduction

I am pleased to introduce this report on how the board operates from a governance and control perspective to ensure that we comply with the main principles and relevant provisions of the UK Corporate Governance Code (the Code). As a board we take corporate governance very seriously, and I will continue to ensure that we maintain high standards throughout my tenure.

During the 2017/18 financial year the business focus was very much on the performance of the business, particularly that of our largest business unit, Pub Company, whilst at board level we continued 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 an external board evaluation exercise during the year, using Lintstock to assist us in that process. They prepared a number of questionnaires, one each on the board and its various committees, one on my performance as chairman and one for each board member to assess their own performance. These were made available for completion by the board and the company secretary. Lintstock then produced a summary for the board and each committee setting out the results of the questionnaires. A representative from Lintstock attended our board meeting in April 2018 to discuss the outcome of the exercise and to make a number of recommendations for consideration by the board. These were discussed in detail by the board and the report below details the outcome of the board's discussions in this regard.

Finally, I would like to thank my fellow directors for their continued support. I am confident that 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

Statement of compliance with the UK Corporate Governance Code (2016 version)

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 April 2016 throughout the year in all respects.

The board

Board composition

As at the year end the board comprised the chairman, two executive directors and four non-executive directors. The non-executive chairman is Philip Yea, the chief executive is Rooney Anand and the senior independent director is Rob Rowley. During the year Kirk Davis resigned from the board on 31 January 2018 and was succeeded as chief financial officer by Richard Smothers, who was appointed to the board on 1 February 2018.

The board believes that the structure and size of the board has been appropriate and that no single individual or group dominates the decision-making process. However, as discussed in the report of the nomination committee, steps have been taken to recruit an additional non-executive director in order to broaden the experience of the board as a whole.

The directors' biographies are on page 48.

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.

Philip Yea, the chairman, was independent on appointment, having never been employed by the company and having diverse business interests beyond the company, and in the opinion of the board remains independent.

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.

Board independence – current directors

Name	Independent	Nomination committee	Audit and risk committee	Remuneration committee
Philip Yea	Yes	N		
Rooney Anand	No			
Mike Coupe	Yes	N	A	R
Gordon Fryett	Yes	N	A	R
Rob Rowley	Yes	N	A	R
Richard Smothers	No			
Lynne Weedall	Yes	N		R

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 52. During the year the board resolved to change the name of the audit committee to the audit and risk committee, to more accurately reflect its role. 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 commercial, 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 conduct more detailed reviews of different aspects of the business at each meeting, with the schedule of topics being regularly reviewed to ensure that it remains appropriate. 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 and risk 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 and risk 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.

Key focus areas for the board during the year included business performance, and the actions being taken by management to address increasing cost challenges and improve performance, with a particular focus on Pub Company. The board also reviewed the debt structure of the company and the work being undertaken in relation to refinance parts of the Spirit debenture and the performance of key competitors to enable the board to gain a better understanding of the marketplace.

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.

Corporate governance statement continued

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 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 AND RISK

- 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
Gordon Fryett
Rob Rowley
Lynne Weedall

Audit and risk:
Rob Rowley (chairman)
Mike Coupe
Gordon Fryett

Remuneration:
Lynne Weedall (chairman)
Mike Coupe
Gordon Fryett
Rob Rowley

Nomination committee report page 54

Audit and risk committee report page 55

Directors' remuneration report page 58

Leadership continued

Operation of the board continued

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

	Board	Nomination committee	Audit and risk committee	Remuneration committee
Executive directors				
Rooney Anand	8/8	—	—	—
Kirk Davis[1]	5/5	—	—	—
Richard Smothers[2]	3/3	—	—	—
Non-executive directors				
Mike Coupe	8/8	2/2	4/4	3/3
Gordon Fryett	8/8	2/2	4/4	3/3
Rob Rowley	8/8	2/2	4/4	3/3
Lynne Weedall	8/8	2/2	—	3/3
Philip Yea	8/8	2/2	—	—

Notes:

1. Kirk Davis resigned from the board on 31 January 2018.
2. Richard Smothers was appointed to the board on 1 February 2018.

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. Although not a member of the remuneration or audit and risk committees, and therefore not recorded in the table above, the chairman also routinely attends these meetings at the invitation of the committee chairmen.

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.

The board evaluation exercise was carried out by Lintstock, an external adviser with no other connection with the company. Lintstock prepared a number of questionnaires, one each on the board and its various committees, one on the chairman and one for each board member to assess their own performance. These were made available for completion by the board and

the company secretary. Lintstock then produced a summary for the board and each committee setting out the feedback. A representative from Lintstock attended the board meeting in April 2018 to discuss the outcome of the exercise and to make a number of recommendations for consideration by the board. Topics covered included the schedule of board topics for particular review during the year; the arrangements for which were perceived to be working well; the need for a more formal programme giving the non-executive directors exposure to the front line of the business, which would be followed up in a number of ways; and a desire from the board to better understand the culture across the group, which would be considered further by management with a view to a proposal being submitted to the board in due course. It was also agreed that on occasions the tone of challenge in meetings could be improved and that there would be a review of the extent and content of board papers. The chairman also agreed to discuss a number of individual points with each of the directors and to follow up individually with the non-executive directors with regard to their training needs.

Rob Rowley, the senior independent non-executive director, used the input from the report prepared by Lintstock as the basis of his evaluation of the chairman.

In addition to the annual evaluation exercise there remains an ongoing 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 as mentioned above there are plans for a more formal programme to give the non-executive directors exposure to the front line of the business.

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.

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 ongoing 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 20 working days before the meeting. All substantive items of business at shareholders' meetings are dealt with under separate resolutions, including a resolution to adopt the report and accounts. The chairman announces the results of the proxy voting on each resolution after it has been dealt with on a show of hands.

The next AGM will be held on 7 September 2018 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 and risk 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 and risk committee report, except for information required under DTR 7.2.6, which is set out in the directors' report.

Nomination committee report

SUCCESSION PLANNING AND BOARD STRUCTURE WILL REMAIN THE ONGOING FOCUS.

I am pleased to introduce our nomination committee report for 2017/18, which explains the committee's focus and activities during the year. The focus of the committee has continued to be on ensuring that the size, composition and structure of the board are appropriate for the delivery of the group's strategic objectives and on succession planning. We have also worked to ensure 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 Philip Yea. The other members of the committee were Mike Coupe, Gordon Fryett, Rob Rowley and Lynne Weedall. All members were considered by the board to be independent.

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 two meetings during the year. Attendance at these meetings by the committee members is shown in the table on page 52.

A key activity for the committee during the year has been to consider the size and composition of the board and agreement was reached during the year that an additional female non-executive director with experience of multi-location operations should be appointed to the board. The Zygos Partnership, which has no other connection with the company and has signed up to the voluntary code of conduct on matters such as diversity for executive search firms, is assisting the committee in relation to the search.

The committee also reviewed the composition of the various board committees and determined that no changes were required to the composition of the board committees.

The committee supported the chief executive in the recruitment of Richard Smothers in succession to Kirk Davis and approved his appointment to the board from 1 February. In relation to broader succession planning and talent management, during the year the committee received a detailed report from the group HR director on the senior management team's skills and performance and the succession plans for each of them and on the talent review work that had been undertaken across the company. The issues of succession planning and board structure will remain the ongoing focus of the committee during the course of the forthcoming year.

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

As disclosed elsewhere an external evaluation exercise was undertaken in relation to the board and its committees. The evaluation report for the committee was reviewed in detail and the committee accepted the priorities identified in the report as appropriate for the forthcoming year. These were to focus on the appointment of a female non-executive director (as was already under way), the building of a high performing team (including chief executive succession), supporting the executive's actions with regard to improving morale and engagement and addressing its approach to diversity.

The evaluation exercise concluded that the performance of the committee was rated highly overall, as were the management of the meetings and the information provided to the committee, and there were no recommendations as to areas in which the committee would benefit from additional support, training or induction.

Other matters considered by the committee during the year included the training requirements of the 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 and plans are under way to appoint a second female non-executive director. With a board of currently 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 and risk committee report

> THE NEW COMMITTEE NAME BETTER REFLECTS ITS FUNCTION AND RESPONSIBILITIES.

This is my second report as chairman of the audit and risk committee and I am pleased to introduce our report for 2017/18. This year, the committee was renamed the audit and risk committee in order to better reflect its function and responsibilities. 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, including the viability statement, interim report and associated audit matters; the implementation of the General Data Protection Regulation; and risk management processes and internal controls.

Rob Rowley
Chairman of the audit and risk committee

Membership

The audit and risk committee was chaired during the year by Rob Rowley. The board is satisfied that Rob Rowley has recent and relevant financial experience, as a former finance director of Reuters Group plc. The other members of the committee were Mike Coupe and Gordon Fryett, who bring a wealth of experience from other large retail operations. The board considers all members to be independent and the committee as a whole to have relevant sectoral competence.

Responsibilities

A key responsibility for the audit and risk 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 and risk committee, 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 advises the board on the appointment of the external auditor, oversees the relationship with the external auditor, 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 four half-day meetings during the year. Attendance at these meetings by the committee members is shown in the table on page 52. On each occasion the external auditor, chief financial officer and senior members of the finance function attended, as well as the company secretary, the head of risk and members of the internal audit function. By rotation, operational managers and functional heads present risk reports at audit and risk 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 and considers steps for future improvement taking input from the members of the committee, the external auditor and senior members of the finance function. Key priorities for the coming year were identified including an overview of the group control framework and the development of a risk-based internal audit programme.

Financial statements and audit

The committee reviewed and provided input into the audit scope and audit plan presented by the external auditor. In considering the financial statements the committee reviewed the group's accounting policies to ensure consistency on a year-to-year basis, and the methods used to account for significant or unusual transactions. Significant issues that the committee addressed in relation to the financial statements are set out in the table on the next page. 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.

Audit and risk committee report continued

Significant issues considered by the audit and risk committee in relation to the financial statements for 2017/18

Matter considered	What the committee did
Capital vs. expense accounting	The committee continued its review of the group's fixed asset accounting policy and the allocation of costs as either capital or expense. The committee reviewed the results of the testing by the external and internal auditors to assess the effectiveness of the new internal accounting policy implemented by management. The committee was satisfied that the risk of material error had been appropriately mitigated by application of the new policy.
Impairment of property, plant and equipment and intangible assets	Following the implementation of a new impairment model last year, the committee discussed with management and the external auditor the arithmetical accuracy and consistency of the impairment model, the key assumptions used by management in the model and the purpose of and rationale for management override of the model's automated calculations where appropriate. Particular attention was given to development and rebranded sites. The committee determined that the model was fit for purpose and that the key input assumptions for growth rates and discount rates were appropriate in the current economic environment.
New accounting standards	The committee considered reports from management on the impact of new accounting standards for financial instruments (IFRS 9), revenue recognition (IFRS 15) and leases (IFRS 16). The committee noted that the adoption of IFRS 9 and IFRS 15, both of which were effective for the group from 30 April 2018, would not have a significant impact on the group's consolidated results or financial position. However, because of its large portfolio of leases, the committee noted that IFRS 16 would impact both the group's consolidated results and financial position. The committee reviewed management's implementation plan for IFRS 16, including the wide-ranging financial impacts under the different transition options available and the impact the standard would have on the group's data collection systems and reporting processes, and determined that the plan was on track for the group's effective start date of 29 April 2019.

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. The audit and risk 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 its view. The committee then recommended to the board that it could make the required disclosure as set out on page 75.

Effectiveness of the external audit

The overall quality of the service, the audit partner and the audit team were reviewed by the committee 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. The committee was satisfied that the quality of the audit service provided by Ernst & Young LLP was appropriate.

Ensuring external auditor independence

The audit and risk committee is cognisant of the importance of auditor independence and objectivity and the auditor's compliance with the FRC's Ethical Standard 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 (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 and risk 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 and risk 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 and risk committee approved a revised policy for non-audit services in line with the recent guidance issued by the FRC, which came into effect for the group's 2017/18 and future financial years. The committee must review any services proposed to be provided by the external auditor, to consider whether the skills and expertise of the audit firm make it the most suitable supplier of the non-audit services, and to ensure that the fees for non-audit services do not exceed 70% of the average audit fee over a three-year period. The above financial restrictions apply in all situations and the audit and risk committee is required to pre-approve all non-audit services. The committee had already given pre-approval in relation to subscriptions to online accounting resources, the audit of the Belhaven pension scheme and the interim review.

The committee also has a policy in relation to the appointment of former partners or employees of the auditor by the group to prevent any potential conflict between their undertaking of the audit and their new appointment.

During the year the company made limited use of specialist teams within Ernst & Young LLP for non-audit work, including in relation to the Belhaven pension scheme audit and an analysis of fees incurred in relation to HMRC matters. The total fees earned by Ernst & Young LLP during the year amounted to £590k, of which £55k (9%) related to non-audit work. Further detail is in note 4 to the accounts.

In order to assist the committee with its consideration of the independence and objectivity of the external auditor, the external auditor undertook an annual review of its services provided to the group. In light of this review, and the further safeguards in place to protect such independence and objectivity, the committee determined that the carrying out of such services by the external auditor did not impair the external auditor's independence or objectivity.

External auditor – tendering and re-appointment

The company last tendered the external audit contract in 1997 and Ernst & Young has been the auditor since then, with an annual rolling contract and subject to an annual shareholder vote at the AGM. Ernst & Young is required to rotate the audit partner responsible for the group every five years and a new audit partner was appointed for the 2016/17 financial year.

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 light of the transitional provisions on audit matters thereunder which allow a period until April 2024 before an audit tender and change is required the committee recommended to the board, and the board accepted the recommendation, that Ernst & Young LLP should be retained as the group's auditor for the time being. 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 three 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 re-appointed 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 and risk committee chairman to enable it to raise any significant issues and to maintain independence. Members of the internal audit team also attend the audit and risk committee meetings to report on the progress and actions taken by the function.

Statutory code

In accordance with The Pubs Code etc. Regulations 2016 (the Code) the committee received a compliance report from the Pub Partners division covering the period from 21 July 2016 to 31 March 2018. The report noted that a code compliance officer has been appointed and Code training had been conducted with business development managers. Greene King had not been subject to any investigations, enforcement or representations in reference to unfair business practices by the Pubs Code Adjudicator (PCA). 105 market rent-only notices had been received, all of which had been reviewed and investigated and 77 of which had been accepted. Three Code-related complaints had been received which were dealt with under the company's established complaints procedure. In relation to the three complaints, no breaches of the Code were determined, no awards were made by the PCA and agreeable resolutions were reached between the parties in each case. The report was approved by the committee to enable submission to the PCA in July 2018.

Other matters considered during the year

Throughout the year the committee reviewed management's plans ahead of the implementation of the General Data Protection Regulation. The committee noted the risk-based approach which was adopted and supported the structured plan that led up to 25 May 2018 and beyond. As part of the preparation the committee continued to review the subject of cyber security and received regular reports from management on the issue and how external threats were managed. Significant investment has been made in hardware, software and user awareness during the year and management has continued to undertake testing (including by external consultants) of the company's defences against a cyber security attack.

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 terms of reference of the committee were also reviewed during the year and updated in line with the ICSA (Institute of Chartered Secretaries and Administrators) guidance note that was produced in March 2017 and reflected the UK Corporate Governance Code and the updated FRC Guidance on Audit Committees which had both been published in April 2016.

The committee reviewed and approved the company's group tax strategy, which it published on its website in April 2018. The committee also reviewed a paper setting out the company's group tax control framework for ensuring compliance with the collection and payment of taxes to HMRC.

Internal control and risk management

As disclosed in the risks and uncertainties section of this report on page 31, there is an ongoing 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 and risk committee monitors and reviews those internal controls and risks on a regular basis, and reports to the board on its findings.

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. 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 and presented the relevant reports.

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;
- a 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 data protection, modern slavery, bribery and whistle blowing and regular updates on any incidents.

During the year the internal audit function reported to the committee on a number of areas where it had carried out key financial control reviews and audit reviews, including perpetual inventory counts, apprenticeship levy, employee expenses and key financial control reviews.

The board is satisfied that there are no significant weaknesses in these systems and that the group's internal controls are operating effectively.

Directors' remuneration report

> THE COMMITTEE REMAINS MINDFUL OF INVESTOR INTEREST IN EXECUTIVE REMUNERATION.

Annual statement

Dear shareholder

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 continues to review developments in remuneration practice and governance; in 2017/18 the committee considered the proposed revisions to the UK Corporate Governance Code on remuneration matters, and we will review these again when they have been finalised for implementation.

Shareholders approved the remuneration policy for the company's directors at the 2017 AGM (with 93% voting in favour). We are grateful for this support and for the positive comments received from our shareholders on the steps which we took to amend our policy 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 2018 financial year, details of which are set out in the annual report on remuneration on pages 64 to 71. This latter report is subject to an advisory shareholder vote at the forthcoming AGM.

Decisions during the year

Last year we made no changes to executive directors' salaries during the year and the same will apply again for 2018/19, reflecting the difficult trading environment in which we find ourselves.

In addition, we undertook the following actions:

- We made our 2017/18 LTIP awards after the approval of our revised directors' remuneration policy at the September 2017 AGM. The performance measures for these awards are balanced between ROCE, adjusted basic EPS and free cash flow, and details of the performance targets (on which we consulted our leading shareholders in advance) are set out on page 68.
- We oversaw the arrangements for Richard Smothers replacing Kirk Davis as our CFO. Both the terms of Kirk's departure and Richard's appointment were consistent with the relevant principles set out in our directors' remuneration policy.

Pay for performance in 2017/18

As described more fully in the strategic report, revenue was down 1.8% whilst profit before tax and exceptional and non-underlying items was down 11.2% to £243.0m. These results reflect the difficult backdrop of increased costs, weaker consumer confidence and stronger competition.

Nevertheless, progress was made on many aspects of the business plan. In particular, progress was made on our customer measures, particularly the net promoter score and TripAdvisor ratings, and the improved colleague engagement score also showed encouraging progress. These are important lead indicators of business health, as agreed with our shareholders, and afford us confidence for the future.

Reflecting performance against the stretching targets set at the beginning of the year, bonus pay-outs for this year were 43.3% of opportunity for the chief executive (2017: 35.8%); 32.7% of opportunity for the former chief financial officer (2017: 30.3%) and 35.0% of opportunity for the new chief financial officer (2017: n/a). The slightly improved pay-outs over the figures for last financial year are predominantly due to the improvement in the customer and engagement metrics.

In relation to the LTIP awards granted in 2015, which would be due to vest in July this year, neither the core LTIP nor the growth LTIP award will vest as the performance conditions were not met.

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 resolutions referred to above at the forthcoming AGM.

Lynne Weedall
Chairman of the remuneration committee
27 June 2018

Policy report (unaudited)

This section of the report sets out Greene King's current remuneration policy, which was approved at the 2017 AGM by 93% 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 64.

Policy overview

The key objective of the company's remuneration policy is to promote the long-term success of the company and to enable the achievement of 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, their 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.	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. For the duration of this policy, any bonus outcomes achieved above 100% of salary will (after payment of taxes) be invested in shares by the executive director. The shares so acquired must be held for at least one year or, if longer, until share ownership guideline levels are attained.	A maximum of 150% of salary can be earned by the executive directors, with no bonus payable for below threshold performance. Each year the level of payment for on-target performance will be set by the committee after having considered the level of challenge in the annual bonus targets for that year. Payment of bonuses is dependent on a mixture of financial targets, strategic 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 and strategic measures and to appropriate personal performance measures as set by the committee. For the duration of this policy, financial measures will always have at least a two-thirds weighting of all of the performance measures applied in any year. Details of measures and weightings for the current financial year and of the proposed measures and weightings for next year's annual bonus are set out in the annual report on remuneration on pages 64 to 71. An explanation of how the performance measures were chosen is given in the notes below. The annual bonus remains a discretionary arrangement and the committee reserves discretion to adjust the outcomes achieved (from zero to any cap) under all performance measures should it consider that to be appropriate having considered overall performance in the year on a holistic basis.

Directors' remuneration report continued

Policy table continued

Element of remuneration	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Long-term incentive plan (LTIP)	To incentivise the executive directors to deliver superior levels of long-term performance for the benefit of shareholders, thereby aligning their interests with those of our long-term shareholders.	The committee normally makes an annual LTIP award, usually in the form of nil-cost options. The awards are subject to suitably stretching performance conditions set by the committee, which are reviewed annually. Awards normally vest on the third anniversary of grant, subject to performance. For awards made from the 2017 AGM onwards, a post-vesting holding period will apply so that performance-vested LTIP awards will not be exercisable until the fifth anniversary of grant. After the holding period awards 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 150% of salary can be awarded each year. Dividend equivalents will be paid on any shares that vest and will continue to be accrued during any post-vesting holding period.	All LTIP awards will be subject to suitably stretching performance targets as selected by the committee. Performance will normally be measured over a three-year period. The committee would expect to consult with its major shareholders if it proposed changing materially either the performance measures applied for LTIP awards made to executive directors or the relative weightings between these performance measures. Vesting will generally be subject to continued employment.
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 200% 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. Vested but unexercised awards including performance-vested LTIPs subject to a holding period (discounted for anticipated tax liabilities) can be credited towards the guidelines, as can shares acquired via bonus deferral.	—	—
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 scheme 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.	—

Policy table continued

Notes:

1. A description of how the company intends to implement the policy set out in this table for 2018/19 is set out in the annual report on remuneration on page 70.
2. The choice of performance metrics applicable to the annual bonus scheme reflects the committee's belief that the compensation should be appropriately stretching, but achievable, and tied to the delivery of profit growth, key financial metrics, strategic performance indicators and specific individual objectives.
3. **Reason for selection of LTIP targets**

   As explained in the remuneration policy table above, LTIP awards are subject to suitably stretching performance conditions set by the committee, which are reviewed annually. For 2018/19 the LTIP awards will be subject to three performance measures:

   - adjusted basic EPS growth will be applied on the basis that it will reward the delivery of growth in profits and is a widely understood profit-based measure across the business;
   - ROCE will be applied as it ensures that management focuses on generating returns in excess of the cost of capital and because it clearly aligns with our strategy where capital needs to be applied appropriately in order to focus on developing our Pub Company and generating returns; and
   - free cash flow will be applied as it aligns with our strategy to maintain a strong balance sheet and flexible capital structure; cash generated enables the company to cover debt service obligations, our core capital expenditure and our dividend.

   The performance targets for each metric will be set annually by the committee following a detailed review of the company's projections and will be appropriately stretching.
4. **Differences between the policy on remuneration for directors from the policy on remuneration of other employees**

   When determining executive directors' remuneration, the committee takes into account pay throughout the group to ensure that the arrangements in place remain appropriate.

   The group seeks to ensure that similar principles guide reward decisions for all group employees, including executive directors, although remuneration packages differ to take into account appropriate factors in different areas of the business:

   - **Fixed pay** – the company seeks to ensure that each employee receives an appropriate level of fixed pay reflecting appropriate market rates. All employees are enrolled automatically into a qualifying workplace pension.
   - **Annual bonus** – the company seeks to ensure that annual bonus plans are a part of reward where this is appropriate. However, the quantum of reward available and the performance measures applied will vary between employees at different levels within the business and the business units in which they work.
   - **LTIP** – our most senior employees participate in the LTIP currently based on the same performance conditions as those for executive directors, although the committee reserves the discretion to vary the performance conditions for awards made to employees below the board for future awards.
   - **All employee share plans** – the committee considers it is important for all employees to have the opportunity to become shareholders in the company. The company offers an HMRC tax advantaged sharesave plan in which all UK employees can participate and acquire shares on a discounted and tax advantaged basis.
5. **Malus and clawback**

   Malus (being the forfeiture of unvested awards) and clawback (being the ability of the company to claim repayment of paid amounts as a debt) provisions apply to the annual bonus and LTIP. These provisions may be applied where the remuneration committee considers it appropriate to do so following:

   - gross misconduct;
   - material misstatement of results; and
   - error in calculating the performance condition outcomes.
6. **Travel and hospitality**

   While the committee does not consider it to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality (whether paid for by the company or another) and certain instances of business travel (including any related tax liabilities settled by the company) for both executive and non-executive directors may technically come within the applicable rules and so the committee expressly reserves the right for it to authorise such activities within its agreed policies.
7. **Discretions reserved in operating incentive plans**

   The committee will operate the annual bonus and LTIP according to their respective rules and the above remuneration policy table. The committee retains certain discretions, consistent with market practice, in relation to the operation and administration of these plans including:

   - the timing of awards and payments;
   - the size of awards, within the overall limits disclosed in the policy table;
   - the determination of performance measures and targets and resultant vesting and pay-out levels;
   - (as described in the service agreements and exit payment policy section below) the determination of the treatment of individuals who leave employment, based on the rules of the incentive plans, and the treatment of the incentive plans on exceptional events, such as a change of control of the company; and
   - the ability to make adjustments to existing awards made under the incentive plans in certain circumstances (e.g. rights issues, corporate restructurings or special dividends).

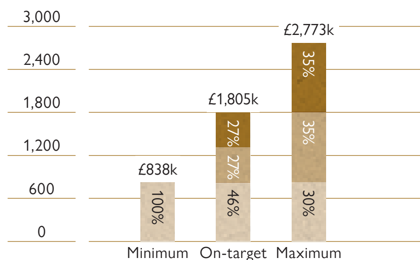
   While performance conditions will generally remain unchanged once set, the committee has the usual discretions to amend the measures, weightings and targets in exceptional circumstances (such as a major transaction) where the original conditions would cease to operate as intended. Any such changes would be explained in the subsequent annual remuneration report and, if appropriate, be the subject of consultation with the company's major shareholders.
8. **Prior awards**

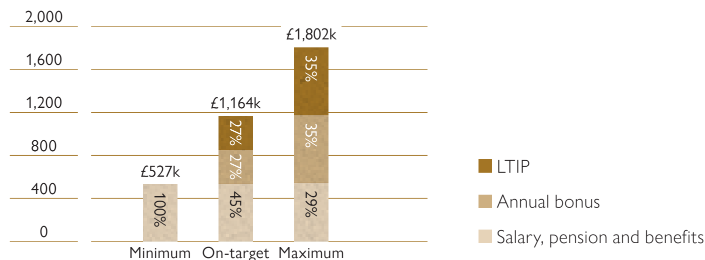
   Subject to the achievement of the applicable performance conditions, executive directors are eligible to receive payment from any award made prior to the approval and implementation of the remuneration policy detailed in this report.

Directors' remuneration report continued

Indicative total remuneration levels

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





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 is assumed to be 50% of the maximum award for the purposes of these illustrations. The actual on-target level may vary from year to year reflecting the performance scale applied.
3. The on-target vesting level under LTIP is assumed to be 50% of the maximum award.
4. The maximum scenario assumes full bonus pay-out 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 150% of salary and awards under the LTIP will be limited to 150% 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 'buy-out' 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 the avoidance of doubt, there is no formal limit on the value of any such buy-out awards.

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

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

Service agreements and exit payment policy

Newly appointed executive directors are offered a service agreement with a notice period of one year. In the event of the employment of an executive director being terminated, the committee would take into account the commercial interests of the company, pay due regard to best practice and apply usual common law and contractual principles, including the individual's duty to mitigate their loss.

The payment of any annual bonus in respect of the year of termination is subject to the discretion of the committee, which may determine that an annual bonus is payable with respect to the period of the financial year served, but pro-rated for time served, and not paid until the normal due date for the payment of bonuses.

The vesting of any LTIP awards will be governed by the rules of the LTIP. Awards will normally lapse unless the individual is considered a 'good leaver'. An individual would generally be considered a 'good leaver' if they left the group's employment by reason of death, injury, ill health, disability approved by the committee, or retirement, although the committee has the absolute discretion to treat any individual as a 'good leaver' for any other reason. In the case of a 'good leaver', payments would normally be scaled back to recognise the shorter period of service than the award was intended to cover and remain subject to outstanding performance conditions. If the individual terminates employment during a holding period for an LTIP award, the holding period will normally continue to apply in respect of the performance-vested shares, unless the committee thinks it is appropriate to allow the earlier release of shares in the particular circumstances.

Service agreements and exit payment policy continued

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.

Richard Smothers' employment, which commenced on 4 December 2017, prior to the date of his appointment to the board on 1 February 2018, is subject to the terms of a contract dated 10 May 2017. 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.

The company has power to enter into settlement agreements with executives and to pay compensation to settle potential legal claims. In addition, and consistent with market practice, in the event of termination of an executive director, the company may pay a contribution towards the individual's legal fees and fees for outplacement services as part of a negotiated settlement. Any such fees would be disclosed as part of the detail of termination arrangements. For the avoidance of doubt, the policy does not include an explicit cap on the cost of termination payments.

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 20
Gordon Fryett	1 Dec 16	30 Nov 19
Rob Rowley	18 Jul 14	17 Jul 20
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 or senior independent director. They are set at a level that is considered appropriately competitive in light of market practice.	—

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. The committee consulted with its largest shareholders regarding the directors' remuneration policy approved at the 2017 AGM.

Consideration of conditions elsewhere in the group

As explained in the general policy section of the directors' remuneration policy, the committee takes into account group-wide pay and employment conditions. The committee reviews the average group-wide base salary increase and is responsible for all discretionary and all employee share arrangements.

Consistent with normal practice, the committee did not consult with employees in preparing the directors' remuneration policy.

Directors' remuneration report continued

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, Gordon Fryett and Rob Rowley. 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 four scheduled meetings of the committee. Attendance at these meetings is shown in the table on page 52.

Advisers to the remuneration committee

The committee has appointed FIT Remuneration Consultants LLP to provide advice on general remuneration matters and comparator information. The committee is satisfied that FIT Remuneration Consultants LLP are independent advisers to the committee as they do not provide any other services to the company. Fees paid during the year to FIT Remuneration Consultants LLP in respect of advice to the committee, generally charged on a time spent basis, were £55,256 plus VAT.

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 2017 AGM

The table below shows the results of the binding vote on the directors' remuneration policy and the advisory vote on the 2016/17 directors' remuneration report, both at the AGM held in September 2017.

	Votes for	Percentage	Votes against	Percentage	Votes withheld
Approval of the directors' remuneration policy report	193,815,607	93.10%	14,371,168	6.90%	1,747,247
Approval of the remuneration report	208,476,541	99.93%	151,172	0.07%	1,304,797

Audited information

Single figure of remuneration

The tables below show the details of the total remuneration paid to each director in 2017/18 and 2016/17.

	Salary or fees £'000	Taxable benefits £'000	Pension related benefits[1] £'000	Annual bonus £'000	Long-term incentives[2] £'000	Total £'000
2017/18 (52 weeks) (audited)						
Executive directors						
Rooney Anand	**645**	**29**	**161**	**419**	**—**	**1,254**
Kirk Davis[3]	**267**	**24**	**53**	**131**	**—**	**475**
Richard Smothers[4]	**172**	**7**	**34**	**90**	**—**	**303**
Non-executive directors						
Mike Coupe	**50**	**—**	**—**	**—**	**—**	**50**
Gordon Fryett	**50**	**—**	**—**	**—**	**—**	**50**
Rob Rowley	**60**	**—**	**—**	**—**	**—**	**60**
Lynne Weedall	**60**	**—**	**—**	**—**	**—**	**60**
Philip Yea	**250**	**—**	**—**	**—**	**—**	**250**

Audited information continued

Single figure of remuneration continued

	Salary or fees £'000	Taxable benefits £'000	Pension related benefits[1] £'000	Annual bonus £'000	Long-term incentives[2] £'000	Total £'000
2016/17 (52 weeks) (audited)						
Executive directors						
Rooney Anand	645	25	161	231	92	1,154
Kirk Davis	351	19	70	106	—	546
Non-executive directors						
Mike Coupe	50	—	—	—	—	50
Ian Durant[5]	22	—	—	—	—	22
Gordon Fryett[6]	21	—	—	—	—	21
Rob Rowley	60	—	—	—	—	60
Lynne Weedall	60	—	—	—	—	60
Philip Yea	250	—	—	—	—	250

Notes:

1. Pension benefits for the executive directors comprised cash in lieu of pension contributions.
2. Long-term incentives in 2017/18 comprised the value of the awards granted in August 2015, which were due to vest in August 2018 and which were subject to performance targets measured over the three years to May 2018. The value of the award has been stated as nil as neither the 2015 core LTIP nor the 2015 growth LTIP award will vest due to failure to meet the minimum performance conditions. For the long-term incentives in 2016/17 the actual share price on the date of exercise has been used (restated from the estimate of £92k for Rooney Anand disclosed in the 2016/17 annual report).
3. Kirk Davis resigned from the board and left the company on 31 January 2018.
4. Richard Smothers joined the company on 4 December 2017 and the data provided above represents his full remuneration from that date until 29 April 2018. He joined the board on 1 February 2018 and his salary from 1 February 2018 until 29 April 2018 was £88k.
5. Ian Durant retired from the board on 9 September 2016.
6. Gordon Fryett was appointed to the board on 1 December 2016.

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

Base salary

The base salaries for 2017/18 for Rooney Anand, Kirk Davis and Richard Smothers were £645,000, £351,000 and £425,000 respectively. The base fee for the chairman was £250,000, whilst the base fees for the non-executive directors were £50,000 for Mike Coupe and Gordon Fryett and £60,000 for Rob Rowley (as chairman of the audit committee and senior independent director) and Lynne Weedall (as chairman of the remuneration committee).

Taxable benefits

Taxable benefits were provided to directors in line with the policy table set out on page 59.

Pension related benefits

Cash in lieu of pension contributions were in line with the policy table set out on page 59.

Annual bonus

Executive directors may earn bonuses depending on the company's performance and their own individual performance. Bonus opportunity is 150% of salary.

The chief executive's financial targets were based primarily on group profit before tax and exceptional and non-underlying items (PBTE) (maximum weighting 50% of bonus opportunity) and free cash flow (maximum weighting 16.7%). In addition he had two new strategic targets, with a maximum weighting of 10% each, relating to customer net promoter score in our Pub Company and employee engagement. Finally, a further 13.3% was based on personal targets relating to succession planning and embedding our values.

Kirk Davis' financial performance targets were based on PBTE (maximum weighting 41.6% of opportunity), free cash flow (maximum weighting 8.3%), cost savings (maximum weighting 8.3%) and financing (maximum weighting 8.3%). He also had the two new strategic targets, with a maximum weighting of 10% each, relating to customer net promoter score in our Pub Company and employee engagement. A further 13.3% was based on personal targets which related to succession planning and values/ways of working.

Richard Smothers' financial performance targets were based on PBTE (maximum weighting 41.6% of opportunity), free cash flow (maximum weighting 8.3%), cost savings (maximum weighting 8.3%) and financing (maximum weighting 8.3%). He also had the two new strategic targets, with a maximum weighting of 10% each, relating to customer net promoter score in our Pub Company and employee engagement. A further 13.3% was based on personal targets which related to succession planning and values/ways of working.

Audited information continued

Annual bonus continued

The target ranges, outcome and awards (as a percentage of bonus opportunity) are included in the table below:

	Target range	Actual performance	Maximum percentage of bonus	Actual percentage of bonus
Rooney Anand				
PBTE	£265.02m–£286.44m	£243.0m	50.0	0.0
Free cash flow	£58.3m–£67.31m	£89.5m	16.7	16.7
Pub Company customer net promoter score	54.6%–58.6%	59.0%	10.0	10.0
Staff engagement	60%–62%	63%	10.0	10.0
Personal targets	see note 1 below	see note 1 below	13.3	6.6
Total			100.0	43.3
Kirk Davis				
PBTE	£265.02m–£286.44m	£243.0m	41.7	0.0
Free cash flow[2]	£58.3m–£67.31m	£89.5m	8.3	0.0
Cost savings[3]	£30.1m–£32.5m	£30.4m	8.3	0.0
Financing	see note 4 below	see note 4 below	8.3	8.3
Pub Company customer net promoter score	54.6%–58.6%	59.0%	10.0	10.0
Staff engagement	60%–62%	63%	10.0	10.0
Personal targets	see note 5 below	see note 5 below	13.3	4.4
Total			100.0	32.7
Richard Smothers				
PBTE	£265.02m–£286.44m	£243.0m	41.7	0.0
Free cash flow	£58.3m–£67.31m	£89.5m	8.3	8.3
Cost savings[3]	£30.1m–£32.5m	£30.4m	8.3	0.0
Financing	see note 6 below	see note 6 below	8.3	0.0
Pub Company customer net promoter score	54.6%–58.6%	59.0%	10.0	10.0
Staff engagement	60%–62%	63%	10.0	10.0
Personal targets	see note 7 below	see note 7 below	13.3	6.7
Total			100	35.0

Notes:

1. The personal targets for Rooney Anand related to succession planning and values/ways of working. On succession planning, this year has seen the successful recruitment and induction of a number of operating board appointments. Succession plans are in place for key direct reports and a range of other critical roles elsewhere in the business have been filled. The remuneration committee was satisfied that the objectives set at the start of the year had been met and thus awarded 4.4% against the 6.7% of bonus opportunity available on this metric. On embedding our values and ways of working the committee noted the launch of the group's Winning Ways values programme but felt that more work was needed to create a compelling culture across the group, and the committee therefore awarded 2.2% against the 6.7% of bonus opportunity on this metric.
2. No bonus was paid to Kirk Davis in relation to the free cash flow target given the position at his termination date. The achievement on the year-end cash position was achieved through a programme of activity initiated by Richard Smothers on his arrival.
3. Notwithstanding the fact that cost savings were made overall during the year, the remuneration committee considered that a number of key elements of the original cost reduction plan had not been delivered satisfactorily, and used its discretion to determine that no amount would be payable in respect of the cost savings target for either Kirk Davis or Richard Smothers this year.
4. The financing target for Kirk Davis related to the progress made with regard to the refinancing of part of the Spirit debenture. With the Ambac guarantee having been terminated and the A1, A6 and A7 bonds prepaid during the year, the remuneration committee awarded 8.3% of bonus opportunity against this target, as these were the objectives set for the year.
5. The personal targets for Kirk Davis related to succession planning and values/ways of working. Whilst progress was made in relation to succession planning for certain of his key direct reports, insufficient progress was made with regard to employees below that level or other key finance roles and thus the remuneration committee determined that he should be awarded 2.2% against a bonus opportunity of 6.7% for this metric. On values/ways of working some progress was made and so the committee awarded a further 2.2% of bonus opportunity against this metric.
6. No bonus was paid to Richard Smothers in relation to the financing target as the target was met to the stretch level by Kirk Davis.
7. The personal targets for Richard Smothers related to succession planning and values/ways of working. The committee determined that an outcome of 6.7% out of 13.3% was appropriate for the period during which he has been in the role, as he only joined the group in December 2017.

Audited information continued

Annual bonus continued

Performance against the combined financial and individual targets resulted in bonuses being paid at £419k (65% of salary and 43.3% of opportunity) for Rooney Anand, £131k (49% of pro-rated salary and 32.7% of bonus opportunity) for Kirk Davis and £90k (52.5% of pro-rated salary and 35.0% of bonus opportunity) for Richard Smothers. The CEO's bonus outcome at 43.3% of maximum opportunity represents an appropriate outcome for the year considering the company's overall performance in a challenging trading environment. Although the PBTE target was not achieved (albeit against very robustly set targets), the free cash flow outcome was important as an indicator of our ability to continue to pay a dividend and invest further in our estate to generate future returns to benefit our shareholders. In addition, progress was made regarding customer NPS in our Pub Company division and employee engagement, both of which are very important 'lead indicators' of our future performance: we are ultimately a customer service and people-centred business. The CEO's progress on personal measures (succession planning, values and culture) also covered matters designed to reinforce our resilience as a business and set us up for the future.

Disclosure of 2016/17 bonus targets

The majority of the 2016/17 bonus targets and the company's performance against those targets were disclosed last year. However, both Rooney Anand and Kirk Davis had a target relating to Spirit Pub Company synergies of £34.9m–£39.9m, and the outcome was not precisely disclosed last year due to its commercial sensitivity. The actual outcome was £37.8m.

Long-term incentive plans

The LTIP awards granted on 10 August 2015 were based on a three-year performance period ended 29 April 2018. 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 (EPS)[1]	74.4p–80.5p	62.7p	0%	100%	0%
Growth LTIP – return on capital employed	9.6%–10.2%	8.5%	0%	100%	0%

Note:

1. Adjusted basic earnings per share.

All outstanding 2015 LTIP awards will therefore lapse on the third anniversary of their grant.

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 30 April 2017	Granted during the period	Vested during the period	Lapsed during the period	Outstanding at 29 April 2018	Performance period
Rooney Anand	24-Jul-14	Core LTIP	nil	66,361	—	—	66,361	—	May 2014 – May 2017
	24-Jul-14	Growth LTIP	nil	66,361	—	11,945	54,416	—	May 2014 – May 2017
	10-Aug-15	Core LTIP[1]	nil	66,558	—	—	—	66,558	May 2015 – May 2018
	10-Aug-15	Growth LTIP[1]	nil	66,558	—	—	—	66,558	May 2015 – May 2018
	28-Jul-16	Core LTIP	nil	81,302	—	—	—	81,302	May 2016 – May 2019
	28-Jul-16	Growth LTIP	nil	81,302	—	—	—	81,302	May 2016 – May 2019
	19-Sep-17	LTIP	nil	—	173,294	—	—	173,294	May 2017 – May 2020
Kirk Davis[2]	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
	28-Jul-16	Core LTIP	nil	44,243	—	—	44,243	—	May 2016 – May 2019
	28-Jul-16	Growth LTIP	nil	44,243	—	—	44,243	—	May 2016 – May 2019
Richard Smothers	4-Jan-18	LTIP	nil	—	45,995	—	—	45,995	May 2017 – May 2020

Notes:

1. As set out above the 2015 LTIP awards will lapse on the third anniversary of their grant as a result of the performance conditions not having been met.
2. Kirk Davis' LTIP awards lapsed when he left the company on 31 January 2018.

Audited information continued

Interests under the LTIP continued

The 2016 awards are dependent on performance over the three financial years to April 2019. There will be no vesting under the core LTIP award for adjusted basic 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.

The 2017 and January 2018 awards are dependent on performance over the three financial years to April 2020. In accordance with the remuneration policy approved by shareholders at the 2017 AGM, there is now a single LTIP award, with three elements, namely ROCE, adjusted basic EPS and free cash flow. The weightings attributable to each of those elements and the target ranges are set out in the table below.

Target	Percentage of total award	Target ranges
ROCE	50%	9.0% (20% vesting) to 9.5% (100% vesting)
Adjusted basic EPS	25%	72.9p (20% vesting) to 79.6p (100% vesting)
Free cash flow	25%	£220m (20% vesting) to £252m (100% vesting) cumulative free cash flow for FY2018, 2019 and 2020

The awards were granted subject to an underpin whereby the committee may reduce the level of vesting awards (including to zero) if it is not satisfied regarding performance during the performance period for the LTIP awards.

Details of the awards granted to the directors (Rooney Anand on 17 September 2017 and Richard Smothers on 4 January 2018) 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	Holding period	Exercisable between
Rooney Anand	LTIP	nil-cost option	150% of salary of £645,000	558.3p	173,294	£967,500	May 2016 – May 2019	19 Sept 2020 – 19 Sept 2022	20 Sept 2022 – 18 Sept 2027
Richard Smothers	LTIP	nil-cost option	150% of salary of £425,000 pro-rated for time served	562p	45,995	£258,492	May 2016 – May 2019	4 Jan 2021 – 4 Jan 2023	5 Jan 2023 – 3 Jan 2028

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 each award.

Interests under the sharesave scheme

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

	Outstanding as at 1 May 2017	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 29 April 2018	Option price (p)	Exercise period
Kirk Davis	3,050	—	—	3,050	—	580	1 April – 30 September 2018

Payments to former directors

Kirk Davis resigned from the board and left the company in January 2018, having given notice in August 2017. His salary and benefits were paid whilst he still worked for the company but not beyond his departure date. No compensation payments were made to him for any period of unexpired notice or loss of office.

In accordance with the directors' remuneration policy the committee determined that it was appropriate to pay Kirk Davis a pro-rated bonus in respect of his period of employment with the company during the financial year. Details are set out above in the section on bonuses and, in accordance with the directors' remuneration policy, the pro-rated bonus was paid at the normal time for the payment of bonuses.

All of the LTIP awards granted to Kirk Davis lapsed when he left the company as did the sharesave scheme options.

Richard Smothers' recruitment

Richard Smothers' remuneration terms are as set out below in the section 'Implementation of remuneration policy in 2018/19'. During 2017/18 he participated in the annual bonus plan on a pro-rata basis and was granted an LTIP award based on 150% of his base salary but pro-rated for time served in the year.

Audited information continued

Directors' shareholdings and share interests

Under the shareholding guidelines in place for the 2017/18 year executive directors were required to build and retain a shareholding of at least 200% 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 30 April 2017[1]	At 29 April 2018			
Director	Legally owned	Legally owned	Subject to performance under the LTIP	Total	Shareholding as percentage of salary as at 29 April 2018
Rooney Anand	599,919	616,947	469,014	1,085,961	520
Richard Smothers	—	—	45,995	45,995	—
Kirk Davis	4,000	n/a	n/a	n/a	n/a
Mike Coupe	3,690	3,690	—	3,690	—
Gordon Fryett	—	2,000	—	2,000	—
Rob Rowley	3,000	3,000	—	3,000	—
Lynne Weedall	3,051	3,051	—	3,051	—
Philip Yea	40,000	40,000	—	40,000	—

Note:
1. Or date of appointment if later.

In addition each of the executive directors may receive dividend equivalent awards in relation to their LTIP awards, the amount of which will depend on the value of dividends paid and the share price at the time thereof.

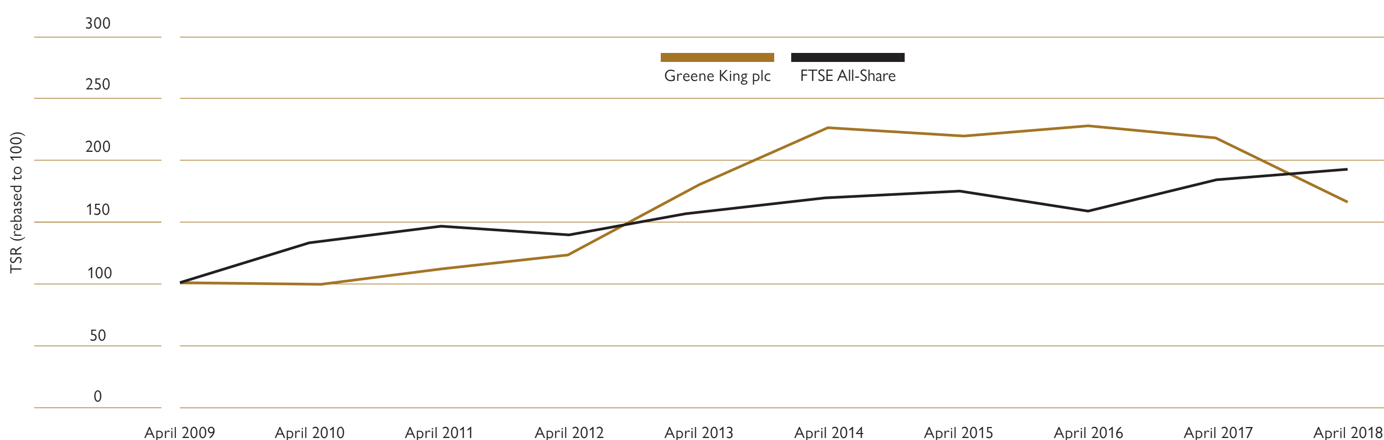
The share price as at 29 April 2018 was 544p.

There has been no change in the interests of the current directors since 29 April 2018 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 nine 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 nine years.

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	**2017/18**
CEO single figure (£'000)	1,096	1,406	1,248	2,689	2,517	2,139	2,295	1,154	**1,254**
Annual bonus percentage of maximum	97%	100%	75%	72%	97%	60%	97.5%	36%	**43%**
LTIP percentage of maximum	0%	0%	0%	100%	100%	100%	88%	9%	**0%**

Directors' remuneration report continued

Other information (unaudited) continued

Percentage increase in the chief executive's remuneration

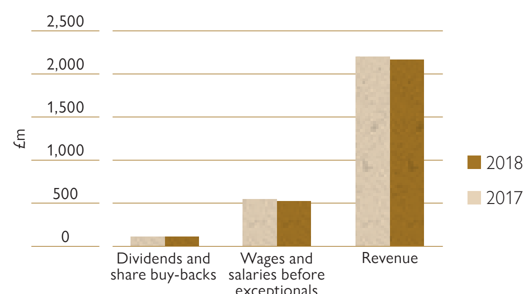
The table below shows the percentage change in the chief executive's remuneration from the prior year compared to the average percentage change in remuneration for all salaried employees (which include pub and restaurant managers but exclude colleagues working for them in those pubs and restaurants),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

	Chief executive % change	Employees % change
Salary	0.0	-0.8
Taxable benefits	15.8	-5.7
Annual bonus	81.8	38.9

Typical pay rises for the group's salaried employees in 2017/18 were 1.0%. The average salary change shown above for employees is a reflection of an increase in the number of salaried employees working in our pubs and restaurants, which has had the effect of reducing the average salary vs. last year, and does not indicate a reduction in salary levels. The increase in the chief executive's bonus reflects the change in remuneration policy and the corresponding reduction in the LTIP awards.

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 £50k (2017: £50k) from that company by way of fees. He is also a non-executive director of Wm Morrison Supermarkets plc and received and retained £102k (2017: £90k) from that company by way of fees during the year. Neither company is a related party of the group.

Implementation of remuneration policy in 2018/19

Salary

Executive directors' salaries are generally reviewed annually but there will be no increase for the 2018/19 financial year at the recommendation of the executive directors, reflecting their alignment with a focus on the control of costs. Their salaries with effect from 30 April 2018 (and previous year levels) are as follows:

Name	Position	From 30 April 2018	Percentage increase	From 1 May 2017[1]
Rooney Anand	Chief executive	£645,000	0.0%	£645,000
Richard Smothers	Chief financial officer	£425,000	0.0%	£425,000

Note:
1. Or start date if later.

Typical pay rises for the group's salaried employees (which include pub and restaurant managers but exclude colleagues working for them in those pubs and restaurants) were 1.5%.

Pension and benefits

The pension contributions and benefits will continue in line with the policy table et out on page 59.

Annual bonus

The annual bonus opportunity for 2018/19 will be 150% of salary, in line with the remuneration policy approved by shareholders at the AGM.

The chief executive's financial targets will be based on group PBTE (maximum weighting 46.7% of bonus opportunity) and free cash flow (maximum weighting 20%). The strategic targets for this year will predominantly comprise a number of specific objectives concerning senior team succession planning with a maximum weighting of 28.3%. A final 5% of his bonus opportunity will be based on the customer net promoter score in Pub Company.

The chief financial officer's financial performance targets will also be based on PBTE (maximum weighting 46.7% of bonus), free cash flow (maximum weighting 20%), customer net promoter score in Pub Company (maximum weighting 10%) and employee engagement (maximum weighting 10%). A further 13.3% of his bonus will be based on personal targets which relate to the capital structure of the group and internal financial reporting.

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 2018/19 annual report.

Other information (unaudited) continued

Implementation of remuneration policy in 2018/19 continued

LTIP

The awards to be made in 2018 will be subject to a maximum of 150% of the executive director's base salary, 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 2020. There will then be a two-year holding period during which the executive directors will not be entitled to exercise their performance-vested awards.

The performance conditions applicable to the LTIP awards in 2018/19 will be based on return on capital employed as at the end of the 2020/21 financial year (50% of total award), adjusted basic EPS at the end of the 2020/21 financial year (25% of total award) and cumulative free cash flow in the three years to 2020/21 (25% of total award).

Target and weighting	Adjusted basic EPS (p): 25%	ROCE: 50%	Free cash flow: 25%
100% vesting	72.6	8.70%	£210m
50% vesting	68.5	8.50%	£195m
20% vesting	64.6	8.20%	£185m

All awards will be subject to an underpin performance condition whereby the committee may reduce the level of vesting awards (including to zero) if it is not satisfied regarding performance during the performance period for the LTIP awards.

Chairman and non-executive directors' fees

The fees payable to the chairman and the non-executive directors in 2018/19 are as set out below. The chairman will not be entitled to any benefits.

Name	Position	2017/18 base fee	2018/19 base fee	Percentage increase
Philip Yea	Chairman	£250,000	£250,000	0.0%
Mike Coupe	Non-executive director	£50,000	£50,000	0.0%
Gordon Fryett	Non-executive director	£50,000	£50,000	0.0%
Rob Rowley	Non-executive director	£60,000	£60,000	0.0%
Lynne Weedall	Non-executive director	£60,000	£60,000	0.0%

Approved by the board on 27 June 2018.

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 29 April 2018. 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, employee engagement 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 tax for the period amounted to £197.5m (2017: £184.9m). An interim dividend of 8.8p per share (2017: 8.8p) was paid on 19 January 2018. The directors recommend a final dividend of 24.4p per ordinary share (2017: 24.4p), making a total dividend for the year of 33.2p per share (2017: 33.2p). Subject to the approval of shareholders at the AGM, the final dividend will be paid on 14 September 2018 to shareholders on the register at the close of business on 3 August 2018.

Directors

Details of the current directors are given on page 48 and 49. During the year Kirk Davis resigned on 31 January 2018, having served for three years as a director and chief financial officer. Richard Smothers was appointed to the board as the new chief financial officer on 1 February 2018.

The board has recommended that all of the directors offer themselves for re-election at the forthcoming AGM, with the exception of Richard Smothers, 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 current directors and their immediate families in the ordinary share capital of the company are shown below:

	30 April 2017[1]	**29 April 2018**
Rooney Anand	599,919	**616,947**
Mike Coupe	3,690	**3,690**
Gordon Fryett	—	**2,000**
Rob Rowley	3,000	**3,000**
Richard Smothers	—	**—**
Lynne Weedall	3,051	**3,051**
Philip Yea	40,000	**40,000**

Note:
1. Or date of appointment if later.

There have been no changes in the interests of the current directors between 29 April 2018 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 during the year:

	30 April 2017	**29 April 2018**
Standard Life Investments (Holdings) Limited/ Standard Life Aberdeen plc	4.774%	**5.00%**
The Capital Group Companies, Inc	16.28%	**18.216%**
Royal London Asset Management Limited	3.01%	**3.01%**
Deutsche Bank AG	—	**8.93%**
BlackRock, Inc.	—	**6.32%**

Between 29 April 2018 and the date of this report the company has been notified of the following significant holdings (3% or more) of voting rights:

	29 April 2018	**27 June 2018**
The Capital Group Companies, Inc	18.216%	**16.8946%**
Deutsche Bank AG	8.93%	**5.87%**
BlackRock, Inc.	6.32%	**6.52%**

Share capital

Details of the authorised and issued share capital of the company, which comprises a single class of shares, ordinary shares of 12.5p, are set out in note 25 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.

A total of 58,472 ordinary shares, with an aggregate nominal value of £7,309, were allotted, for cash, during the period in connection with the company's share 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. During the year 100,000 shares were acquired by the trustees of the EBT at a cost of £564.7k.

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 20 July 2017. The authority, which has not been exercised, was approved and remains exercisable until the next AGM or 7 December 2018, 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 or by the EBT.

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 AGM, and is then eligible for election by the shareholders.

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

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

Any director automatically ceases to be a director if (i) they give the company a written notice of resignation, (ii) they give the company a written offer to resign and the directors decide to accept this offer, (iii) all of the other directors remove them from office by notice in writing served upon them, (iv) they are or have been suffering from mental ill health and have a court order for their detention or the appointment of a guardian made in respect of them, (v) a bankruptcy order is made against them or they make any arrangement or composition with their creditors generally, (vi) they are prohibited from being a director by law or (vii) they are absent from board meetings for six months without leave and the other directors resolve that their office should be vacated.

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.

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 23 to the financial statements.

Post balance sheet events

Details of events occurring after the year end are set out in note 31 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 pages 48 and 49. Having made enquiries of fellow directors and of the company's auditor, each of these directors confirms that:

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

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the chief executive's review. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the financial review. In addition, note 23 to the financial statements includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit and liquidity risk.

Directors' report and disclosures continued

Going concern continued

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 severe but plausible shocks to the business 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 12.00pm on Friday 7 September 2018 at the Millennium Grandstand, Rowley Mile Racecourse Conference Centre, Newmarket, Suffolk. The notice of the AGM is set out in the separate circular to shareholders.

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

By order of the board

Lindsay Keswick
Company secretary
27 June 2018

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.

The United Kingdom Companies Act 2006 requires the directors to prepare financial statements for each financial period that give a true and fair view of the financial position of the group and the parent company and the financial performance and cash flows of the group for that period. 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 in accordance with applicable law, 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).

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 are 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 United Kingdom 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 United Kingdom 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 and in accordance with applicable law, and 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 pages 48 and 49.

P E Yea
Director
27 June 2018

R Anand
Director

CORPORATE GOVERNANCE

APPROVAL OF THE CORPORATE GOVERNANCE REPORT

Pages 48 to 75 of the annual report form the corporate governance report.

By order of the board

Lindsay Keswick
Company secretary
27 June 2018

Independent auditor's report

To the members of Greene King plc

Our opinion on the financial statements

In our opinion:

- Greene King plc's group financial statements and company financial statements (the financial statements) give a true and fair view of the state of the group's and of the company's affairs as at 29 April 2018 and of the group's profit for the 52 weeks then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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.

We have audited the financial statements of Greene King plc which comprise:

Group	Company
Group balance sheet as at 29 April 2018	Company balance sheet as at 29 April 2018
Group income statement for the 52 weeks ended 29 April 2018	Company statement of changes in equity for the 52 weeks ended 29 April 2018
Group statement of comprehensive income for the 52 weeks ended 29 April 2018	Related notes 32 to 42 to the financial statements including a summary of significant accounting policies
Group statement of changes in equity for the 52 weeks ended 29 April 2018	
Group cash flow statement for the 52 weeks ended 29 April 2018	
Related notes 1 to 31 to the financial statements, including a summary of significant accounting policies	

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 33 to 37 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 32 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 directors' statement set out on pages 73 to 74 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 12 months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 32 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.

Overview of our audit approach

Key audit matters	– Capital expenditure accounting, due to the risk of material overstatement of the fixed asset base through inappropriate capitalisation of non-capital costs. – Property, plant and equipment (PP&E) impairment considerations, due to the risk of material misstatement over the net impairment charge if management's assumptions to support the projected financial information in the impairment assessments include incorrect judgments or estimates. – Revenue recognition, due to the risk of fraudulent recognition of revenue through management override.
Audit scope	– We performed an audit of the complete financial information of the three trading divisions and corporate centre which together represent 100% of the group's results for the period. – 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. – In a change in audit strategy from the prior period, we have adopted a controls-based approach for certain elements of the revenue-to-cash, purchase-to-pay and inventory count processes.
Materiality	– Overall group materiality of £12.1m, which represents 5% of profit before tax and exceptional and non-underlying items.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the audit and risk committee
Capital expenditure accounting, due to the risk of material overstatement of the fixed asset base through inappropriate capitalisation of non-capital costs (2018: £192.4m of additions in the period; 2017: £186.9m) *Refer to the audit and risk committee report (pages 55 to 57); accounting policies (pages 88 to 94); and note 14 of the consolidated financial statements (pages 107 to 109)* Costs capitalised in the year are material. Our testing of additions for PP&E in the prior year identified items being capitalised that were non-capital in nature. To address prior year issues identified regarding capitalisation of non-capital items, management has revised its processes and controls in the period. We have identified capital expenditure accounting as a significant risk through inappropriate capitalisation of non-capital costs.	– We verified the appropriateness of the group's capital expenditure accounting principally through (but not limited to) the following key procedures: – We have walked through the revised capital expenditure process and assessed the design of key controls, including an assessment of the design effectiveness of the revised process and controls implemented by management. – We disaggregated the PP&E additions population by purchase order type and by value in order to identify homogenous subsets exhibiting the same risk characteristics. – We performed an analysis of additions by type and value of orders to identify changes in the composition in comparison with the prior year. – From the sub-populations identified we selected both key item and representative samples. We tested and validated the appropriateness of capitalisation of items against the recognition requirements of IAS 16. – The identified sample error rates were extrapolated over the homogenous sub-populations to estimate the overall error, which was not significant. – For our sample we reviewed the useful economic lives and residual values against an expectation based on historic actual useful economic lives.	As a result of the procedures performed, we identified a net undercapitalisation based on an extrapolation of the error in the sample tested. This is not material and we conclude that PP&E additions have been recognised in accordance with IAS 16.

Independent auditor's report continued

To the members of Greene King plc

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the audit and risk committee
Property, plant and equipment (PP&E) impairment considerations, due to the risk of material misstatement over the net impairment charge if management's assumptions to support the projected financial information in the impairment assessments include incorrect judgments or estimates (2018: £3,589.2m PP&E net book value and £63.3m net impairment charge; 2017: £3,621.9m and £58.6m respectively) *Refer to the audit and risk committee report (pages 55 to 57); accounting policies (pages 88 to 94); and note 14 of the consolidated financial statements (pages 107 to 109)* Management performs an annual impairment assessment on a site-by-site basis. In assessing impairment, management estimates the recoverable amount of each site by reference to the higher of its value in use (VIU), based on the group's key assumptions in relation to forecast profits, growth rate and applied discount rate, and fair value less costs of disposal (FVLCD). FVLCD was determined by either external or internal valuations.	We obtained an understanding of the group's process employed to estimate appropriate impairments of PP&E at a cash-generating unit (CGU) level (site level). We then tested key elements of those processes. In particular: – We checked the arithmetical accuracy and integrity of the impairment model. – We used our valuation experts to assess the reasonableness of the discount rate applied to cash flows by benchmarking to comparator companies and market information. – We compared the profit growth rates in the cash flow forecasts to the strategic plan and to external market growth estimates for the industry. – We reperformed the group's sensitivity calculations applied to the cash flows and considered the group's disclosure of how a reasonably possible change in assumptions would lead to a material impairment based upon our knowledge of the group's activities and industry knowledge. – We verified that the individual site NBVs, lease periods (where applicable) and trading data were correctly imported into the impairment model. – We used our property valuation experts to assess the property valuations provided by management's external valuer, where management adopted the valuer's FVLCD instead of the internal VIU model. Our testing also included the inputs into the external valuations. – We used our property valuation experts to assess the property valuations provided by management's internal valuers, where management adopted the valuers' FVLCD instead of the internal VIU model. – We examined the appropriateness of any other information used by management to refine the VIU or FVLCD in the calculation of the impairment charge.	We considered the reasonableness and appropriateness of the group's estimates, noting that all significant assumptions fell within a range of acceptable outcomes. We considered the group's sensitivity calculations applied to the cash flows to be materially correct and the disclosures of a reasonable change to be appropriate. We found no material errors within the site data used in the impairment calculations. We considered the property valuations provided by management's external valuer to fall within a range of acceptable valuations. We considered the property valuations provided by management's internal valuers to fall within a range of acceptable valuations. We considered the other information used by management to determine VIU or FVLCD in the calculation of the impairment charge to be appropriate. As a result of the procedures performed, we concluded that the group's impairment assessment for the group's CGUs had been carried out appropriately and in accordance with accounting standards. We found that the impairment charge had a net understatement error that was not significant. We do not consider the error to be material and therefore we concluded that the impairment calculations are appropriate and free from material error.

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the audit and risk committee
Revenue recognition, due to the risk of fraudulent recognition of revenue through management override (2018: £2,176.7m; 2017: £2,216.5m) *Refer to the audit and risk committee report (pages 55 to 57); accounting policies (pages 88 to 94); and note 3 of the consolidated financial statements (page 96)* In accordance with International Standards on Auditing (UK and Ireland) there is a presumed fraud risk relating to revenue recognition. Revenue principally consists of: – drink, food and accommodation sales, which are recognised at the point at which goods or services are provided; – rental income, which is recognised on a straight-line basis over the lease term; and – machine income, where net takings are recognised as earned. Greene King Pub Partners and Pub Company divisions, given their high disaggregation with approximately 3,000 individual pubs and low value individual sale transactions, have a low inherent risk of material error or fraud occurring undetected. Similarly with strong revenue to cash correlation any systemic errors of significance would quickly be visible in balance sheet reconciliations. Therefore the risk of material error in revenue recognition is principally seen to reside in a topside management journal overriding financial reporting close processes. We have identified a significant risk of material overstatement of revenue through management override and topside journals (for all divisions).	– We have walked through each significant revenue stream and assessed the design, and tested the operating effectiveness of key controls. In addition we have performed the following procedures: – We completed tests of detail on a representative sample of revenue transactions recorded in the period. – We performed disaggregated analytical review on revenue recorded by division and month to identify unusual or unexpected trends. – We tested manual journal entries to revenue from across the year to ensure that entries were appropriately supported by evidence of arrangement, delivery note or subsequent cash receipt. – We tested transactions before and after 29 April to verify proper revenue cut-off. Such testing included obtaining an enforceable agreement and evidence of delivery.	As a result of the procedures performed, we conclude that revenue has been recognised in accordance with the revenue recognition policy and accounting standards.

In the prior year, our auditor's report included key audit matters in relation to accounting for supplier income and customer rebates, impairment of goodwill, and uncertain tax positions and stamp duty land tax. Taking each matter in order:

- **Accounting for supplier income and customer rebates:** Based on our experience and results of our audit in the prior year, we noted that the amounts of rebates are not significant, the estimation of the rebates at year end is not highly complex and nor do they require significant judgment. We therefore do not consider the risk of material error to be significant, and is therefore no longer considered a significant risk or key audit matter in the current year.
- **Impairment of goodwill:** Based on prior year audit and interim planning procedures and the level of fair value headroom above the carrying value of goodwill (as presented in note 13 of the financial statements), we consider the risk of impairment in goodwill does not give rise to a significant risk and is not considered a key audit matter in the current period.
- **Uncertain tax positions and stamp duty land tax:** During the prior period a formal agreement was reached with HMRC on a number of historical tax positions and the Court of Appeal issued its final decision on the Sussex case. In addition the stamp duty land tax matter was also concluded with HMRC in the current period. There are no remaining historical open items with HMRC of significance; therefore there is no longer a risk of material misstatement in the financial statements for the current period. Accordingly, uncertain tax positions and stamp duty land tax are not considered key audit matters in the current period.

Independent auditor's report continued

To the members of Greene King plc

An overview of 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 consolidated financial statements. 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 such as recent internal audit results when assessing the level of work to be performed at each division.

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 divisions 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.

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 £12.1m (2017: £13.7m), which is 5% (2017: 5%) of profit before tax and exceptional and non-underlying items. We used pre-tax profit before exceptional and non-underlying items of £243.0m because it is a key performance indicator used in communications with investors, it is a key metric used by the group in the assessment of the performance of management and we note that market and analyst commentary on the group uses pre-tax profit before exceptional and non-underlying items as a key metric. Therefore, we consider pre-tax profit before exceptional and non-underlying items to be the most appropriate performance metric on which to base our materiality calculation.

We determined materiality for the company to be £13.9m (2017: £13.8m), which is 1% (2017: 1%) of net assets, a measure chosen due to the nature of the company's business activity, which is that of investment holding.

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, our judgment was that performance materiality was 75% (2017: 75%) of our planning materiality, namely £9.0m (2017: £10.3m). We have set performance materiality at this percentage reflecting the absence of significant changes in the group and absence of significant audit adjustments in the prior period. Our objective in considering and adopting this approach was to ensure that the total of any detected and undetected audit differences do not exceed our materiality of £12.1m for the group financial statements as a whole.

Audit work on each division 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 division is based on the relative scale and risk of the division to the group as a whole and our assessment of the risk of misstatement at that division. In the current year, the range of performance materiality allocated to divisions was £2.3m to £8.0m (2017: £2.7m to £8.1m).

Reporting threshold

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

We agreed with the audit and risk committee that we would report to them all uncorrected audit differences in excess of £0.6m (2017: £0.7m), 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.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 75 and 128 to 132, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information continued

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **fair, balanced and understandable set out on page 75** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **audit and risk committee reporting set out on pages 55 to 57** – the section describing the work of the audit and risk committee does not appropriately address matters communicated by us to the audit and risk committee; or
- **directors' statement of compliance with the UK Corporate Governance Code set out on page 50** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions 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.

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- the strategic report or the directors' report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 75, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent auditor's report continued

To the members of Greene King plc

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant relate to the reporting framework (IFRS, FRS 101, the Companies Act 2006 and the UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the group operates. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those laws and regulations as disclosed within risk and uncertainties of the group's business on pages 32 to 37 including The Pubs Code etc. Regulations 2016, Health & Safety Regulations, the General Data Protection Regulation, and Licensing Regulations.
- We understood how Greene King plc is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the group company secretary. We corroborated our enquiries through the attendance at meetings held by the audit and risk committee, which receives updates on such matters from divisional and functional management. As well as enquiry and attendance at meetings, our procedures involved a review of the reporting to the committees and a review of board meetings and other committee minutes to identify any non-compliance with laws and regulations.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur, by meeting with management to understand where it considered there was susceptibility to fraud. We also considered performance targets and their propensity to influence management to manage earnings and revenue by overriding internal controls. We considered the controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud, and how senior management monitors those controls. Our procedures also included testing a risk-based sample of manual journals that may have been posted with the intention of overriding internal controls to manipulate earnings. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were re-appointed by the shareholders at the annual general meeting on 8 September 2017 and signed an engagement letter with the company on 28 November 2017 confirming the terms of appointment for the audit of the financial statements for the 52 weeks ended 29 April 2018.
- The period of total uninterrupted engagement including previous renewals and re-appointments is 20 years, covering the periods ending 2 May 1998 to 29 April 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company and we remain independent of the group and the company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit and risk committee.

Use of our report

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

Lloyd Brown (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, UK
27 June 2018

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.

Group income statement

For the 52 weeks ended 29 April 2018

	Note	**2018**			2017		
		Before exceptional and non-underlying items £m	**Exceptional and non-underlying items (note 5) £m**	**Total £m**	Before exceptional and non-underlying items £m	Exceptional and non-underlying items (note 5) £m	Total £m
Revenue	2,3	**2,176.7**	**—**	**2,176.7**	2,216.5	—	2,216.5
Operating costs	4	**(1,803.6)**	**(56.1)**	**(1,859.7)**	(1,805.0)	(65.0)	(1,870.0)
Operating profit	2,4	**373.1**	**(56.1)**	**317.0**	411.5	(65.0)	346.5
Finance income	7	**1.0**	**—**	**1.0**	1.0	—	1.0
Finance costs	7	**(131.1)**	**10.6**	**(120.5)**	(139.0)	(23.6)	(162.6)
Profit before tax		**243.0**	**(45.5)**	**197.5**	273.5	(88.6)	184.9
Tax	10	**(48.6)**	**13.6**	**(35.0)**	(54.3)	21.1	(33.2)
Profit attributable to equity holders of parent		**194.4**	**(31.9)**	**162.5**	219.2	(67.5)	151.7

	Note	**2018**		2017	
		Before exceptional and non-underlying items	**Total**	Before exceptional and non-underlying items	Total
Earnings per share					
– Basic	12		**52.4p**		49.0p
– Adjusted basic	12	**62.7p**		70.8p	
– Diluted	12		**52.3p**		48.9p
– Adjusted diluted	12	**62.6p**		70.7p	
Dividends per share (paid and proposed in respect of the period)	11		**33.2p**		33.2p

Group statement of comprehensive income

For the 52 weeks ended 29 April 2018

	Note	2018 £m	2017 £m
Profit for the period		**162.5**	151.7
Other comprehensive income/(loss) to be reclassified to the income statement in subsequent periods			
Cash flow hedges:			
– Gains/(losses) on cash flow hedges taken to other comprehensive income		**15.5**	(38.5)
– Transfers to income statement on cash flow hedges		**25.6**	26.7
Income tax on cash flow hedges	10	**—**	2.0
Deferred tax on cash flow hedges	10	**(7.0)**	(0.4)
		34.1	(10.2)
Items not to be reclassified to the income statement in subsequent periods			
Remeasurement gains on defined benefit pension schemes	9	**21.5**	37.3
Deferred tax on remeasurement gains	10	**(3.6)**	(7.4)
		17.9	29.9
Other comprehensive income for the period, net of tax		**52.0**	19.7
Total comprehensive income for the period, net of tax		**214.5**	171.4

Group balance sheet

As at 29 April 2018

	Note	As at 29 April 2018 £m	As at 30 April 2017 (note 9) £m
Non-current assets			
Property, plant and equipment	14	**3,589.2**	3,621.9
Intangibles	13	**124.7**	163.7
Goodwill	13	**1,089.7**	1,108.8
Financial assets	15	**13.2**	16.3
Derivative financial instruments	23	**1.5**	—
Deferred tax assets	10	**29.7**	63.1
Post-employment assets	9	**13.6**	16.8
Prepayments		**0.2**	0.2
Trade and other receivables	18	**0.1**	0.1
		4,861.9	4,990.9
Current assets			
Inventories	17	**47.7**	45.0
Financial assets	15	**10.5**	10.1
Income tax receivable	10	**10.2**	—
Trade and other receivables	18	**87.5**	93.3
Prepayments		**26.3**	27.6
Cash and cash equivalents	19	**168.5**	443.0
		350.7	619.0
Property, plant and equipment held for sale	20	**8.6**	5.1
		359.3	624.1
Total assets		**5,221.2**	5,615.0
Current liabilities			
Borrowings	22	**(54.6)**	(219.7)
Derivative financial instruments	23	**(20.6)**	(30.9)
Trade and other payables	21	**(420.0)**	(429.3)
Off-market contract liabilities	24	**(17.9)**	(21.3)
Income tax payable	10	**—**	(12.6)
Provisions	24	**(29.5)**	(26.9)
		(542.6)	(740.7)
Non-current liabilities			
Borrowings	22	**(2,146.2)**	(2,297.8)
Trade and other payables	21	**(1.8)**	(1.9)
Off-market contract liabilities	24	**(228.6)**	(264.1)
Derivative financial instruments	23	**(222.0)**	(313.9)
Deferred tax liabilities	10	**—**	(9.8)
Post-employment liabilities	9	**—**	(28.0)
Provisions	24	**(23.1)**	(14.6)
		(2,621.7)	(2,930.1)
Total liabilities		**(3,164.3)**	(3,670.8)
Total net assets		**2,056.9**	1,944.2
Issued capital and reserves			
Share capital	25	**38.7**	38.7
Share premium	26	**262.0**	261.7
Merger reserve	26	**752.0**	752.0
Capital redemption reserve	26	**3.3**	3.3
Hedging reserve	26	**(158.1)**	(192.2)
Own shares	26	**(0.5)**	(0.2)
Retained earnings		**1,159.5**	1,080.9
Total equity		**2,056.9**	1,944.2
Net debt	28	**2,032.3**	2,074.5

Signed on behalf of the board on 27 June 2018

P E Yea
Director

R Anand
Director

Group cash flow statement

For the 52 weeks ended 29 April 2018

	Note	2018 £m	2017 £m
Operating activities			
Operating profit		**317.0**	346.5
Operating exceptional and non-underlying items	5	**56.1**	65.0
Depreciation	14	**103.7**	102.6
Amortisation	13	**9.8**	10.0
EBITDA[1]	2	**486.6**	524.1
Working capital and other movements	27	**(46.8)**	(29.2)
Interest received		**1.0**	1.0
Interest paid		**(130.2)**	(148.1)
Tax paid		**(44.8)**	(48.6)
Net cash flow from operating activities		**265.8**	299.2
Investing activities			
Purchase of property, plant and equipment		**(193.2)**	(194.9)
Sale of other investments	15	**0.3**	—
Advances of trade loans	15	**(3.4)**	(6.1)
Repayment of trade loans	15	**5.9**	6.3
Sales of property, plant and equipment		**117.2**	88.6
Net cash flow from investing activities		**(73.2)**	(106.1)
Financing activities			
Equity dividends paid	11	**(102.9)**	(100.1)
Issue of shares		**0.3**	0.8
Purchase of own shares		**(0.5)**	(1.6)
Payment of derivative financial liabilities		**(42.6)**	(117.4)
Securitised bond issuance		**—**	300.0
Financing costs		**(3.2)**	(7.1)
Repayment of borrowings	28	**(505.2)**	(200.6)
Advance of borrowings	28	**187.0**	—
Net cash flow from financing activities		**(467.1)**	(126.0)
Net (decrease)/increase in cash and cash equivalents		**(274.5)**	67.1
Opening cash and cash equivalents	19	**443.0**	375.9
Closing cash and cash equivalents	19	**168.5**	443.0

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

Group statement of changes in equity

For the 52 weeks ended 29 April 2018

	Note	Share capital (note 25) £m	Share premium (note 26) £m	Merger reserve (note 26) £m	Capital redemption reserve (note 26) £m	Hedging reserve (note 26) £m	Own shares (note 26) £m	Retained earnings £m	Total equity £m
At 1 May 2016		**38.6**	**261.0**	**752.0**	**3.3**	**(182.0)**	**(0.2)**	**1,000.9**	**1,873.6**
Profit for the period		—	—	—	—	—	—	151.7	151.7
Other comprehensive income:									
Actuarial gains on defined benefit pension schemes (net of tax)		—	—	—	—	—	—	29.9	29.9
Net loss on cash flow hedges (net of tax)		—	—	—	—	(10.2)	—	—	(10.2)
Total comprehensive income		**—**	**—**	**—**	**—**	**(10.2)**	**—**	**181.6**	**171.4**
Issue of ordinary share capital	25	0.1	0.7	—	—	—	—	—	0.8
Release of shares	26	—	—	—	—	—	1.6	(1.6)	—
Purchase of shares		—	—	—	—	—	(1.6)	—	(1.6)
Share-based payments	8	—	—	—	—	—	—	(0.4)	(0.4)
Tax on share-based payments	10	—	—	—	—	—	—	0.5	0.5
Equity dividends paid	11	—	—	—	—	—	—	(100.1)	(100.1)
At 30 April 2017		**38.7**	**261.7**	**752.0**	**3.3**	**(192.2)**	**(0.2)**	**1,080.9**	**1,944.2**
Profit for the period		—	—	—	—	—	—	162.5	162.5
Other comprehensive income:									
Actuarial gains on defined benefit pension schemes (net of tax)		—	—	—	—	—	—	17.9	17.9
Net gain on cash flow hedges (net of tax)		—	—	—	—	34.1	—	—	34.1
Total comprehensive income		**—**	**—**	**—**	**—**	**34.1**	**—**	**180.4**	**214.5**
Issue of ordinary share capital	25	—	0.3	—	—	—	—	—	0.3
Release of shares	26	—	—	—	—	—	0.2	(0.2)	—
Purchase of shares		—	—	—	—	—	(0.5)	—	(0.5)
Share-based payments	8	—	—	—	—	—	—	1.3	1.3
Tax on share-based payments	10	—	—	—	—	—	—	—	—
Equity dividends paid	11	—	—	—	—	—	—	(102.9)	(102.9)
At 29 April 2018		**38.7**	**262.0**	**752.0**	**3.3**	**(158.1)**	**(0.5)**	**1,159.5**	**2,056.9**

Notes to the accounts

For the 52 weeks ended 29 April 2018

1 Accounting policies

Corporate information

The consolidated financial statements of Greene King plc for the 52 weeks ended 29 April 2018 were authorised for issue by the board of directors on 27 June 2018. Greene King plc is a public company limited by shares incorporated and domiciled in England and Wales. The company's shares are listed on the London Stock Exchange.

Statement of compliance

The group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as they apply to the financial statements of the group for the 52 weeks ended 29 April 2018 (prior year 52 weeks ended 30 April 2017).

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 millions of pounds sterling, with values rounded to the nearest hundred thousand, except where otherwise indicated.

The prior year comparatives have been restated in respect of pensions (see note 9) to gross up the asset and liabilities of the separate pension schemes and to correct the future financial commitments (see note 29).

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.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the directors' report on page 73 and in the viability statement included in the strategic report on page 32.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year. Other than new disclosure requirements in relation to the changes in liabilities arising from financial liabilities, new standards and interpretations which came into force during the year did not have a significant impact on the group's financial statements.

Those standards and interpretations include:

- Amendments to IAS 7: Statement of Cash Flows on the Disclosures in Financial Statements
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IFRS 12: Disclosure of Interests in Other Entities: Clarification of the Scope of Disclosure Requirement in IFRS 12

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).

1 Accounting policies continued

Significant accounting policies continued

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 acquired 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 are recognised in the income statement.

If the contingent consideration is classified as equity, it is not 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 IFRS. Identifiable intangible assets, meeting either the contractual-legal or separability criteria, 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.

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.

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.

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. Gains and losses are recognised in the income statement 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).

1 Accounting policies continued

Significant accounting policies continued

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.

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 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.

1 Accounting policies continued

Significant accounting policies continued

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 recognised as an operating lease in intangible assets. 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 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 two defined benefit pension schemes which require contributions to be made into separately administered funds. The cost of providing benefits under the schemes is determined separately for each plan using the projected unit credit actuarial method on an annual basis. Remeasurement gains and losses are recognised in full in the group statement of comprehensive income in the period in which they occur.

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

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

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

Defined contribution pension schemes

Contributions to the group's defined contribution pension schemes are charged to the income statement as they become payable.

Share-based payments

Certain employees and directors receive equity-settled remuneration, whereby they render services in exchange for shares or rights over shares. The fair value of the shares and options granted is measured using a Black-Scholes model, at the date at which they were granted. No account is taken in the fair value calculation of any vesting conditions (service and performance), other than market conditions (performance linked to the price of the shares of the company).

Any other conditions that are required to be met in order for an employee to become fully entitled to an award are considered non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value. The fair value of shares and options granted is recognised as an employee expense with a corresponding increase in equity spread over the period in which the vesting conditions are fulfilled ending on the relevant vesting date. The cumulative amount recognised as an expense reflects the extent to which the vesting period has expired, adjusted for the estimated number of shares and options that are ultimately expected to vest. The periodic charge or credit is the movement in the cumulative position from beginning to end of that period.

No expense is recognised for awards that do not ultimately vest 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 to satisfy the exercise of share options that have vested under the group's share option schemes.

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 own 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 leasehold interests on acquisitions are deemed to represent lease premiums, and are carried as intangible assets, 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.

1 Accounting policies continued

Significant accounting policies continued

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.

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 year in order to determine the appropriate accounting treatment.

Exceptional and non-underlying items and adjusted profitability measures

Management uses a range of measures to monitor and assess the group's financial performance. These measures include a combination of statutory measures calculated in accordance with IFRS and alternative performance measures (APMs). These APMs include the following adjusted measures of profitability:

- operating profit before exceptional and non-underlying items;
- profit before tax, exceptional and non-underlying items (PBTE);
- profit attributable to equity holders before exceptional and non-underlying items; and
- adjusted basic earnings per share.

Management believes that these measures provide useful additional information about the group's performance.

The above measures represent the equivalent IFRS measures but are adjusted to exclude items that management considers would prevent comparison of the performance both from one reporting period to another and with other similar businesses.

Exceptional and non-underlying items are not defined under IFRS. Exceptional items are classified as those which are separately identifiable by virtue of their size, nature or expected frequency and therefore warrant separate presentation. Non-underlying items are other items that management considers should be presented separately to allow a better understanding of the underlying performance of the business. Presentation of these measures is not intended to be a substitute for or intended to promote them above statutory measures.

The group's income statement provides a reconciliation of the adjusted profitability measures, excluding exceptional and non-underlying items to the equivalent unadjusted IFRS measures. Exceptional and non-underlying items are then further detailed in note 5 to the financial statements.

1 Accounting policies continued

Significant accounting policies continued

Exceptional and non-underlying items and adjusted profitability measures continued

Items that are considered to be exceptional or non-underlying and that are therefore separately identified in order to aid comparability may include the following.

Exceptional items:

- profits or losses resulting from the disposal of a business or investment;
- costs incurred in association with business combinations, such as legal and professional fees and stamp duty, that are excluded from the fair value of the consideration of the business combination;
- one-off restructuring and integration costs that are incurred either following a business combination or following a restructuring of the group's support functions. These costs can be significant and would prevent year-on-year comparability of the group's trading if not separately identified;
- impairment charges/reversals in respect of tangible and intangible assets as a result of restructuring, business closure, underperformance of sites or fire damage;
- finance costs or income resulting from gains or losses upon the settlement of interest rate swap and bond liabilities. These amounts may be significant and are separately identified as the instruments they relate to would no longer form part of the group's ongoing capital structure;
- fair value gains and losses on the ineffective element of cash flow hedges and fair value movements in respect of derivatives held at fair value through profit and loss. Such items are separately presented as movements may be both significant and volatile; and
- significant and/or one-off tax settlements in respect of prior years (including any related interest), and the tax impact of the items identified above and movements on the licensed estate are included as exceptional items. These items are separately identified to allow management and investors to separately understand tax charges relating to in-year ongoing activity and what relates to prior years.

Non-underlying items may include:

- costs incurred in relation to group refinancing activities and defending uncertain tax positions;
- profit or loss on the disposal of property, plant and equipment, where the group disposes of properties that it no longer considers meet the ongoing needs of the business. These profits or losses could be significant and volatile and are not reflective of the group's ongoing trading results;
- costs associated with property lease reversions and onerous leases. The group may incur costs and recognise liabilities in respect of leasehold properties where the terms of the lease make them onerous or leases that have previously been disposed of but revert to the group under privity of contract. Such costs may occur infrequently or could be significant and are not reflective of the group's ongoing trade;
- significant credits to the income statement resulting from the reversal of share-based payment charges recognised in prior year's performance following the reassessment of expected scheme;
- gains or losses resulting from the settlement of liabilities in respect of the group's pension schemes;
- finance costs or income includes the recycling to the income statement of cumulative gains or losses relating to settled swaps previously taken to the hedging reserve;
- the impact of changes in the statutory tax rates;
- the impact of changes to the tax base cost of group's licensed estate and indexation; and
- other adjustments in respect of prior years' tax arising from finalising the tax returns for earlier years and rolled over gains on the licensed estate.

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 issued in July 2014 and replaces of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 covers the classification and measurement 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 is effective for accounting periods beginning on or after 1 January 2018, and will be adopted by the group on 30 April 2018 using a modified retrospective assessment approach. The group has assessed the impact and determined that the adoption of IFRS 9 will not have a material impact 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, and amended it in April 2016. 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.

The new standard is effective for accounting periods beginning on or after 1 January 2018, and will be adopted by the group on 30 April 2018. This standard replaces all existing revenue recognition guidance under current IFRS. The group has completed an impact assessment and determined that the adoption of IFRS 15 will not have a material impact on its consolidated results and financial position, but will result in additional disclosure requirements.

IFRS 16 Leases

The IASB issued IFRS 16 Leases in January 2016. The new standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The new standard will be effective for years beginning on or after 1 January 2019, and the group plans to adopt IFRS 16 on 1 May 2019. For lessors, there is little change to the existing accounting in IAS 17 Leases.

The application of IFRS 16 will have a material impact on the group's consolidated financial results and financial position. This includes recognition of interest and amortisation expense in place of fixed rental expense in the income statement and the recognition of right-of-use assets and lease liabilities for its operating lease portfolio on the balance sheet.

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

1 Accounting policies continued

New standards and interpretations not applied continued

IFRS 16 Leases continued

There is no net cash flow impact on application of IFRS 16, although the classification of cash flows will be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

The group has a comprehensive project under way to assess the overall impact of adopting IFRS 16, including: determining the preferred transition approach and quantifying the financial impacts; addressing the future data collection requirements and updating processes accordingly; and integrating IFRS 16 into all its reporting with effect from 1 May 2019. It is not practicable to provide a reasonable estimate of the financial effect of the initial application of IFRS 16 until this assessment project has been completed.

IFRIC 23 Uncertainty over Income Tax Treatments

The IASB issued IFRIC 23 Uncertainty over Income Tax Treatments in June 2017 to clarify application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments, effective 1 January 2019. The group has completed an impact assessment and determined that IFRIC 23 is not expected to have an impact 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.

- Amendments to IFRS 2: Clarifications of Classification and Measurement of Share-based Payment Transactions
- IFRS 17 Insurance Contracts
- Amendments to IAS 40: Transfers of Investment Property

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 probable 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 notes 5, 10 and 24 for further details.

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 assets and liabilities

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

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.

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 and intangible assets

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 and useful lives

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. In line with its accounting policy, the residual value of the group's freehold buildings was reviewed in the year and increased to reflect recent external valuations. This increase had no material impact on the pre-tax group's consolidated results or financial position, or is anticipated to have a material impact in future periods. The taxation impact is reported in note 5. 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 24 for details.

2 Segment information

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

Pub Company: Managed pubs and restaurants

Pub Partners: Tenanted and leased pubs

Brewing & Brands: Brewing, marketing and selling beer

These are also considered to be the group's operating segments and are based on the information presented to the chief executive, who is considered to be the chief operating decision maker. No aggregation of operating segments has been made.

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

2018	**Pub Company £m**	**Pub Partners £m**	**Brewing & Brands £m**	**Corporate £m**	**Total operations £m**
External revenue	**1,767.7**	**193.9**	**215.1**	**—**	**2,176.7**
Segment operating profit	**268.2**	**91.4**	**30.7**	**(17.2)**	**373.1**
Exceptional and non-underlying operating costs					**(56.1)**
Net finance costs					**(119.5)**
Income tax charge					**(35.0)**
					162.5
EBITDA[1]	**362.9**	**101.3**	**36.0**	**(13.6)**	**486.6**
Balance sheet					
Segment assets	**3,688.8**	**874.0**	**395.1**	**39.8**	**4,997.7**
Unallocated assets[2]					**223.5**
Total assets	**3,688.8**	**874.0**	**395.1**	**39.8**	**5,221.2**
Segment liabilities	**(392.1)**	**(45.3)**	**(101.4)**	**(157.5)**	**(696.3)**
Unallocated liabilities[2]					**(2,468.0)**
Total liabilities	**(392.1)**	**(45.3)**	**(101.4)**	**(157.5)**	**(3,164.3)**
Net assets	**3,296.7**	**828.7**	**293.7**	**(117.7)**	**2,056.9**
Other segment information					
Capital expenditure	**158.0**	**23.9**	**6.8**	**3.7**	**192.4**
Depreciation and amortisation	**(94.7)**	**(9.9)**	**(5.3)**	**(3.6)**	**(113.5)**

2017	Pub Company £m	Pub Partners £m	Brewing & Brands £m	Corporate £m	Total operations £m
External revenue	1,817.4	198.8	200.3	—	2,216.5
Segment operating profit	308.1	92.8	31.0	(20.4)	411.5
Exceptional and non-underlying operating costs					(65.0)
Net finance costs					(161.6)
Income tax charge					(33.2)
					151.7
EBITDA[1]	403.2	103.1	36.2	(18.4)	524.1
Balance sheet					
Segment assets	3,750.5	892.8	394.0	54.8	5,092.1
Unallocated assets[2]					522.9
Total assets	3,750.5	892.8	394.0	54.8	5,615.0
Segment liabilities	(428.3)	(46.8)	(107.8)	(149.6)	(732.5)
Unallocated liabilities[2]					(2,938.3)
Total liabilities	(428.3)	(46.8)	(107.8)	(149.6)	(3,670.8)
Net assets	3,322.2	846.0	286.2	(94.8)	1,944.2
Other segment information					
Capital expenditure	155.5	20.0	7.2	4.2	186.9
Depreciation and amortisation	(95.1)	(10.3)	(5.2)	(2.0)	(112.6)

1. EBITDA represents earnings before interest, tax, depreciation, amortisation and exceptional and non-underlying items and is calculated as operating profit before exceptional and non-underlying items adjusted for the depreciation and amortisation charge for the year.
2. Unallocated assets/liabilities comprise cash, borrowings, pensions, net deferred tax, net current tax, derivatives and indirect tax provisions. The 2017 comparative has been restated to reflect the grossing up of pension assets and liabilities for the separate defined benefit schemes.

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

2 Segment information continued

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 the group's 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:

	2018 £m	2017 £m
Goods	**2,032.4**	2,069.1
Services	**144.3**	147.4
	2,176.7	2,216.5

Revenue from services includes rent receivable from licensed properties of £53.6m (2017: £53.5m).

4 Operating costs

Operating profit is stated after charging/(crediting):

	2018			2017		
	Before exceptional and non-underlying items £m	Exceptional and non-underlying items £m	Total £m	Before exceptional and non-underlying items £m	Exceptional and non-underlying items £m	Total £m
Cost of products sold recognised as an expense	**743.0**	**—**	**743.0**	769.7	—	769.7
Employment costs (note 6)	**584.7**	**2.5**	**587.2**	590.9	4.9	595.8
Depreciation of property, plant and equipment (note 14)	**103.7**	**—**	**103.7**	102.6	—	102.6
Amortisation (note 13)	**9.8**	**—**	**9.8**	10.0	—	10.0
Operating lease rentals:						
– Minimum lease rentals payable	**70.0**	**—**	**70.0**	68.9	—	68.9
Other operating charges	**292.4**	**73.3**	**365.7**	262.9	63.5	326.4
Net profit on disposal (note 5)	**—**	**(19.7)**	**(19.7)**	—	(3.4)	(3.4)
	1,803.6	**56.1**	**1,859.7**	1,805.0	65.0	1,870.0

Fees paid to the auditor during the year consisted of:

	2018 £m	2017 £m
Audit of the consolidated financial statements	**0.4**	0.4
Audit of subsidiaries	**0.1**	0.2
Non-audit services	**0.1**	—
Included in other operating charges	**0.6**	0.6

5 Exceptional and non-underlying items

	2018			2017		
	Exceptional items £m	**Non-underlying items £m**	**Total £m**	Exceptional items £m	Non-underlying items £m	Total £m
Included in operating profit						
Integration costs and other legal and professional fees	**(3.7)**	**(1.9)**	**(5.6)**	(10.8)	—	(10.8)
Net impairment of property, plant and equipment and intangible assets (notes 13 and 14)	**(70.4)**	**—**	**(70.4)**	(58.6)	—	(58.6)
Employee costs	**—**	**(1.6)**	**(1.6)**	—	(3.7)	(3.7)
Share-based payment credit	**—**	**—**	**—**	—	3.1	3.1
Insurance proceeds	**—**	**1.8**	**1.8**	—	—	—
Net profit on disposal of property, plant and equipment and goodwill	**—**	**19.7**	**19.7**	—	3.4	3.4
Pension and post-employment liabilities settlement gain	**—**	**—**	**—**	—	1.6	1.6
	(74.1)	**18.0**	**(56.1)**	(69.4)	4.4	(65.0)
Included in financing costs						
Gain on settlement of financial liabilities	**3.0**	**—**	**3.0**	12.2	—	12.2
Amounts recycled from hedging reserve in respect of settled interest rate liabilities	**—**	**(11.6)**	**(11.6)**	—	(11.8)	(11.8)
Fair value losses on ineffective element of cash flow hedges	**—**	**—**	**—**	—	(0.4)	(0.4)
Fair value movements of derivatives held at fair value through profit and loss	**19.2**	**—**	**19.2**	(23.6)	—	(23.6)
	22.2	**(11.6)**	**10.6**	(11.4)	(12.2)	(23.6)
Total exceptional and non-underlying items before tax	**(51.9)**	**6.4**	**(45.5)**	(80.8)	(7.8)	(88.6)
Tax impact of exceptional items	**(0.2)**	**—**	**(0.2)**	5.0	—	5.0
Tax impact of non-underlying items	**—**	**2.9**	**2.9**	—	2.8	2.8
Tax credit in respect of the licensed estate	**14.0**	**—**	**14.0**	3.2	6.3	9.5
Tax credit in respect of rate change	**—**	**—**	**—**	—	4.3	4.3
Adjustment in respect of prior periods	**(10.1)**	**7.0**	**(3.1)**	(2.7)	2.2	(0.5)
Total exceptional and non-underlying tax	**3.7**	**9.9**	**13.6**	5.5	15.6	21.1
Total exceptional and non-underlying items after tax	**(48.2)**	**16.3**	**(31.9)**	(75.3)	7.8	(67.5)

Exceptional operating costs

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 Pub Company, which was finalised in the year.

During the period to 29 April 2018 the group has recognised a net impairment loss of £70.4m (2017: £58.6m). This is comprised of an impairment charge relating to properties of £76.1m (2017: £77.7m) and reversal of previously recognised impairment losses of £12.8m (2017: £19.1m). £39.3m impairment 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 £24.0m due to a decision taken to exit some sites during the financial year. 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 addition an impairment charge of £7.1m (2017: £nil) was recognised in relation to intangible assets during the year.

Non-underlying operating costs

In the year the group incurred £1.9m non-underlying legal and professional fees in relation to group refinancing activities and defending uncertain tax positions.

The net profit on disposal of property, plant and equipment and goodwill of £19.7m (2017: £3.4m) comprises a total profit on disposal of £68.4m (2017: £38.2m) and a total loss on disposal of £48.7m (2017: £34.8m).

In the year the group received insurance compensation of £1.8m (2017: £nil) to meet the costs of restoring sites damaged by fire or flood in a previous year.

The group incurred £1.6m (2017: £3.7m) of non-underlying employee costs, which included restructuring costs and costs associated with changes to key management. A share-based payment credit of £3.1m was recognised in the prior year which resulted from the reversal of charges recognised in earlier years following a reassessment of expected scheme performance.

In the prior year the group recognised a £1.6m non-underlying credit in relation to pension settlement following the completion of a flexible retirement offer and pension increase exchange offer made to certain members of the Spirit pension scheme.

Exceptional and non-underlying finance costs

During the year the group settled financial liabilities in relation to the Spirit secured financing vehicle, recognising a net gain of £3.0m. The financial guarantee provided by Ambac in respect of a number of Spirit secured bonds was terminated for cash consideration of £12.6m with a further £2.2m of consent and other fees paid (note 24). The fair value of this off-market contract liability was initially recognised as part of the acquisition fair values of Spirit Pub Company. An exceptional gain of £5.9m, being the difference between the carrying value of the liability and the total cash consideration and fees incurred in order to terminate it, has been recognised.

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

5 Exceptional and non-underlying items continued

Exceptional and non-underlying finance costs continued

In addition the A1, A3, A6, and A7 Spirit secured bonds were fully repaid at their par value of £216.9m. The group has recognised exceptional losses on early settlement of £4.1m, being the difference between the carrying value of the bonds and their par value on prepayment.

The group also terminated two interest rate swap contracts for cash consideration of £42.6m in connection with the repayment of these bonds, recognising an exceptional gain of £1.2m amounting to the discount received on termination.

During the prior year a number of the group's swap liabilities were settled at a discount recognising a £12.2m exceptional gain. The swaps concerned were hedging cash flows relating to the Greene King A5 bond and floating rate bank loans. These cash flows are still expected to occur and therefore in accordance with IAS 39 the cumulative losses taken to the hedging reserve will be recycled to the income statement over the same period during which the hedged forecast cash flows affect profit or loss. A non-underlying charge of £11.6m (2017: £11.8m) has been recognised in respect of this during the year.

In a prior year the group acquired as part of a business combination derivatives that have subsequently been accounted for at fair value through profit and loss as they were deemed not to qualify for hedge accounting. An exceptional gain of £19.2m (2017: charge of £23.6m) relates to the mark-to-market movement on these derivatives, excluding amortisation of fair value on acquisition which reduces the pre-exceptional finance costs that include interest paid (note 23). Mark-to-market movements are considered to be exceptional owing to their volatility and are shown separately to ensure pre-exceptional finance costs are more readily comparable each year. Fair value amortisation is deemed to be a pre-exceptional item as it adjusts swap interest to a market rate.

Exceptional tax

The £14.0m deferred tax in respect of the licensed estate in the year arose due to management's revision of its estimate of the residual value of buildings from 80% to 85%.

The exceptional tax credit in respect of the licensed estate in the prior year relates to impairment.

On 16 October 2017 agreement was reached with HMRC regarding an internal property arrangement, the group's only material unresolved historical tax position. Apart from the treatment of repairs, which is expected to be resolved by the end of the next financial year, this has been fully provided in the accounts. As a result the group has settled corporation tax of £9.4m and interest of £2.1m during the year.

On 6 June 2016 a formal agreement was reached with HMRC on a number of historical tax positions and on 22 July 2016 the Court of Appeal published its final decision on the Sussex case. As a result the group settled income tax of £20.7m and interest of £12.2m during the prior year. An income tax credit of £0.8m is included within adjustment in respect of prior years.

The adjustment in respect of prior years' tax arises from finalising the tax returns for earlier periods and movements on the licensed estate.

Non-underlying tax

The tax credit in respect of the licensed estate in the prior year arises from movements in their tax base cost and indexation.

The Finance Act 2016 reduced the rate of corporation tax from 19% to 17% from 1 April 2020. The rate reduction was substantively enacted at the balance sheet date and is 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 adjustment in respect of prior years' tax arises from finalising the tax returns for earlier periods and movements on the licensed estate.

6 Employment costs

	2018			2017		
	Before exceptional and non-underlying items £m	**Exceptional and non-underlying items £m**	**Total £m**	Before exceptional and non-underlying items £m	Exceptional and non-underlying items £m	Total £m
Wages and salaries	**538.8**	**2.2**	**541.0**	546.3	7.0	553.3
Other share-based payments (note 8)	**1.8**	**—**	**1.8**	2.3	(3.1)	(0.8)
Total wages and salaries	**540.6**	**2.2**	**542.8**	548.6	3.9	552.5
Social security costs	**36.9**	**0.3**	**37.2**	34.9	0.9	35.8
Other pension costs (note 9):						
– Defined contribution	**7.2**	**—**	**7.2**	7.4	0.1	7.5
	584.7	**2.5**	**587.2**	590.9	4.9	595.8

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

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

	2018	2017
Pub Company	**37,417**	40,693
Pub Partners	**62**	64
Brewing & Brands	**862**	838
Corporate	**827**	884
	39,168	42,479

The figures above include 24,751 (2017: 25,473) part-time employees.

Details of directors' emoluments are shown in the directors' remuneration report on pages 64 to 69.

7 Finance (costs)/income

	2018			2017		
	Before exceptional and non-underlying items £m	**Exceptional and non-underlying items £m**	**Total £m**	Before exceptional and non-underlying items £m	Exceptional and non-underlying items £m	Total £m
Bank loans and overdrafts	**(6.4)**	**—**	**(6.4)**	(6.2)	—	(6.2)
Other loans	**(110.5)**	**—**	**(110.5)**	(117.1)	—	(117.1)
Ineffective element of cash flow hedges	**—**	**—**	**—**	0.2	(0.4)	(0.2)
Derivatives held at fair value through profit and loss	**—**	**19.2**	**19.2**	—	(23.6)	(23.6)
Settlement of financial liabilities	**—**	**3.0**	**3.0**	—	12.2	12.2
Amounts recycled from hedging reserve in respect of settled interest rate liabilities	**—**	**(11.6)**	**(11.6)**	—	(11.8)	(11.8)
Interest in respect of uncertain tax positions	**(0.3)**	**—**	**(0.3)**	—	—	—
Interest on exceptional indirect tax provision	**(0.6)**	**—**	**(0.6)**	—	—	—
Unwinding of discount element of provisions and off-market contract liabilities	**(13.0)**	**—**	**(13.0)**	(14.2)	—	(14.2)
Net finance cost from pensions	**(0.3)**	**—**	**(0.3)**	(1.7)	—	(1.7)
Total finance costs	**(131.1)**	**10.6**	**(120.5)**	(139.0)	(23.6)	(162.6)
Bank interest receivable	**1.0**	**—**	**1.0**	1.0	—	1.0
Total finance income	**1.0**	**—**	**1.0**	1.0	—	1.0
Net finance costs	**(130.1)**	**10.6**	**(119.5)**	(138.0)	(23.6)	(161.6)

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).

The general terms of the LTIP/growth LTIP are detailed in the directors' remuneration report on pages 64 to 69. All are equity settled.

The total charge recognised for the year arising from share-based payment transactions including National Insurance contributions is £1.8m (2017: £0.8m credit). A corresponding credit of £1.3m (2017: £0.4m debit) has been recognised in equity.

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 the awards granted in 2018 the fair value was 558p and 573p (2017: 805p) per share option. Future dividend payments have not been factored into the valuation as participants are entitled to dividend payments.

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

	2018 SAYE	2017 SAYE
Weighted average share price	**524p**	682p
Exercise price	**463p**	574p
Expected dividend yield	**6.1%**	4.4%
Risk-free rate of return	**0.8%**	0.6%
Expected volatility	**25.0%**	22.5%
Expected life (years)	**3.3**	3.3
Weighted average fair value of grants in the year	**68p**	107p

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.

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

8 Share-based payment plans continued

Movements in outstanding options and rights during the year are as follows:

SAYE

	Number of options		Weighted average exercise price	
	2018 m	2017 m	**2018 p**	2017 p
Outstanding at the beginning of the year	**2.8**	2.3	**610**	645
Granted	**1.7**	1.3	**463**	574
Forfeited	**(1.4)**	(0.7)	**608**	682
Exercised	**(0.1)**	(0.1)	**583**	503
Outstanding at the end of the year	**3.0**	2.8	**529**	610
Exercisable at the end of the year	**0.5**	0.2	**588**	620

LTIP

	Number of shares	
	2018 m	2017 m
Outstanding at the beginning of the year	**2.3**	2.2
Granted	**1.2**	1.0
Forfeited	**(1.2)**	(0.3)
Vested	**—**	(0.6)
Outstanding at the end of the year	**2.3**	2.3
Exercisable at the end of the year	**—**	—

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 year, and granted, forfeited and exercised during the year is £nil (2017: £nil).

SAYE and LTIP

Options were exercised on a range of dates. The weighted average share price through the period was 580p in 2018 and 748p in 2017.

The rights outstanding at 29 April 2018 under the LTIP had an exercise price of £nil (2017: £nil) and a weighted average remaining contractual life of 1.6 years (2017: 1.4 years).

The outstanding options for the SAYE scheme had an exercise price of between 463p and 726p (2017: 387p and 726p) and the weighted average remaining contractual life was 3.3 years (2017: 3.2 years).

9 Pensions

Defined contribution pension schemes

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

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 year was £7.2m (2017: £7.5m).

Defined benefit pension schemes and post-employment benefits

The group maintains two defined benefit schemes: the Greene King Pension Scheme and the Spirit (Legacy) Pension Scheme which are closed to new entrants and are closed to future accrual. Only administrative costs and deficit recovery contributions are incurred going forward. Both schemes were last valued as at April 2015 and are undergoing a full actuarial valuation as at 29 April 2018. 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 the manufacturing and consumer products sectors, the group is also exposed to equity market risk arising in the manufacturing and consumer products sector. The majority of the bonds relate to UK government and corporate bonds.

The 2017 balance sheet comparative has been restated to reflect the grossing up of pension assets and liabilities for the separate defined benefit schemes.

9 Pensions continued

Defined benefit pension schemes and post-employment benefits continued

Net interest on net defined liability:

	Pension schemes					
	2018			2017		
	Greene King £m	**Spirit £m**	**Total £m**	Greene King £m	Spirit £m	Total £m
Interest on pension scheme assets	**9.6**	**14.3**	**23.9**	10.4	15.9	26.3
Interest on scheme liabilities	**(10.3)**	**(13.9)**	**(24.2)**	(12.0)	(16.0)	(28.0)
Net interest on net defined liability	**(0.7)**	**0.4**	**(0.3)**	(1.6)	(0.1)	(1.7)

The values of the schemes' liabilities have been determined by a qualified actuary based on the results of the last actuarial valuation, updated to 29 April 2018 using the following principal actuarial assumptions:

	2018		2017	
	Greene King	**Spirit**	Greene King	Spirit
Discount rate	**2.8%**	**2.8%**	2.7%	2.8%
Expected pension payment increases	**3.0%**	**3.0%**	3.1%	3.1%
Rate of inflation (RPI)	**3.1%**	**3.1%**	3.3%	3.3%
Rate of inflation (CPI)	**2.0%**	**2.0%**	2.2%	2.2%
The mortality assumptions imply the following expectations of years of life from age 65:				
Man currently aged 40	**23.7**	**23.7**	23.5	23.5
Woman currently aged 40	**25.8**	**25.8**	25.5	25.5
Man currently aged 65	**21.9**	**21.9**	22.1	22.1
Woman currently aged 65	**23.8**	**23.8**	23.9	23.9

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:

	Pension schemes					
	2018			2017		
	Greene King £m	**Spirit £m**	**Total £m**	Greene King £m	Spirit £m	Total £m
Investment quoted in active markets						
Equities	**298.5**	**103.5**	**402.0**	290.6	120.0	410.6
Bonds	**65.5**	**287.6**	**353.1**	71.1	354.6	425.7
Property	**—**	**53.4**	**53.4**	—	48.0	48.0
Annuities	**1.3**	**—**	**1.3**	1.5	—	1.5
Unquoted investments						
Annuities insurance contracts	**—**	**45.5**	**45.5**	—	—	—
Cash	**2.0**	**1.9**	**3.9**	0.1	2.1	2.2
Total fair value of assets	**367.3**	**491.9**	**859.2**	363.3	524.7	888.0
Present value of scheme liabilities:						
Funded plans	**(365.8)**	**(479.8)**	**(845.6)**	(391.3)	(507.9)	(899.2)
Non current asset/(liability) recognised	**1.5**	**12.1**	**13.6**	(28.0)	16.8	(11.2)

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

9 Pensions continued

Defined benefit pension schemes and post-employment benefits continued

During the year the Spirit scheme entered into a buy-in policy that provides insurance for a proportion of its pensioner population. The value of the buy-in policy on an IAS 19 accounting basis matches the value of the underlying pension obligations.

£139.3m (2017: £177.8m) of the bonds shown in the table above are liability-driven investments designed to match the change in value of the scheme's liabilities.

The movements in the pension schemes' assets/(liabilities) during the year are as follows:

	Pension assets		Pension liabilities		Net pension (liability)/asset £m
	Greene King £m	Spirit £m	Greene King £m	Spirit £m	
Post-employment assets/(liabilities) at 1 May 2016	**312.0**	**489.2**	**(360.6)**	**(492.9)**	**(52.3)**
Pension interest income/(costs) recognised in the income statement	10.4	15.9	(12.0)	(16.0)	(1.7)
Benefits paid	(16.6)	(16.8)	16.6	16.8	—
Settlement	—	(25.4)	—	27.0	1.6
Remeasurement gains/(losses) in other comprehensive income:					
Return on plan assets (excluding amounts included in net interest expenses)	54.2	61.2	—	—	115.4
Actuarial changes arising from changes in demographic assumptions	—	—	4.8	5.0	9.8
Actuarial changes arising from changes in financial assumptions	—	—	(44.5)	(47.8)	(92.3)
Experience adjustments	—	—	4.4	—	4.4
Contributions paid – employers	3.3	0.6	—	—	3.9
Post-employment assets/(liabilities) at 30 April 2017	**363.3**	**524.7**	**(391.3)**	**(507.9)**	**(11.2)**
Pension interest income/(costs) recognised in the income statement	9.6	14.3	(10.3)	(13.9)	(0.3)
Benefits paid	(17.3)	(24.0)	17.3	24.0	—
Remeasurement gains/(losses) in other comprehensive income:					
Return on plan assets (excluding amounts included in net interest expenses)	8.1	(23.1)	—	—	(15.0)
Actuarial changes arising from changes in demographic assumptions	—	—	2.2	2.9	5.1
Actuarial changes arising from changes in financial assumptions	—	—	16.3	15.1	31.4
Contributions paid – employers	3.6	—	—	—	3.6
Post-employment assets/(liabilities) at 29 April 2018	**367.3**	**491.9**	**(365.8)**	**(479.8)**	**13.6**

Presented in the balance sheet as follows:

	2018 £m	2017 £m
Post-employment assets	**13.6**	16.8
Post-employment liabilities	**—**	(28.0)
	13.6	(11.2)

	Post-employment benefits liability	
	2018 £m	2017 £m
At beginning of year	**—**	(1.3)
Released	**—**	1.3
At end of year	**—**	—

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	
	2018 £m	2017 £m
0.25% points increase in discount rate	**38.1**	40.5
0.25% points increase in inflation assumption	**(29.9)**	(31.8)
Additional one-year increase to life expectancy	**(34.4)**	(36.6)

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

	2018 £m	2017 £m
Within 1 year	**3.3**	3.3
Between 2 and 5 years	**13.1**	13.1
Between 5 and 10 years	**6.4**	9.7
	22.8	26.1

The average duration of the defined benefit plan obligation at the end of the year is 17–18 years (2017: 18–19 years).

10 Taxation

Consolidated income statement	2018 Before exceptional and non-underlying items £m	2018 Exceptional and non-underlying items £m	2018 Total £m	2017 Before exceptional and non-underlying items £m	2017 Exceptional and non-underlying items £m	2017 Total £m
Income tax						
Corporation tax before exceptional and non-underlying items	**38.7**	**—**	**38.7**	43.3	—	43.3
Recoverable on exceptional and non-underlying items	**—**	**(9.9)**	**(9.9)**	—	(11.1)	(11.1)
Current income tax	**38.7**	**(9.9)**	**28.8**	43.3	(11.1)	32.2
Adjustment in respect of prior periods	**—**	**(6.5)**	**(6.5)**	—	0.8	0.8
	38.7	**(16.4)**	**22.3**	43.3	(10.3)	33.0
Deferred tax						
Origination and reversal of temporary differences	**9.9**	**(6.8)**	**3.1**	11.0	(6.2)	4.8
Adjustment in respect of prior periods	**—**	**9.6**	**9.6**	—	(0.3)	(0.3)
Tax credit in respect of rate change	**—**	**—**	**—**	—	(4.3)	(4.3)
	9.9	**2.8**	**12.7**	11.0	(10.8)	0.2
Tax charge/(credit) in the income statement	**48.6**	**(13.6)**	**35.0**	54.3	(21.1)	33.2

Group statement of comprehensive income	2018 £m	2017 £m
Deferred tax		
Remeasurement gains on defined benefit pension schemes	**3.6**	6.3
Net gain/(loss) on revaluation on cash flow hedges	**7.0**	(2.1)
Tax charge in respect of rate change	**—**	3.6
	10.6	7.8
Income tax		
Net loss on revaluation on cash flow hedges	**—**	(2.0)
Total tax	**10.6**	5.8

Group statement of changes in equity	2018 £m	2017 £m
Deferred tax		
Share-based payment – future taxable benefit	**0.3**	(0.6)
Tax charge in respect of rate change	**—**	0.1
Deferred tax reported in equity	**0.3**	(0.5)
Income tax		
Share-based payments – current taxable benefit	**(0.3)**	—
Total tax reported in equity	**—**	(0.5)

Reconciliation of income tax expense for the year

The effective rate of taxation is lower (2017: lower) than the full rate of corporation tax. The differences are explained below:

	2018 £m	2017 £m
Profit before tax	**197.5**	184.9
Profit before tax multiplied by standard rate corporation tax of 19.0% (2017: 19.9%)	**37.5**	36.8
Effects of:		
Expenditure not allowable for tax purposes	**3.3**	0.8
Profit on disposal with no deferred tax impact	**(4.1)**	2.1
Impairment with no deferred tax impact	**10.0**	8.6
Impact of deferred tax in respect of licensed estate	**(14.0)**	(9.5)
Impact of deferred tax being at different rate to income tax	**(0.8)**	(1.8)
Impact of change in tax rate on deferred tax balances	**—**	(4.3)
Adjustment in respect of prior years – income tax	**(6.5)**	0.8
Adjustment in respect of prior years – deferred tax	**9.6**	(0.3)
Income tax expense reported in the income statement	**35.0**	33.2

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

10 Taxation continued

Deferred tax

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

	2018 £m	2017 £m
Deferred tax liability		
Post-employment assets	**2.2**	—
Accelerated capital allowances	**34.4**	24.2
Rolled over gains and property revaluation	**—**	15.3
Operating leases	**19.3**	25.4
Other temporary differences	**11.9**	14.5
	67.8	79.4
Deferred tax asset		
Post-employment liabilities	**—**	(2.0)
Derivative financial instruments	**(54.6)**	(75.7)
Share-based payments	**(0.1)**	(0.1)
Off-market contract liabilities	**(41.8)**	(48.4)
Capital losses carried forward	**—**	(5.5)
Trading losses carried forward	**(1.0)**	(1.0)
	(97.5)	(132.7)
Net deferred tax asset	**(29.7)**	(53.3)

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:

	29 April 2018 £m	30 April 2017 £m
Deferred tax liability	**—**	9.8
Deferred tax asset	**(29.7)**	(63.1)
Net deferred tax asset	**(29.7)**	(53.3)

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

	2018			2017		
	Before exceptional and non-underlying items £m	**Exceptional and non-underlying items £m**	**Total £m**	Before exceptional and non-underlying items £m	Exceptional and non-underlying items £m	Total £m
Deferred tax in the income statement						
Accelerated capital allowances	**7.1**	**3.1**	**10.2**	4.7	(11.3)	(6.6)
Rolled over gains and property revaluations	**—**	**(15.3)**	**(15.3)**	—	(14.3)	(14.3)
Operating lease intangibles	**(5.2)**	**(0.9)**	**(6.1)**	(1.7)	(1.6)	(3.3)
Post-employment liabilities	**0.6**	**—**	**0.6**	0.6	(0.3)	0.3
Other temporary differences	**—**	**(2.6)**	**(2.6)**	0.4	5.4	5.8
Derivative financial instruments	**2.1**	**12.0**	**14.1**	2.7	0.6	3.3
Share-based payments	**(0.3)**	**—**	**(0.3)**	0.5	1.5	2.0
Off-market contract liabilities	**5.6**	**1.0**	**6.6**	2.3	3.0	5.3
Capital losses carried forward	**—**	**5.5**	**5.5**	—	6.2	6.2
Tax losses carried forward	**—**	**—**	**—**	1.5	—	1.5
Deferred tax charge/(credit)	**9.9**	**2.8**	**12.7**	11.0	(10.8)	0.2

10 Taxation continued

Deferred tax continued

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

Deferred tax liabilities	Post-employment assets £m	Accelerated capital allowances £m	Rolled over gains and property revaluation £m	Operating lease intangibles £m	Other temporary differences £m	Total £m
At 1 May 2016	—	30.8	29.6	28.7	8.7	97.8
(Credit)/charge to the income statement	—	(6.6)	(14.3)	(3.3)	5.8	(18.4)
At 30 April 2017	—	24.2	15.3	25.4	14.5	79.4
Charge/(credit) to the income statement	—	10.2	(15.3)	(6.1)	(2.6)	(13.8)
Transfer from deferred tax assets	2.2	—	—	—	—	2.2
At 29 April 2018	**2.2**	**34.4**	**—**	**19.3**	**11.9**	**67.8**

Deferred tax assets	Post-employment liabilities £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 1 May 2016	(9.7)	(79.4)	(1.6)	(53.7)	(11.7)	(2.5)	(158.6)
Charge/(credit) to equity/comprehensive income	7.4	0.4	(0.5)	—	—	—	7.3
Charge to the income statement	0.3	3.3	2.0	5.3	6.2	1.5	18.6
At 30 April 2017	(2.0)	(75.7)	(0.1)	(48.4)	(5.5)	(1.0)	(132.7)
Charge to equity/comprehensive income	3.6	7.0	0.3	—	—	—	10.9
Charge/(credit) to the income statement	0.6	14.1	(0.3)	6.6	5.5	—	26.5
Transfer to deferred tax liabilities	(2.2)	—	—	—	—	—	(2.2)
At 29 April 2018	**—**	**(54.6)**	**(0.1)**	**(41.8)**	**—**	**(1.0)**	**(97.5)**

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

At 29 April 2018, the group had unused trading losses of £5.3m (2017: £5.3m) and unused capital losses of £805.9m (2017: £809.7m). A deferred tax asset of £1.0m (2017: £1.0m) has been recognised in respect of trading losses and no deferred tax asset (2017: £5.5m) 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.

Factors that may affect future tax charges

The Finance Act 2016 reduced the rate of corporation tax from 19% to 17% from 1 April 2020. The rate was substantively enacted at the balance sheet date and is 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.

11 Dividends paid and proposed

	2018 £m	2017 £m
Declared and paid in the period		
Interim dividend for 2018: 8.8p (2017: 8.8p)	**27.3**	27.2
Final dividend for 2017: 24.4p (2016: 23.6p)	**75.6**	72.9
	102.9	100.1
Proposed for approval at AGM		
Final dividend for 2018: 24.4p (2017: 24.4p)	**75.6**	75.6
Total paid and proposed dividend for 2018: 33.2p (2017: 33.2p)	**102.9**	102.8

Dividends on own shares have been waived.

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

12 Earnings per share

Basic earnings per share has been calculated by dividing the profit attributable to equity holders of £162.5m (2017: £151.7m) by the weighted average number of shares in issue during the year of 309.9m (2017: 309.4m).

Diluted earnings per share has been calculated on a similar basis taking account of 0.5m (2017: 0.8m) dilutive potential shares under option, giving a weighted average number of ordinary shares adjusted for the effect of dilution of 310.4m (2017: 310.2m). There were no (2017: nil) anti-dilutive share options excluded from the diluted earnings per share calculation. The performance conditions for share options granted over 2.7m (2017: 2.4m) shares have not been met in the current financial year and therefore the dilutive effect of the number of shares which would have been issued at the year end has not been included in the diluted earnings per share calculation.

Adjusted earnings per share excludes the effect of exceptional and non-underlying 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	**2018 £m**	2017 £m	**2018 p**	2017 p	**2018 p**	2017 p
Profit attributable to equity holders	**162.5**	151.7	**52.4**	49.0	**52.3**	48.9
Exceptional and non-underlying items	**31.9**	67.5	**10.3**	21.8	**10.3**	21.8
Profit attributable to equity holders before exceptional and non-underlying items	**194.4**	219.2	**62.7**	70.8	**62.6**	70.7

13 Goodwill and other intangible assets

	Brand intangibles £m	Operating lease intangibles £m	Total other intangibles £m	Goodwill £m
Cost				
At 1 May 2016	16.1	168.3	184.4	1,121.9
Disposal	—	(1.3)	(1.3)	(13.1)
At 30 April 2017	16.1	167.0	183.1	1,108.8
Disposal	—	(26.5)	(26.5)	(19.1)
At 29 April 2018	**16.1**	**140.5**	**156.6**	**1,089.7**
Impairment and amortisation				
At 1 May 2016	(0.9)	(8.9)	(9.8)	—
Amortisation	(1.1)	(8.9)	(10.0)	—
Disposal	—	0.4	0.4	—
At 30 April 2017	(2.0)	(17.4)	(19.4)	—
Amortisation	(1.1)	(8.7)	(9.8)	—
Impairment (note 5)	(1.7)	(5.4)	(7.1)	—
Disposal	—	4.4	4.4	—
At 29 April 2018	**(4.8)**	**(27.1)**	**(31.9)**	**—**
Net book value				
At 29 April 2018	**11.3**	**113.4**	**124.7**	**1,089.7**
At 30 April 2017	14.1	149.6	163.7	1,108.8
At 1 May 2016	15.2	159.4	174.6	1,121.9

Other intangibles consists of brand intangibles and operating lease intangibles both recognised as part of business combinations. Brand intangibles are amortised over the expected life of the asset, and have a remaining useful life of 12 years. The recoverable amount for assets impaired were based on value in use. Operating lease intangibles are amortised on a straight-line basis over the length of the lease. The recoverable amount for assets impaired was based on a combination of value in use or fair value less cost of disposal.

The impairment charge is made up of the following segments: Pub Company (£2.4m) and Corporate (£4.7m).

All goodwill was recognised as part of business combinations.

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:

	2018 £m	2017 £m
Pub Company	**677.1**	691.6
Pub Partners	**177.7**	182.3
Brewing & Brands	**234.9**	234.9
	1,089.7	1,108.8

13 Goodwill and other intangible assets continued

Goodwill disposed of in the year

	2018 £m	2017 £m
Pub Company	**14.5**	8.3
Pub Partners	**4.6**	4.8
	19.1	13.1

Goodwill impairment testing

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, which is based on the group's latest three-year strategic plan, reflecting a growth rate of 1.15% in Pub Company (2017: 1.75%), 1.09% in Pub Partners (2017: 2.50%) and 1.00% in Brewing & Brands (2017: 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 anticipated trends in future trading performance.

Cash flows are discounted at 7.50% (2017: 8.65%) which is used as an approximation for the risk-adjusted discount rate of the relevant operating segment. The discount rate has been based on external valuations. 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.

Sensitivity to changes in assumptions

The goodwill valuation is most sensitive to changes in the assumptions used for budgeted cash flow, pre-tax discount rate and growth rate. Management considers that reasonable possible changes in assumptions would be an increase in pre-tax discount rate of 1% point, a reduction in growth rate of 1% point or a 10% reduction in budgeted cash flow. As an indication of sensitivity, when applied to the value-in-use calculation in isolation, neither a 1% reduction in growth rate, a 10% reduction in budgeted cash flow, nor a 1% increase in the pre-tax discount rate would have resulted in an impairment of goodwill in the year.

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					
At 1 May 2016	3,443.5	905.5	70.6	132.7	4,552.3
Additions during year	76.2	92.4	5.4	12.9	186.9
Transfer to property, plant and equipment held for sale	(6.1)	(0.7)	—	—	(6.8)
Disposals during year	(58.1)	(23.2)	(4.1)	(0.1)	(85.5)
At 30 April 2017	3,455.5	974.0	71.9	145.5	4,646.9
Additions during year	74.2	107.8	1.7	8.7	192.4
Transfer to property, plant and equipment held for sale	(36.3)	(11.6)	(0.2)	—	(48.1)
Disposals during year	(58.6)	(14.7)	(5.0)	(0.2)	(78.5)
Reclassification	(118.6)	(82.8)	3.0	(12.5)	(210.9)
At 29 April 2018	**3,316.2**	**972.7**	**71.4**	**141.5**	**4,501.8**
Depreciation and impairment					
At 1 May 2016	196.8	575.6	16.5	92.1	881.0
Provided during the year	14.4	81.2	2.2	4.8	102.6
Written back on disposals	(0.3)	(15.0)	(0.1)	(0.1)	(15.5)
Impairment (see below)	77.7	—	—	—	77.7
Impairment reversal (see below)	(19.1)	—	—	—	(19.1)
Transfer to property, plant and equipment held for sale	(1.2)	(0.5)	—	—	(1.7)
At 30 April 2017	268.3	641.3	18.6	96.8	1,025.0
Provided during the year	13.5	81.3	2.3	6.6	103.7
Written back on disposals	(18.0)	(8.5)	(2.5)	—	(29.0)
Impairment (see below)	64.0	11.7	0.3	0.1	76.1
Impairment reversal (see below)	(11.7)	(1.1)	—	—	(12.8)
Transfer to property, plant and equipment held for sale	(28.8)	(10.7)	—	—	(39.5)
Reclassification	(60.4)	(147.2)	(1.1)	(2.2)	(210.9)
At 29 April 2018	**226.9**	**566.8**	**17.6**	**101.3**	**912.6**
Net book value					
At 29 April 2018	**3,089.3**	**405.9**	**53.8**	**40.2**	**3,589.2**
At 30 April 2017	3,187.2	332.7	53.3	48.7	3,621.9
At 1 May 2016	3,246.7	329.9	54.1	40.6	3,671.3

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

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:

	2018 £m	2017 £m
Freehold properties	**2,978.5**	3,078.3
Leasehold properties >50 years unexpired term	**109.0**	104.6
Leasehold properties <50 years unexpired term	**55.6**	57.6
	3,143.1	3,240.5

Review of property, plant and equipment

Following a review of fixed asset ledgers, a reclassification of asset categories with an aggregate cost (and accumulated depreciation) of £210.9m was identified, and is reflected in the above reconciliation of movements in property, plant and equipment.

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 group net book value of £1,334.1m (2017: £1,368.7m) and £1,008.3m (2017: £1,246.1m) 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 £21.7m (2017: £21.4m).

Future capital expenditure

	2018 £m	2017 £m
Contracted for	**13.6**	8.1

Impairment of property, plant and equipment

During the period to 29 April 2018 the group has recognised a net impairment loss of £63.3m (2017: £58.6m). This is comprised of an impairment charge of £76.1m (2017: £77.7m) and reversal of previously recognised impairment losses of £12.8m (2017: £19.1m). The recoverable amounts for assets impaired were based on a combination of value in use or fair value less cost of disposal.

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

	2018			2017		
	Impairment £m	**Reversal of impairment £m**	**Net impairment £m**	Impairment £m	Reversal of impairment £m	Net impairment £m
Pub Company	**61.9**	**(10.8)**	**51.1**	62.2	(14.7)	47.5
Pub Partners	**13.9**	**(2.0)**	**11.9**	14.4	(4.4)	10.0
Corporate	**0.3**	**—**	**0.3**	1.1	—	1.1
	76.1	**(12.8)**	**63.3**	77.7	(19.1)	58.6

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

The group estimates value in use using a discounted cash flow model. The key assumptions used are expected cash flow projections for the next year, the discount rate applied to those cash flows of 7.50% (2017: 8.65%) and the projected cash flows extrapolated using an average growth rate of 1.15% in Pub Company (2017: 1.75%) and 1.09% in Pub Partners (2017: 2.50%) which are below the long-term average growth rate for the operating segments and reflects anticipated trends in future 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 both internal and external valuations, with the latest external valuation being performed in May 2018. 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, which is further explained in note 23.

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 in the pre-tax discount rates would be as follows:

	A 10% reduction in fair value less cost of disposal		A 1% increase in discount rate		A 1% reduction in growth rate	
Increased net impairment resulting from:	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Pub Company	**6.2**	22.7	**23.1**	8.4	**23.1**	8.4
Pub Partners	**2.0**	2.2	**3.1**	2.7	**3.1**	2.7
	8.2	24.9	**26.2**	11.1	**26.2**	11.1

15 Financial assets

	2018 £m	2017 £m
Trade loans (net of provision)	**10.5**	10.1
Total current	**10.5**	10.1
Trade loans (net of provision)	**12.9**	15.8
Other financial assets	**0.3**	0.5
Total non-current	**13.2**	16.3

Trade loans are net of provisions of £5.1m (2017: £5.1m). During the year £0.2m (2017: £0.3m) of the provision was utilised and £0.2m (2017: £0.3m) 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 £17.2m (2017: £18.8m) and variable rate trade loans amounted to £11.3m (2017: £12.2m). Included in fixed rate loans are £16.2m of loans with settlement related to purchase levels (2017: £15.7m). 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 0.2% (2017: 0.3%) and a weighted average period of 2.92 years (2017: 3.30 years). Interest rates on variable rate trade loans are linked to base rate.

Trade loans (net of provision)	**2018 £m**	2017 £m
Balance at beginning of year	**25.9**	26.1
Advances	**3.4**	6.1
Repayments	**(5.9)**	(6.3)
Balance at end of year	**23.4**	25.9

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

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					
Greene King Developments Limited[1]	Property	England & Wales	Parent	Ordinary shares	100%
Greene King EBT Investment (Jersey) Limited[2]	Holding company	Jersey	Parent	Ordinary shares	100%
Greene King GP Limited[1]	Dormant	England & Wales	Parent	Ordinary shares	100%
Greene King Investments Limited[1]	Holding company	England & Wales	Parent	Ordinary shares	100%
Greene King Pension Scheme Limited[1]	Pension trustee	England & Wales	Parent	Ordinary shares	100%
Greene King Properties Limited[1]	Property	England & Wales	Parent	Ordinary shares	100%
Greene King Pubs Limited[1]	Property	England & Wales	Parent	Ordinary shares	100%
Greene King Retailing Parent Limited[1]	Holding company	England & Wales	Parent	Ordinary shares	100%
Norman Limited[3]	Holding company	Guernsey	Parent	Ordinary shares	100%
Realpubs Limited[1]	Financing	England & Wales	Parent	Ordinary shares	100%
Rushmere Sports Club Limited[1]	Financing	England & Wales	Parent	Ordinary shares	100%
Spirit Pub Company Limited[1]	Holding company	England & Wales	Parent	Ordinary shares	100%
The Capital Pub Company Limited[1]	Holding company	England & Wales	Parent	Ordinary shares	100%
Indirectly held by Greene King plc					
Allied Kunick Entertainments Limited[1]	Property	England & Wales	Subsidiary	Ordinary shares	100%
Ashes Investment LP[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Aspect Ventures Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
AVL (Pubs) No.1 Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
AVL (Pubs) No.2 Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Belhaven Brewery Company Limited[4]	Financing	Scotland	Subsidiary	Ordinary shares	100%
Belhaven Finance Limited[4]	Financing	Scotland	Subsidiary	Ordinary shares	100%
Belhaven Pubs Limited[4]	Financing	Scotland	Subsidiary	Ordinary shares	100%
Capital Pub Company Trading Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
				Preference shares	100%
Chef & Brewer Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
City Limits Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Cleveland Place Holdings Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Cloverleaf Restaurants Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
CPH Palladium Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Dearg Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Freshwild Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
G.K. Holdings No.1 Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Acquisitions (No.3) Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Acquisitions No.2 Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Brewing and Retailing Limited[1]	Brewing and retailing	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Leasing No.1 Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Leasing No.2 Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Neighbourhood Estate Pubs Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Retail Services Limited[1]	Employment	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Retailing Limited[1]	Pub retailing	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Services Limited[1]	Employment	England & Wales	Subsidiary	Ordinary shares	100%
Hardys & Hansons Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Huggins and Company Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
LFR Group Limited[4]	Financing	Scotland	Subsidiary	Ordinary shares	100%
Mountloop Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Narnain[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%

1. Registered office: Westgate Brewery, Bury St Edmunds, Suffolk IP33 1QT.
2. Registered office: 18 Esplanade, St Helier, Jersey JE4 8RT.
3. Registered office: Hambro House, St Julian's Avenue, St Peter Port, Guernsey GY1 3AE.
4. Registered office: Belhaven Brewery, Brewery Lane, Dunbar, East Lothian EH42 1PE.

16 Subsidiary undertakings continued

Subsidiary undertakings	Principal activity	Country of incorporation	Held by	Holding	Proportion of voting rights and ownership
Old English Inns Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Open House Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Premium Casual Dining Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Premium Dining Restaurants and Pubs Limited[2]	Retailing	Scotland	Subsidiary	Ordinary shares	100%
R.V. Goodhew Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
				Deferred ordinary shares	100%
Realpubs Developments Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Realpubs II Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Sapphire Food North East No.1 Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Sapphire Food North West No.3 Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Sapphire Food South East No.4 Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Sapphire Food South West No.2 Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Sapphire Rural Destination No.5 Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Spirit (AKE Holdings) Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit (Faith) Limited[1]	Property	England & Wales	Subsidiary	Ordinary shares	100%
Spirit (Legacy) Pension Trustee Limited[1]	Pension trustee	England & Wales	Subsidiary	Ordinary shares	100%
Spirit (PSC) Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Spirit (Redwood Bidco) Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Spirit (SGL) Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Acquisition Properties Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Acquisitions Guarantee Limited[1,4]	Non-trading	England & Wales	Subsidiary	n/a	n/a
Spirit Acquisitions Holdings Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Financial Holdings Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Finco Limited[3]	Non-trading	Cayman Islands	Subsidiary	Ordinary shares	100%
Spirit Funding Limited[3]	Non-trading	Cayman Islands	Subsidiary	Ordinary shares	100%
Spirit Group Equity Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Group Holdings Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Group Parent Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Group Pension Trustee Limited[1]	Pension trustee	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Group Retail (Northampton) Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
				Preference shares	100%
Spirit Group Retail (South) Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Group Retail Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
				Preference shares	100%
Spirit Group Retail Pensions Limited[1]	Pension trustee	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Intermediate Holdings Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Managed Funding Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
				Preference shares	100%
Spirit Managed Holdings Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Managed Inns Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Parent Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Derwent) Limited[1]	Pub retailing	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Holdco) Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Investments) Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Leased) Limited[1]	Leasing of public houses	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Managed) Limited[1]	Pub retailing	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Services) Limited[1]	Administration	England & Wales	Subsidiary	Ordinary shares	100%

1. Registered office: Westgate Brewery, Bury St Edmunds, Suffolk IP33 1QT.
2. Registered office: Belhaven Brewery, Brewery Lane, Dunbar, East Lothian EH42 1PE.
3. Registered office: PO Box 309, Ugland House, Grand Cayman, KY1-1004.
4. Company is limited by guarantee.

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

16 Subsidiary undertakings continued

Subsidiary undertakings	Principal activity	Country of incorporation	Held by	Holding	Proportion of voting rights and ownership
Spirit Pub Company (SGE) Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Supply) Limited[1]	Procurement	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Trent) Limited[1]	Pub retailing	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pubs Debenture Holdings Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pubs Parent Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Retail Bidco Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Springtarn Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
The Chef & Brewer Group Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
The Nice Pub Company Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Tom Cobleigh Group Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Tom Cobleigh Holdings Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Tom Cobleigh Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Whitegate Taverns Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%

1. Registered office: Westgate Brewery, Bury St Edmunds, Suffolk IP33 1QT.

17 Inventories

	2018 £m	2017 £m
Raw materials and work in progress	**4.4**	5.4
Finished goods and goods for resale	**39.5**	36.7
Consumable stores	**3.8**	2.9
	47.7	45.0

18 Trade and other receivables

	2018 £m	2017 £m
Other receivables	**0.1**	0.1
Total non-current	**0.1**	0.1
Trade receivables	**69.9**	73.9
Other receivables	**17.6**	19.4
Total current	**87.5**	93.3

Trade and other receivables are non-interest bearing.

The ageing analysis of trade receivables is as follows:

	2018 £m	2017 £m
Not past due	**61.4**	65.8
Past due		
– Less than 30 days	**4.5**	2.5
– 30–60 days	**0.2**	2.4
– Greater than 60 days	**3.8**	3.2
	69.9	73.9

Trade receivables are shown net of a provision of £4.9m (2017: £5.4m).

19 Cash and cash equivalents

	2018 £m	2017 £m
Cash at bank and in hand	**115.9**	202.1
Short-term deposits	**52.6**	83.4
Liquidity facility reserve (note 22)	**—**	157.5
Cash and cash equivalents for balance sheet	**168.5**	443.0
Bank overdrafts (note 22)	**—**	—
Cash and cash equivalents for cash flow	**168.5**	443.0

Included within cash at bank and in hand and short-term deposits is £74.6m (2017: £112.0m) and £90.4m (2017: £88.9m) 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 Greene King secured financing vehicle's liquidity facility reserve was fully repaid during the year as explained in note 22.

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

20 Property, plant and equipment held for sale

	2018 £m	2017 £m
Property, plant and equipment held for sale	**8.6**	5.1

At the year end, property, plant and equipment held for sale of £8.6m (2017: £5.1m) represents pubs that are being actively marketed for sale with expected completion dates within one year. The value of property, plant and equipment held for sale represents the expected net disposal proceeds; further details on the valuation of fair value less costs of disposal are held in note 14. The impairment charge on reclassification to assets held for sale for these sites was £0.5m (2017: £nil).

21 Trade and other payables

	2018 £m	2017 £m
Trade payables	**120.5**	110.0
Other payables:		
– Other taxation and social security costs	**108.7**	91.8
– Accruals and deferred income	**175.8**	209.9
– Interest payable	**15.0**	17.6
Total current	**420.0**	429.3
Other payables	**1.8**	1.9
Total non-current	**1.8**	1.9

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 in 2017 also includes interest on uncertain tax positions.

22 Borrowings

		2018			2017		
	Repayment date	**Current £m**	**Non-current £m**	**Total £m**	Current £m	Non-current £m	Total £m
Liquidity facility loan	On demand	**—**	**—**	**—**	157.5	—	157.5
Unsecured bank loans – floating rate							
– Facility A	2021	**—**	**88.8**	**88.8**	—	168.3	168.3
– Facility B	2020	**—**	**184.3**	**184.3**	—	—	—
Secured debt:							
– Issued by Greene King Finance plc	2005 to 2036	**51.3**	**1,292.2**	**1,343.5**	48.9	1,343.6	1,392.5
– Issued by Spirit Issuer plc	2015 to 2036	**2.1**	**561.5**	**563.6**	11.7	765.9	777.6
Obligations under finance leases	2015 to 2084	**1.2**	**19.4**	**20.6**	1.6	20.0	21.6
		54.6	**2,146.2**	**2,200.8**	219.7	2,297.8	2,517.5

Bank overdrafts

Overdrafts are utilised for the day to day management of cash. The group has facilities of £25.0m (2017: £25.0m) available with interest linked to base rate.

22 Borrowings continued

Bank loans – unsecured

In November 2017 the group amended its existing £400m revolving credit facility (Facility A) to incorporate an additional £350m three-year revolving facility (Facility B), taking the total facilities to £750m. Facility B is available to fund the internal transfer of pubs from the Spirit secured financing vehicle, improving the group's ability to refinance Spirit secured loan notes and related interest rate swaps. In December 2017 a draw-down of £187.0m took place under Facility B in connection with the repayment of certain Spirit secured loan notes.

Of the £400.0m (2017: £400.0m) available under Facility A, £90.0m (2017: £170.0m) was drawn down at the year end with a carrying value of £88.8m (2017: £168.3m) which included £1.2m (2017: £1.7m) of fees. Of the £350.0m (2017: £nil) available under Facility B, £187.0m (2017: £nil) was drawn down at the year end with a carrying value of £184.3m (2017: £nil) which included £2.7m (2017: £nil) of fees.

Any amounts drawn down bear interest at a margin above LIBOR and the group is charged a utilisation fee based on the proportion of each facility drawn. Commitment interest is charged on the undrawn portions. Interest is payable upon repayment of each draw-down, which vary in length. 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 Facility A until October 2021 and Facility B until November 2020. Under each facility, 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 group's securitised debt issued by Greene King Finance plc consists of the following tranches:

Tranche	Nominal value (£m)	Carrying value (£m)[1] 2018	Carrying value (£m)[1] 2017	Interest	Interest rate (%)[2]	Last repayment period	Weighted average life[3]
A1	94.7	**93.8**	103.3	Floating	6.11%	2031	5.4 years
A2	226.3	**224.4**	230.4	Fixed	5.32%	2031	8.5 years
A3	48.7	**48.0**	60.6	Floating	6.09%	2021	1.9 years
A4	258.9	**257.8**	257.7	Fixed	5.11%	2034	10.4 years
A5	226.8	**226.8**	235.1	Floating	3.93%	2033	9.3 years
A6	277.5	**273.2**	285.8	Fixed	4.06%	2035	9.5 years
B1	120.9	**120.1**	120.1	Fixed/floating	5.70%[4]	2034	15.2 years
B2	99.9	**99.4**	99.5	Floating	6.92%	2036	17.3 years
	1,353.7	**1,343.5**	1,392.5				

1. Carrying value is net of related deferred finance fees.
2. Includes the effect of interest rate swap rates on the floating rate notes; the group's interest rate swap arrangements are discussed in note 23.
3. This assumes notes are held until final maturity.
4. B1 tranche switches to floating rate L+1.80% in March 2020 with a swap rate of 5.16%-L.

The interest payable on each of the floating tranches is as follows:

Tranche	Interest rate payable[1]	Interest rate swap	Total interest rate
A1	L+0.95%	5.16%-L	6.11%
A3	L+1.25%	4.84%-L	6.09%
A5	L+2.50%	1.43%-L	3.93%
B2	L+2.08%	4.84%-L	6.92%

1. For variable rate bonds the interest rate payable is three-month LIBOR (L) plus the margin as shown.

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

The Class A1, A2, A3, A4, A5 and A6 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, the Royal Bank of Scotland, 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. Amounts drawn down under the liquidity facility 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, the drawn-down balance was considered to be restricted cash.

In December 2017 the facility agreement was amended to bring the credit rating of the liquidity facility provider within the permitted range. Consequently, the drawn-down balance of £157.5m was fully repaid and the amount drawn down at the year end was £nil (2017: £157.5m).

22 Borrowings continued

Spirit secured financing vehicle

Following the acquisition of Spirit Pub Company on 23 June 2015, the group 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 group's secured loan notes, issued by Spirit Issuer plc, consist of the following:

Tranche	Nominal value (£m)	Carrying value (£m)[1] 2018	Carrying value (£m)[1] 2017	Interest	Interest rate (%)[2] 2018	Interest rate (%)[2] 2017	Last repayment period	Weighted average life[3]
Class A1	—	**—**	26.3	Floating	**—**	8.37%	—	—
Class A2	186.6	**182.2**	181.8	Floating	**9.38%**	9.42%	2029	9.7 years
Class A3	—	**—**	27.1	Floating	**—**	6.13%	—	—
Class A4	207.7	**216.4**	218.4	Fixed/floating	**6.58%[4]**	6.58%	2025	4.3 years
Class A5	158.5	**165.0**	165.5	Fixed/floating	**5.47%[5]**	6.49%	2032	12.9 years
Class A6	—	**—**	99.5	Floating	**—**	8.52%	—	—
Class A7	—	**—**	59.0	Floating	**—**	8.48%	—	—
	552.8	**563.6**	777.6					

1. Carrying value includes premium arising from fair value adjustment.
2. Includes the effect of interest rate swap rates on the floating rate notes. The group's interest rate swap arrangements are discussed in note 23. The 2017 comparatives also include the cost of a financial guarantee provided by Ambac which was terminated during the year.
3. This assumes notes are held until final maturity.
4. The A4 tranche switches to a floating rate of L+2.78% in December 2018 with a swap rate of 4.56%-L.
5. The A5 tranche switches to a floating rate of L+0.75% in December 2028 with a swap rate of 4.56%-L.

The interest payable on each of the floating tranches is as follows:

Tranche	Interest rate payable[1]	Interest rate swap	Total interest rate
A2	L+2.70%	6.68%-L2	9.38%

1. For the floating rate A2 note the rate payable is three-month LIBOR (L) plus the margin as shown.
2. In September 2018 the rate on the A2 swap increases to 6.79%-L.

Repayment of the nominal is made by quarterly instalments, in accordance with the repayment schedule, within the date ranges shown above. Payment of interest is made on quarterly dates for all classes of secured loan notes.

The secured loan notes 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, both of which are group companies. These include covenants regarding the maintenance and disposal of secured properties and restrictions on the ability to move cash to other group companies and utilisation of disposal proceeds.

In June 2017 the group fully repaid the £27.7m Class A3 secured loan note issued by Spirit Issuer plc at par.

In August 2017 a financial guarantee provided by Ambac was terminated. The guarantee was in respect of the A1, A3 and A5 secured loan notes and two interest rate swaps relating to the A1, A2 and A6 notes. This resulted in a reduction in the all-in interest rate applicable to these tranches.

In December 2017 the group fully repaid the £29.5m Class A1, £101.3m Class A6 and £58.4m Class A7 secured loan notes issued by Spirit Issuer plc at par. This eliminates the cash sweep and 1.5% margin step-up on the A6 and A7 notes which were due to commence in September 2018. The group also terminated two interest rate swaps in relation to the repaid notes.

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 rewards of ownership, which have been classified as finance leases. In the balance sheet a corresponding liability has been included as finance lease obligation.

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

	2018 Minimum lease payments £m	**2018** Present value of future obligations £m	2017 Minimum lease payments £m	2017 Present value of future obligations £m
Within one year	**1.2**	**1.2**	1.6	1.6
Between one and five years	**4.6**	**3.9**	4.9	4.0
Over five years	**49.7**	**15.5**	52.0	16.0
	55.5	**20.6**	58.5	21.6

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

23 Financial instruments

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

The principal financial instruments held for the purpose of raising finance for operations are bank loans and 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 arising 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's aim is 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 inception, and tested for effectiveness every six months.

In accordance with IFRS 7, the group has undertaken sensitivity analysis on its financial instruments which are affected by changes in interest rates. This analysis has been prepared on the basis of a constant amount of net debt, a constant ratio of fixed to floating interest rates, and on the basis of the hedging instruments in place at 29 April 2018 and 30 April 2017. The analysis relates only to balances at these dates and is not representative of the year as a whole. The following assumptions were made:

- Balance sheet sensitivity to interest rates applies only to derivative financial instruments, as the carrying value of debt and deposits does not change as interest rates move.
- Gains and losses are recognised within other comprehensive income or the income statement in line with the accounting policies of the group.
- 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 £31.2m (2017: £47.8m) and the group's OCI by £58.4m (2017: £65.4m). An increase in interest rates would increase the group's profit.

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 94.4% (2017: 95.8%), broadly in line with the group's target of fixing 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 (2017: 60 days following month end).

Excess cash used in managing liquidity is placed on interest-bearing deposit with maturities fixed at no more than one month. Short-term flexibility is achieved through the use of short-term borrowing on the money markets under the group's revolving credit facility.

The table below summarises the maturity profile of the group's financial liabilities at 29 April 2018 and 30 April 2017 based on contractual undiscounted payments including interest.

Year ended 29 April 2018	Within 1 year £m	1–2 years £m	2–5 years £m	>5 years £m	Total £m
Interest-bearing loans and borrowings:					
– Capital	**52.2**	**75.7**	**569.1**	**1,486.5**	**2,183.5**
– Interest	**92.9**	**89.7**	**226.4**	**420.5**	**829.5**
	145.1	**165.4**	**795.5**	**1,907.0**	**3,013.0**
Interest rate swaps settled net	**24.4**	**27.8**	**74.2**	**140.4**	**266.8**
	169.5	**193.2**	**869.7**	**2,047.4**	**3,279.8**
Trade payables and accruals	**308.1**	**—**	**—**	**—**	**308.1**
Finance lease obligations	**1.2**	**1.2**	**3.4**	**49.7**	**55.5**
Off-market contract liabilities	**—**	**—**	**—**	**—**	**—**
	478.8	**194.4**	**873.1**	**2,097.1**	**3,643.4**

23 Financial instruments continued

Liquidity risk continued

Year ended 30 April 2017	Within 1 year £m	1–2 years £m	2–5 years £m	>5 years £m	Total £m
Interest-bearing loans and borrowings:					
– Capital	218.7	63.8	441.4	1,776.9	2,500.8
– Interest	92.6	91.9	250.7	600.7	1,035.9
	311.3	155.7	692.1	2,377.6	3,536.7
Interest rate swaps settled net	34.8	33.9	110.5	191.3	370.5
	346.1	189.6	802.6	2,568.9	3,907.2
Trade payables and accruals	334.8	—	—	—	334.8
Finance lease obligations	1.6	1.4	3.5	52.0	58.5
Off-market contract liabilities	2.3	2.1	6.1	17.0	27.5
	684.8	193.1	812.2	2,637.9	4,328.0

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 its 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 29 April 2018 the group held four (2017: four) interest rate swap contracts for a nominal value of £470.1m (2017: £500.7m), which are designated cash flow hedges against £470.1m (2017: £500.7m) of variable rate bonds issued by Greene King Finance plc. These swaps are hedges of the A1, A3, A5 and B2 tranches, receiving a variable rate of interest based on LIBOR and paying a fixed rate of 5.155% on the A1 tranche, 4.837% on the A3 tranche, 1.426% on the A5 tranche and 4.837% on the B2 tranche. The weighted average fixed rate of the swaps was 3.3% (2017: 3.3%).

In addition, the group holds one (2017: one) forward starting swap commencing when the B1 notes issued by Greene King Finance plc switch from fixed rate interest to floating rate in March 2020. This swap will receive a variable rate of interest based on LIBOR and pay a fixed rate of 5.155%.

The interest rate swaps hedging the A1, A3, B1 and B2 tranches are held on the balance sheet as a fair value liability of £118.6m (2017: £140.2m). The interest rate swap hedging the A5 tranche is held on the balance sheet as a fair value asset of £1.4m (2017: fair value liability of £6.4m). The contract maturity dates range from September 2021 to March 2036. Retrospective quantitative hedge effectiveness testing is performed and the bonds and related 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 during the period, which is recognised within finance costs, amounted to £nil (2017: £0.2m loss).

During the year a loss of £11.6m (2017: £11.8m) was recycled from the hedging reserve to the income statement in respect of interest rate swap liabilities settled in prior periods. The remaining losses in the hedging reserve in respect of these swaps, which had been designated cash flow hedges, will be recycled over the period over which the hedged forecast cash flows affect profit or loss.

Financial instruments not qualifying for hedge accounting

At 29 April 2018 the group held one (2017: three) interest rate swap contract for a nominal value of £189.4m (2017: £349.7m). This swap, which does not qualify for hedge accounting, is in respect of the A2 secured loan note issued by Spirit Issuer plc, receiving a variable rate of interest based on LIBOR and paying a fixed rate of 6.681%. The fixed rate payable on the swap increases to 6.791% from September 2018.

In addition, the group holds two (2017: two) forward starting swaps commencing when the A4 and A5 notes issued by Spirit Issuer plc switch from fixed rate interest to floating rate in December 2018 and December 2028, respectively. The swaps will receive a variable rate of interest based on LIBOR and pay a fixed rate of 4.555%.

Upon the acquisition of Spirit Pub Company, 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 £124.0m (2017: £198.1m). The contract maturity dates range from March 2025 to December 2032.

Scheduled cash payments of £18.5m (2017: £21.0m) made in respect of the swaps have been recognised in pre-exceptional finance costs net of amortisation of fair value on acquisition of £11.3m (2017: £13.9m). These amounts are included within pre-exceptional profit as they can be deemed to be the market rate of the acquired swaps. The remainder of the fair value movement amounting to a £19.2m gain (2017: £23.6m loss) is recognised in exceptional finance costs as it is considered to be more volatile and its inclusion in pre-exceptional profit would hinder year-on-year comparability of performance.

23 Financial instruments continued

Financial instruments not qualifying for hedge accounting continued

In December 2017 the group terminated two interest rate swap contracts, resulting in a cash payment of £42.6m. These swaps, which did not qualify for hedge accounting, were in respect of the A1, A3, A6 and A7 secured loan notes issued by Spirit Issuer plc which were fully repaid during the year as explained in note 22. A gain amounting to £1.2m representing the difference between the termination payment and the fair value of the swaps on the termination date has been recognised in exceptional finance costs.

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 29 April 2018, there are £2.9m (2017: £2.9m) of interest rate 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.

Interest rate swaps – calculated by discounting all future cash flows by the market yield curve at the balance sheet date and adjusting for, where appropriate, the group's and counterparty 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 liabilities) – estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

	Hierarchical classification	**Fair value 2018 £m**	**Carrying value 2018 £m**	Fair value 2017 £m	Carrying value 2017 £m
Financial liabilities					
Overdraft	Level 2	**—**	**—**	—	—
Interest-bearing loans and borrowings					
– Secured debt:					
Issued by Greene King Finance plc	Level 1	**1,423.7**	**1,343.5**	1,478.0	1,392.5
Issued by Spirit Issuer plc	Level 1	**561.1**	**563.6**	776.0	777.6
– Floating rate bank loans	Level 2	**273.1**	**273.1**	168.3	168.3
– Liquidity facility loan	Level 2	**—**	**—**	157.5	157.5
Interest rate swaps	Level 2	**242.6**	**242.6**	344.8	344.8
Trade payables and accruals	Level 2	**308.1**	**308.1**	334.8	334.8
Finance lease obligations	Level 2	**20.6**	**20.6**	21.6	21.6
Off-market contract liabilities	Level 2	**—**	**—**	21.1	21.1
Financial assets					
Cash	Level 2	**(168.5)**	**(168.5)**	(285.5)	(285.5)
Trade receivables	Level 2	**(69.9)**	**(69.9)**	(73.9)	(73.9)
Liquidity facility reserve	Level 2	**—**	**—**	(157.5)	(157.5)
Interest rate swaps	Level 2	**(1.5)**	**(1.5)**	—	—
Financial assets	Level 3	**(23.7)**	**(23.7)**	(26.4)	(26.4)

Carrying values of the secured debt issued by Greene King Finance plc are stated net of any deferred finance fees which amounted to £10.2m (2017: £11.1m). Carrying values of the secured debt issued by Spirit Issuer plc include premiums arising from fair value adjustments of £10.9m (2017: £7.9m). Floating rate bank loan notes are stated net of deferred finance fees of £4.0m (2017: £1.7m).

23 Financial instruments continued

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 29 April 2018 and 30 April 2017 there were no transfers between fair value levels 1, 2 or 3.

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 several measures including fixed charge cover, the ratio of net debt to EBITDA and free cash flow debt service coverage. All covenants in relation to the securitisation vehicles and bank loans have been fully complied with. The board's dividend policy is to target a dividend cover of around two times adjusted basic earnings per share.

24 Off-market contract liabilities and provisions

	Off-market liabilities £m	Property leases £m	Indirect tax provisions £m	Total provisions £m
At 1 May 2016	299.9	14.0	23.4	337.3
Unwinding of discount element of provisions	13.8	0.4	—	14.2
Provided for during the year	—	4.4	2.2	6.6
Released during the year	(6.3)	(1.0)	—	(7.3)
Utilised during the year	(22.0)	(1.9)	—	(23.9)
At 30 April 2017	285.4	15.9	25.6	326.9
Unwinding of discount element of provisions	12.5	0.5	—	13.0
Provided for during the year	—	19.2	0.6	19.8
Released during the year	(17.0)	(5.9)	(1.5)	(24.4)
Utilised during the year	(34.4)	(1.8)	—	(36.2)
At 29 April 2018	**246.5**	**27.9**	**24.7**	**299.1**

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

	29 April 2018				30 April 2017			
	Off-market liabilities £m	**Property leases £m**	**Indirect tax provisions £m**	**Total £m**	Off-market liabilities £m	Property leases £m	Indirect tax provisions £m	Total £m
Current	**17.9**	**4.8**	**24.7**	**47.4**	21.3	1.3	25.6	48.2
Non-current	**228.6**	**23.1**	**—**	**251.7**	264.1	14.6	—	278.7
	246.5	**27.9**	**24.7**	**299.1**	285.4	15.9	25.6	326.9

Off-market contract liabilities

Off-market contract liabilities are recognised where contracts are at unfavourable terms relative to current market terms on acquisition. For acquired leases where the current rentals are below market terms, an operating lease intangible asset has been recognised (see note 13). 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 17 years (2017: 18 years).

During the year the group settled the financial guarantee provided by Ambac in respect of a number of Spirit secured bonds for a cash consideration of £12.6m with a further £2.2m of consent and other fees paid (note 5).

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 14 years (2017: 15 years).

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

24 Off-market contract liabilities and provisions continued

Indirect tax provisions

During a previous period the Spirit Pub Company group received VAT refunds of £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. However, HMRC did not seek to recover the VAT of £17.9m and associated interest of £6.8m because it had accepted a guarantee 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 involving Rank and others.

In the prior year the group made a provision of £1.5m for stamp duty land tax (SDLT) that could have arisen as a consequence of settling an internal property arrangement implemented in 2012. On 16 October 2017 HMRC agreed that no SDLT was payable so this provision has therefore been released in the year.

25 Share capital

	2018		2017	
	Number of issued shares m	**Share capital £m**	Number of issued shares m	Share capital £m
Ordinary shares of 12.5p each – called up, allotted and fully paid				
At beginning of year	**309.9**	**38.7**	309.2	38.6
Issue of share capital – share options exercised	**0.1**	**—**	0.7	0.1
At end of year	**310.0**	**38.7**	309.9	38.7

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

26 Reserves

Share premium account

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

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

The 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 29 April 2018 nil shares (2017: nil) were held in treasury, 0.1m shares (2017: 0.1m) were held by the employee benefit trust and nil (2017: nil) were held to fulfil awards under the deferred share bonus scheme. The market value at 29 April 2018 of the treasury shares was £nil (2017: £nil), of the shares held by the employee benefit trust was £0.7m (2017: £0.2m) and of the shares held for the deferred share bonus scheme was £nil (2017: £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 (2017: nil) treasury shares and nil (2017: nil) shares in the employee benefit trust were allocated to meet awards under the long-term incentive plan.

A transfer of £0.2m (2017: £1.6m) 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 year nil (2017: nil) shares were repurchased at a cost of £nil (2017: £nil) to fulfil awards made under the deferred share bonus scheme with nil (2017: nil) shares transferred to individuals to satisfy awards. The employee benefit trust purchased 0.1m shares (2017: 0.2m) at a cost of £0.5m (2017: £1.6m) and 0.07m (2017: 0.74m) shares were transferred to satisfy awards under the long-term incentive plan.

Goodwill

The cumulative amount of goodwill written off to retained earnings in respect of acquisitions made prior to May 1998 amounts to £89.7m.

27 Working capital and non-cash movements

	2018 £m	2017 £m
Increase in inventories	**(2.7)**	(3.7)
Decrease/(increase) in trade and other receivables	**7.1**	(10.4)
(Decrease)/increase in trade and other payables	**(3.6)**	24.4
Decrease in off-market contract liabilities	**(19.6)**	(22.0)
Decrease in provisions	**(1.8)**	(1.9)
Share-based payment expense	**1.3**	2.7
Defined benefit pension contributions paid	**(3.6)**	(3.9)
Operating exceptional and non-underlying items	**(23.9)**	(14.4)
Working capital and other movements	**(46.8)**	(29.2)

28 Analysis of and movements in net debt

	As at 30 April 2017 £m	Financing cash flows £m	Changes in fair value £m	Other non-cash changes £m	As at 29 April 2018 £m
Cash and cash equivalents					
Cash at bank and in hand[1]	285.5	(117.0)	—	—	**168.5**
Liquidity facility reserve	157.5	(157.5)	—	—	**—**
Cash and cash equivalents for balance sheet	443.0	(274.5)	—	—	**168.5**
Overdrafts	—	—	—	—	**—**
Cash and cash equivalents for cash flow	443.0	(274.5)	—	—	**168.5**
Liabilities from financing activities					
Included in net debt:					
– Finance leases	(21.6)	1.0	—	—	**(20.6)**
– Liquidity facility loan	(157.5)	157.5	—	—	**—**
– Unsecured bank loans – floating rate					
– Bank loans – Facility A	(168.3)	80.0	—	(0.5)	**(88.8)**
– Bank loans – Facility B	—	(183.8)	—	(0.5)	**(184.3)**
– Securitised borrowing	(2,170.1)	266.7	—	(3.7)	**(1,907.1)**
	(2,517.5)	321.4	—	(4.7)	**(2,200.8)**
Not included in net debt:					
– Derivative financial instruments[2]	(344.8)	42.6	59.9	1.2	**(241.1)**
Liabilities from financing activities	**(2,862.3)**	**364.0**	**59.9**	**(3.5)**	**(2,441.9)**
Net debt	**(2,074.5)**	**46.9**	**—**	**(4.7)**	**(2,032.3)**

1. Includes short-term deposits.

2. Includes derivative asset balances.

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

29 Financial commitments

The group has entered into commercial leases on certain properties and items of plant and machinery. The terms of the leases vary but typically on inception a property lease will be for a period of up to 30 years and plant and machinery will be for up to six years. Most property leases have an upwards-only rent review based on open market rents at the time of the review.

Future minimum cash rentals payable under non-cancellable operating leases are as follows:

	2018 £m	2017 restated £m
Within one year	**80.2**	78.1
Between one and five years	**309.5**	312.6
After five years	**1,437.4**	1,509.0
	1,827.1	1,899.7

2017 disclosure has been re-presented to correctly reflect future cash payments and to exclude the non-cash benefit of property provisions and off-market liabilities.

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

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

	2018 £m	2017 £m
Within one year	**45.1**	45.5
Between one and five years	**122.9**	131.5
After five years	**119.5**	124.5
	287.5	301.5

Future minimum lease rentals include £6.1m (2017: £5.0m) receivable in respect of non-cancellable subleases.

30 Related party transactions

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

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 in the group's results.

Compensation of directors and other key management personnel of the group

	2018 £m	2017 £m
Short-term employee benefits (including National Insurance contributions)	**5.2**	5.1
Post-employment pension and medical benefits	**0.6**	0.6
Share-based payments	**0.1**	0.1
	5.9	5.8

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-based payment plan

Details of the options held by executive members of the board of directors are included in the remuneration report. No options have been granted to the non-executive members of the board of directors under this scheme.

31 Post balance sheet events

Final dividend

A final dividend of 24.4p per share (2017: 24.4p) amounting to a dividend of £75.6m (2017: £75.6m) was proposed by the directors at their meeting on 27 June 2018. These financial statements do not reflect the dividend payable.

Borrowings and financial instruments

On 7 June 2018 the group gave notice to repay £62.3m (30%) of the outstanding Class A4 secured loan note issued by Spirit Issuer plc at 103.3% of its par value on 28 June 2018, classified as non-current liabilities as at 29 April 2018. The group has also agreed to make a payment of £7.4m on 28 June 2018 to terminate 30% of the corresponding interest rate swap contract.

Company balance sheet

As at 29 April 2018

Registered number: 24511

	Note	As at 29 April 2018 £m	As at 30 April 2017 £m
Fixed assets			
Investments	36	**3,474.8**	3,493.5
Current assets			
Amounts due from subsidiaries		**98.2**	470.5
Cash		**6.9**	34.7
Creditors: amounts falling due within one year			
Creditors	37	**(1,922.1)**	(2,455.8)
Net current liabilities		**(1,817.0)**	(1,950.6)
Total assets less current liabilities		**1,657.8**	1,542.9
Creditors: amounts falling due after more than one year			
Borrowings	38	**(273.1)**	(168.3)
Net assets		**1,384.7**	1,374.6
Capital and reserves			
Called up share capital	39	**38.7**	38.7
Share premium account	40	**262.0**	261.7
Merger reserve	40	**752.0**	752.0
Revaluation reserve		**2.5**	2.5
Other reserve	40	**93.9**	93.9
Own shares	40	**(0.5)**	(0.2)
Retained earnings[1]		**236.1**	226.0
Equity attributable to owners of the parent		**1,384.7**	1,374.6

1. The profit and loss account of the parent company is omitted from the Company's accounts by virtue of the exemption granted by section 408 of the Companies Act 2006. The profit generated in the year for ordinary shareholders, and included in the financial statements of the parent Company, amounted to £111.9m (2017: £70.2m).

Signed on behalf of the board on 27 June 2018

P E Yea
Director

R Anand
Director

FINANCIAL STATEMENTS

Company statement of changes in equity

For the 52 weeks ended 29 April 2018

	Called up share capital £m	Share premium account £m	Merger reserve £m	Revaluation reserve £m	Other reserve £m	Own shares £m	Retained earnings £m	Total £m
At 1 May 2016	**38.6**	**261.0**	**752.0**	**2.5**	**93.9**	**(0.2)**	**257.9**	**1,405.7**
Profit for the year	—	—	—	—	—	—	70.2	70.2
Other comprehensive income:								
Cash flow hedges – loss taken to equity	—	—	—	—	—	—	—	—
Total comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**70.2**	**70.2**
Issue of ordinary share capital	0.1	0.7	—	—	—	—	—	0.8
Purchase of shares	—	—	—	—	—	(1.6)	—	(1.6)
Release of shares	—	—	—	—	—	1.6	(1.6)	—
Share-based payments	—	—	—	—	—	—	(0.4)	(0.4)
Equity dividends paid	—	—	—	—	—	—	(100.1)	(100.1)
At 30 April 2017	**38.7**	**261.7**	**752.0**	**2.5**	**93.9**	**(0.2)**	**226.0**	**1,374.6**
Profit for the period	—	—	—	—	—	—	111.9	111.9
Other comprehensive income:	—	—	—	—	—	—	—	—
Cash flow hedges – loss taken to equity	—	—	—	—	—	—	—	—
Total comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**111.9**	**111.9**
Issue of ordinary share capital	—	0.3	—	—	—	—	—	0.3
Transfer	—	—	—	—	—	0.2	(0.2)	—
Purchase of shares	—	—	—	—	—	(0.5)	—	(0.5)
Release of shares	—	—	—	—	—	—	—	—
Share-based payments	—	—	—	—	—	—	1.3	1.3
Equity dividends paid	—	—	—	—	—	—	(102.9)	(102.9)
At 29 April 2018	**38.7**	**262.0**	**752.0**	**2.5**	**93.9**	**(0.5)**	**236.1**	**1,384.7**

32 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). The financial statements have therefore been prepared in accordance with FRS 101 Reduced Disclosure Framework.

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: Accounting Policies, Changes in Accounting Estimates and Errors; to disclose 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; and
- the requirements of IAS 1: Presentation of Financial Statements, to present certain comparative information and capital management disclosures.

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.

Greene King plc is a public company limited by shares incorporated and domiciled in England and Wales. The company's shares are listed on the London Stock Exchange.

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 derecognised 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.

Own shares

Own shares consist of treasury shares and shares held within an employee benefit trust. The company has an employee benefit trust to satisfy the exercise of share options that have vested under the group's share option schemes.

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 own shares.

Share-based payments

Where the company grants share-based awards over its own shares in exchange for employee services rendered to its subsidiaries (including services provided by the company's directors), it recognises in its individual financial statements, and an increase to the cost of investment equivalent to the share-based payment expense recognised in the consolidated financial statements and a corresponding credit in equity. The share-based payments relating to directors are recognised as an expense by the subsidiaries, consistent with their other remuneration.

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.

Notes to the company accounts continued

For the 52 weeks ended 29 April 2018

32 Accounting policies continued

Significant accounting judgments and estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions in the application of accounting policies that affect reported amounts of assets and liabilities, income and expense. The 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.

33 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 £111.9m (2017: £70.2m).

34 Auditor's remuneration

Auditor's remuneration in respect of the company audit was £16,500 (2017: £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.

35 Directors' remuneration and employee costs

Details of directors' remuneration are contained in the directors' remuneration report on pages 64 to 69. 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.

36 Investments

	Investments in subsidiaries £m	Loans to subsidiaries £m	Total £m
Cost at 1 May 2016	2,366.9	1,038.2	3,405.1
Additions	—	112.0	112.0
Share-based payment awards to employees of subsidiaries	(0.4)	—	(0.4)
Cost at 30 April 2017	2,366.5	1,150.2	3,516.7
Share-based payment awards to employees of subsidiaries	1.3	—	1.3
Repayment	—	(20.0)	(20.0)
Cost at 29 April 2018	**2,367.8**	**1,130.2**	**3,498.0**
Impairment at 1 May 2016 and 30 April 2017	(23.2)	—	(23.2)
Impairment at 29 April 2018	**(23.2)**	**—**	**(23.2)**
NBV at 29 April 2018	**2,344.6**	**1,130.2**	**3,474.8**
NBV at 30 April 2017	2,343.3	1,150.2	3,493.5
NBV at 1 May 2016	2,343.7	1,038.2	3,381.9

Principal subsidiaries

For a full list of all subsidiaries see note 16.

Interest on amounts owed to and from group undertakings accrues at a rate of LIBOR + 1.0% and is receivable at interim and year end dates.

37 Creditors

	2018 £m	2017 £m
Accruals	**3.4**	2.0
Amounts owed to subsidiaries	**1,918.7**	2,453.8
	1,922.1	2,455.8

Interest on amounts owed to and from group undertakings accrues at a rate of LIBOR + 1.0% and is payable on demand.

38 Borrowings

	2018			2017		
	Within one year £m	**After one year £m**	**Total £m**	Within one year £m	After one year £m	Total £m
Unsecured bank loans – floating rate:						
– Facility A	**—**	**88.8**	**88.8**	—	168.3	168.3
– Facility B	**—**	**184.3**	**184.3**	—	—	—
	—	**273.1**	**273.1**	—	168.3	168.3

As explained in note 22 the company amended its existing £400m revolving credit facility (Facility A) during the year to incorporate an additional £350m three-year revolving facility (Facility B), taking the total facilities to £750m.

Bank loans due after one year are repayable as follows:

	2018 £m	2017 £m
Due between two and five years	**273.1**	168.3

Although any individual draw-downs are repayable within 12 months of the balance sheet date, immediate renewal is available under Facility A until October 2021 (2017: October 2021) and under Facility B until November 2020 (2017: n/a).

39 Allotted and issued share capital

Allotted, called up and fully paid	2018 £m	2017 £m
Ordinary shares of 12.5p each		
310.0m shares (2017: 309.9m)	**38.7**	38.7

Further information on share capital is given in note 25.

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

40 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 £3.3m (2017: £3.3m) capital redemption reserve arising from the purchase of own share capital and £90.6m (2017: £90.6m) arising from transfer of revalued assets to other group companies and will only be realised when the related assets are disposed of by the group.

Own shares

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

41 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 subsidiary Greene King Services 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.

42 Post balance sheet events

Final dividend

A final dividend of 24.4p per share (2017: 24.4p) amounting to a dividend of £75.6m (2017: £75.6m) was proposed by the directors at their meeting on 27 June 2018. These financial statements do not reflect the dividend payable.

Glossary – alternative performance measures

The performance of the group is assessed using a number of alternative performance measures (APMs).

The group's results are presented both before and after exceptional and non-underlying items. Adjusted profitability measures are presented excluding exceptional and non-underlying items as we believe this provides both management and investors with useful additional information about the group's performance and aids a more effective comparison of the group's trading performance from one period to the next and with similar businesses. Adjusted profitability measures are reconciled to unadjusted IFRS results on the face of the income statement with details of exceptional and non-underlying items provided in note 5.

In addition, the group's results are described using certain other measures that are not defined under IFRS and are therefore considered to be APMs. These measures are used by management to monitor ongoing business performance against both shorter-term budgets and forecast but also against the group's longer-term strategic plans. The definition of each APM presented in this report and, also, where a reconciliation to the nearest measure prepared in accordance with IFRS can be found is shown below.

APMs used to explain and monitor group performance:

Measure	Definition	Location of reconciliation to GAAP measure
Group EBITDA	Earnings before interest, tax, depreciation, amortisation, exceptional and non-underlying items. Calculated by taking operating profit before exceptional and non-underlying items and adding back depreciation and amortisation.	Group cash flow statement
Operating profit before exceptional and non-underlying items	Group operating profit excluding exceptional and non-underlying items.	Group income statement
Operating profit margin	Operating profit margin is calculated by dividing operating profit before exceptional and non-underlying items by revenue.	
Net interest before exceptional items	Group finance costs excluding exceptional and non-underlying items.	Note 7 to the financial statements
Profit before tax and exceptional and non-underlying items (PBTE)	Group profit before tax excluding exceptional and non-underlying items.	Group income statements
Adjusted basic earnings per share	Earnings per share excluding the impact of exceptional and non-underlying items.	Note 12 to the financial statements
ROI	Return on investment across all our core pub businesses. Calculated as the average incremental increase in pub EBITDA post-investment divided by the total core capex invested in completed developments.	Note A below
Net debt: EBITDA	Net debt as disclosed on the group balance sheet divided by annualised EBITDA.	Note B below
Free cash flow	EBITDA less working capital and non-cash movements (excluding exceptional items), tax payments (excluding amounts paid in respect of settlements of historic tax positions and adjusted for the impact of HMRC payment regime changes), interest payments (excluding payment of interest in respect of tax settlements), core capex, dividends and other non-cash movements.	Note C below
Fixed charge cover	Calculated by dividing EBITDAR less maintenance capex by the sum of interest paid and rental costs.	Note D below
ROCE%	Return on capital employed. Calculated by dividing annualised pre-exceptional operating profit by periodic average capital employed. Capital employed is defined as total net assets excluding deferred tax balances, derivatives, post-employment liabilities and net debt.	Note E below
Core capex	Capital expenditure excluding amounts relating to the group's brand swap programme, Spirit integration, other acquisitions and in respect of new build sites.	Note F below
Non-returning capex	Pub investment not expected to generate incremental revenues for the group.	Note F below

APMs used to explain and monitor the performance of the group business segments:

Measure	Definition	Location of reconciliation to GAAP measure
Pub Company like-for-like (LFL) sales growth	Pub Company LFL sales include revenue from the sale of drink, food and accommodation but exclude machine income. LFL sales performance is calculated against a comparable 52-week period in the prior year for pubs that were trading for the entirety of both 52-week periods. The calculations include figures for acquired Spirit pubs for a comparable 52-week period in both the current and comparative financial year.	Note G below
Pub Company operating profit before exceptional and non-underlying items	Pub Company operating profit excluding exceptional and non-underlying items.	Note 2 to the financial statements
Pub Company EBITDA	Pub Company earnings before interest, tax, depreciation, amortisation and exceptional and non-underlying items.	Note 2 to the financial statements
Pub Company EBITDA per pub	Calculated by dividing Pub Company EBITDA by the average number of pubs trading in a financial period.	
Pub Partners like-for-like net profit growth	Pub Partners' LFL profit includes pub operating profit and central overheads but excludes exceptional items. LFL profit performance is calculated against a comparable 52-week period in the prior year for pubs that were trading for the entirety of both 52-week periods. The calculation includes figures for acquired Spirit pubs for a comparable 52-week period in both the current and comparative financial year.	Note H below
Pub Partners EBITDA	Pub Partners earnings before interest, tax, depreciation, amortisation and exceptional and non-underlying items.	Note 2 to the financial statements
Pub Partners EBITDA per pub	Calculated by dividing Pub Partners EBITDA by the average number of pubs trading in a financial period.	
Pub Partners operating profit before exceptional items	Pub Partners operating profit excluding exceptional and non-underlying items.	Note 2 to the financial statements
Brewing & Brands EBITDA	Brewing & Brands earnings before interest, tax, depreciation, amortisation and exceptional and non-underlying items.	Note 2 to the financial statements
Brewing & Brands operating profit before exceptional items	Brewing & Brands operating profit excluding exceptional and non-underlying items.	Note 2 to the financial statements

In addition the group uses the following non-financial KPIs to assess performance against its strategic objectives:

Measure	Definition
Brewing & Brands OBV growth (%)	Year-on-year growth in the volume of sales of beer brewed at our Greene King and Belhaven breweries.
Pub Company net promoter score (NPS) %	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.
Team turnover	The percentage of leavers against the average headcount over a rolling annual period, excluding any student leavers.
Team engagement	The proportion of respondents who selected the response 'I feel engaged and committed at present'.

APM reconciliations

A Return on investment

Return on investment is calculated by dividing the total annualised up-lift in EBITDA from all core development schemes completed in the financial year by the total amount invested in those schemes.

Total capital investment quoted below is the total spent on schemes completed in the year and is not intended to reconcile to total in-year capital expenditure presented in note G below.

	Source	**2018 £m**	2017 £m
Incremental annualised EBITDA	Non-GAAP	**15.5**	11.8
Total core capital investment in completed schemes	Non-GAAP	**50.0**	48.2
Return on investment		**31.0%**	24.5%

B Net debt: EBITDA

	Source	**2018 £m**	2017 £m
Net debt	Group balance sheet	**2,032.3**	2,074.5
EBITDA	Cash flow statement	**486.6**	524.1
Net debt: EBITDA		**4.2x**	4.0x

Glossary – alternative performance measures continued

APM reconciliations continued

C Free cash flow

	Source	2018 £m	2017 £m
EBITDA	Cash flow statement	**486.6**	524.1
Working capital and other movements	Note 9	**(46.8)**	(29.2)
Add back: exceptional items	Note 9	**23.9**	14.4
		463.7	509.3
Tax payments	Cash flow statement	**(44.8)**	(48.6)
Add back: exceptional tax payments	Non-GAAP	**9.4**	20.6
Add back: impact of changes to payment regimes	Non-GAAP	**26.0**	—
		(9.4)	(28.0)
Interest received	Cash flow statement	**1.0**	1.0
Interest paid	Cash flow statement	**(130.2)**	(148.1)
Add back: exceptional interest paid	Non-GAAP	**2.1**	12.2
		(127.1)	(134.9)
Core capex	Note F below	**(132.2)**	(126.0)
Net repayment/(advance) of free trade loans	Cash flow statement	**2.5**	0.2
Equity dividends paid	Note 6	**(102.9)**	(100.1)
Other non-cash movements	Note 10	**(4.7)**	(0.9)
Free cash flow		**89.9**	119.6

D Fixed charge cover

	Source	2018 £m	2017 £m
EBITDA	Cash flow statement	**486.6**	524.1
Operating lease rentals	Non-GAAP	**90.2**	91.0
Add back: off-market lease liability and other property provisions utilised in the period	Non-GAAP	**(20.2)**	(21.2)
Non-returning capex	Note F below	**(79.6)**	(75.7)
		477.0	518.2
Net interest paid	Cash flow statement	**129.2**	147.1
Add back: exceptional interest paid	Non-GAAP	**(2.1)**	(12.2)
Operating lease rentals	Non-GAAP	**90.2**	91.0
		217.3	225.9
Fixed charge cover		**2.2x**	2.3x

E Return on capital employed

	Source	2018 £m	2017 £m
Operating profit before exceptional and non-underlying items	Income statement	**373.1**	411.5
Average capital employed:			
Net assets	Group balance sheet	**2,056.9**	1,944.2
Add back:			
Deferred tax assets	Group balance sheet	**(29.7)**	(63.1)
Deferred tax liabilities	Group balance sheet	**—**	9.8
Post-employment (assets)/liabilities	Group balance sheet	**(13.6)**	11.2
Derivatives	Group balance sheet	**241.1**	344.8
Net debt	Group balance sheet	**2,032.3**	2,074.5
Capital employed	Non-GAAP	**4,287.0**	4,321.4
Timing adjustment	Non-GAAP	**108.3**	75.2
Average capital employed	Non-GAAP	**4,395.3**	4,396.6
ROCE		**8.5%**	9.4%

The timing adjustment included in the calculation above is the aggregate adjustment required to reconcile closing capital employed at the balance sheet date and the monthly average capital employed calculated throughout the year.

APM reconciliations continued

F Capital investment

	Source	2018 £m	2017 £m
Non-returning capex[1]	Non-GAAP	**79.6**	75.7
Development capex	Non-GAAP	**52.6**	50.3
Core capex	Non-GAAP	**132.2**	126.0
Brand swap and new site investment	Non-GAAP	**61.0**	68.9
Purchase of property, plant and equipment	Cash flow statement	**193.2**	194.9

1. Non-returning capex also referred to as 'maintenance capex'.

G Pub Company like-for-like (LFL) sales

2018 calculations	Source	2018 £m	2017 £m	YoY%
Reported revenue	Note 2	**1,767.7**	1,817.4	-2.7%
Less: non-LFL revenue	Non-GAAP	**(85.5)**	(105.4)	
LFL sales	Non-GAAP	**1,682.2**	1,712.0	-1.7%
Snow impact	Non-GAAP	**8.8**	—	
LFL sales excluding snow impact	Non-GAAP	**1,691.0**	1,712.0	-1.2%

2017 calculations	Source	2017 £m	2016 £m	YoY%
Reported revenue	Note 2	1,817.4	1,688.2	+7.7%
Add: Spirit pre-acquisition LFL sales	Non-GAAP	—	98.3	
Less: non-LFL revenue	Non-GAAP	(119.8)	(113.4)	
LFL sales	Non-GAAP	1,697.6	1,673.1	+1.5%

Non-LFL revenue includes all machine income and the sales from pubs that have not traded for two full financial years. For pubs disposed of in each of the financial years the amounts include all sales prior to disposal; for new pubs acquired or opened during the two-year period the amounts include all post-acquisition sales.

The group LFL sales figures quoted takes account of the sales performance of Spirit pubs that have been owned and operated within the Spirit business for the full two-year period under review. Therefore to arrive at the LFL sales figure for 2016 LFL sales for the seven-week period pre-acquisition have been included.

H Pub Partners LFL net profit

2018 calculations	Source	2018 £m	2017 £m	YoY%
Reported operating profit	Note 2	**91.4**	92.8	-1.5%
Less: other non-LFL adjustments	Non-GAAP	**(5.7)**	(7.4)	
LFL net profit	Non-GAAP	**85.7**	85.4	+0.4%

2017 calculations	Source	2017 £m	2016 £m	YoY%
Reported operating profit	Note 2	92.8	85.3	+8.8%
Add: Spirit pre-acquisition LFL sales	Non-GAAP	—	4.6	
Less: other non-LFL adjustments	Non-GAAP	(7.5)	(8.7)	
LFL net profit	Non-GAAP	85.3	81.2	+5.0%

Non-LFL profit adjustments are in respect of pre-disposal net profit from pubs that were disposed of in the current or prior year.

The LFL profit figures quoted takes account of the profit performance of Spirit pubs that have been owned and operated within the Spirit tenanted and leased business for the full two-year period under review. Therefore to arrive at the LFL net profit figure for 2016 LFL sales for the seven-week period pre-acquisition have been included.

Shareholder information

Financial calendar

Ex-dividend date	1 August 2018
Record date for final dividend	3 August 2018
Annual general meeting	7 September 2018
Payment of final dividend	14 September 2018
Announcement of interim results	4 December 2018
Payment of interim dividend	January 2019
Preliminary announcement of the 2018/19 results	June 2019

Registrars

Link Asset Services

34 Beckenham Road
Beckenham
Kent BR3 4TU

Website: www.linkassetservices.com
Email: enquiries@linkgroup.co.uk
Telephone: 0871 664 0300*

* Calls to this number are charged at 12p per minute plus network extras; lines are open 9:00am 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 e-mails with a web link to information posted on the company's website, including the report and accounts, notice of meetings and other information communicated to shareholders.

Indirect investors' information rights

Beneficial owners of shares held on their behalf by a different registered holder now have certain information rights regarding Greene King. They have the right to ask their registered holder to nominate them to receive all non-personalised information distributed to shareholders, in accordance with the provisions of section 146 of the Companies Act 2006.

Should you wish to be nominated to receive information from Greene King directly, please contact your registered holder, who will need to notify our registrars, Link 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.

Company secretary and registered office

Lindsay Keswick
Westgate Brewery
Bury St Edmunds
Suffolk IP33 1QT

Telephone: 01284 763 222
Fax: 01284 706 502
Website: www.greeneking.co.uk

Share dealing services

Stocktrade

Telephone: 0131 240 0400

Redmayne Bentley

4 Brooklands Avenue
Cambridge
CB2 8BB

Telephone: 01223 328323

Link Share Dealing Services

Telephone: +44 (0)371 664 0445[1]
Website: www.linksharedeal.com

1. Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the UK are changed 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 who hold 100 or more shares in the company on 31 July each year 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.greeneking.co.uk for details of the participating outlets.

Unsolicited communication

Please note that we will never contact our shareholders by telephone. If you receive an unsolicited call from anyone purporting to be from or calling on behalf of Greene King, please do not disclose any of your personal details to the caller. You can find out more information about investment scams, how to protect yourself and report any suspicious telephone calls from the Financial Conduct Authority (FCA) by visiting its 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.

Corporate advisers

Financial advisers

Lazard & Co. Limited
50 Stratton Street
London W1J 8LL

Joint stockbrokers

Deutsche Bank AG London
Winchester House
1 Great Winchester Street
London EC2N 3EQ

Citigroup Global Markets Limited
Citigroup Centre
33 Canada Square
Canary Wharf
London E14 5LB

Auditor

Ernst & Young LLP
1 More London Place
London SE1 2AF

Solicitors

Linklaters
One Silk Street
London EC2Y 8HQ

Printed by Park Communications on FSC® certified paper. Park is an EMAS certified company and its Environmental Management System is certified to ISO 14001. 100% of the inks used are vegetable oil based, 95% of press chemicals are recycled for further use and, on average 99% of any waste associated with this production will be recycled. This document is printed on Arcoprint, a paper certified by the FSC®. The pulp used in this product is bleached using an elemental chlorine free (ECF) process.

Produced by

designportfolio

GREENE KING
BURY ST EDMUNDS

Greene King plc
Registered in England No. 24511

Registered office
Westgate Brewery
Bury St Edmunds
Suffolk
IP33 1QT

Telephone: 01284 763222
www.greeneking.co.uk