Greene King plc
Annual Report and Accounts 2019

TIME WELL SPENT

OUR VISION

TO BE THE BEST PUB AND BEER COMPANY IN BRITAIN

Greene King is the country's leading integrated pub retailer and brewer. At our year end we operated 2,730 pubs, restaurants and hotels across England, Wales and Scotland, of which 1,687 were retail pubs, restaurants and bars, and 1,043 were tenanted, leased and franchised pubs. Our leading retail brands include Greene King local pubs, Chef & Brewer, Farmhouse Inns and Hungry Horse. We also have a proud history of brewing award-winning ales for more than 200 years and our leading ale portfolio includes Greene King IPA, Old Speckled Hen, Abbot Ale and Belhaven Best.

Contents

OVERVIEW
01 Financial highlights
02 At a glance
04 Chairman's statement

STRATEGIC REPORT
08 Chief executive's review
12 Our business model
14 Our core markets
16 Our strategy
18 Key performance indicators
20 Focus on VSQ
22 Focus on responsible retailing
24 Focus on social mobility
26 Operational review
26 Pub Company
28 Pub Partners
30 Brewing & Brands
32 Corporate social responsibility – At a glance
34 Corporate social responsibility – Putting our people first
38 Corporate social responsibility – Supporting our local communities
40 Corporate social responsibility – Operating sustainably
44 Corporate social responsibility – Driving responsible retailing
47 Non-financial information statement
48 Chief financial officer's report
52 Risk management
54 Principal risks and uncertainties

CORPORATE GOVERNANCE
60 Board of directors
62 Corporate governance
68 Nomination committee report
71 Audit and risk committee report
75 Directors' remuneration report
92 Directors' report and disclosures
95 Directors' responsibilities statements

FINANCIAL STATEMENTS
98 Independent auditor's report
106 Group income statement
107 Group statement of comprehensive income
108 Group balance sheet
110 Group cash flow statement
111 Group statement of changes in equity
112 Notes to the accounts
166 Company balance sheet
167 Company statement of changes in equity
168 Notes to the company accounts
174 Alternative performance measures

SHAREHOLDER INFORMATION
179 Shareholder information

FINANCIAL HIGHLIGHTS

£2,216.9m

Revenue

(£m)	+1.8%
2019	£2,216.9m
2018	£2,176.7m
2017	£2,216.5m

£368.2m

Operating profit before exceptional and non-underlying items[1]

(£m)	-1.3%
2019	£368.2m
2018	£373.1m
2017	£411.5m

£246.9m

Profit before tax and exceptional and non-underlying items[1]

(£m)	+1.6%
2019	£246.9m
2018	£243.0m
2017	£273.5m

£482.0m

EBITDA[1,2]

(£m)	-0.9%
2019	£482.0m
2018	£486.6m
2017	£524.1m

64.5p

Adjusted basic earnings per share[1]

(p)	+2.9%
2019	64.5p
2018	62.7p
2017	70.8p

33.2p

Dividend per share

(p)	+0.0%
2019	33.2p
2018	33.2p
2017	33.2p

1. An explanation of the group's use of Alternative Performance Measures (APMs), including definitions and reconciliations, are on page 174 of this annual report.

2. 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 period.

A RESPONSIBLE BUSINESS

WE CONTINUE TO DRIVE THE LONG-TERM SUSTAINABILITY OF OUR BUSINESS.

VIEW OUR CORPORATE SOCIAL RESPONSIBILITIES ON PAGES 32 TO 46

AT A GLANCE

As the country's leading pub company and brewer, we welcome our customers through our doors and brew our iconic range of well-loved crafted ales every day.

OUR MISSION

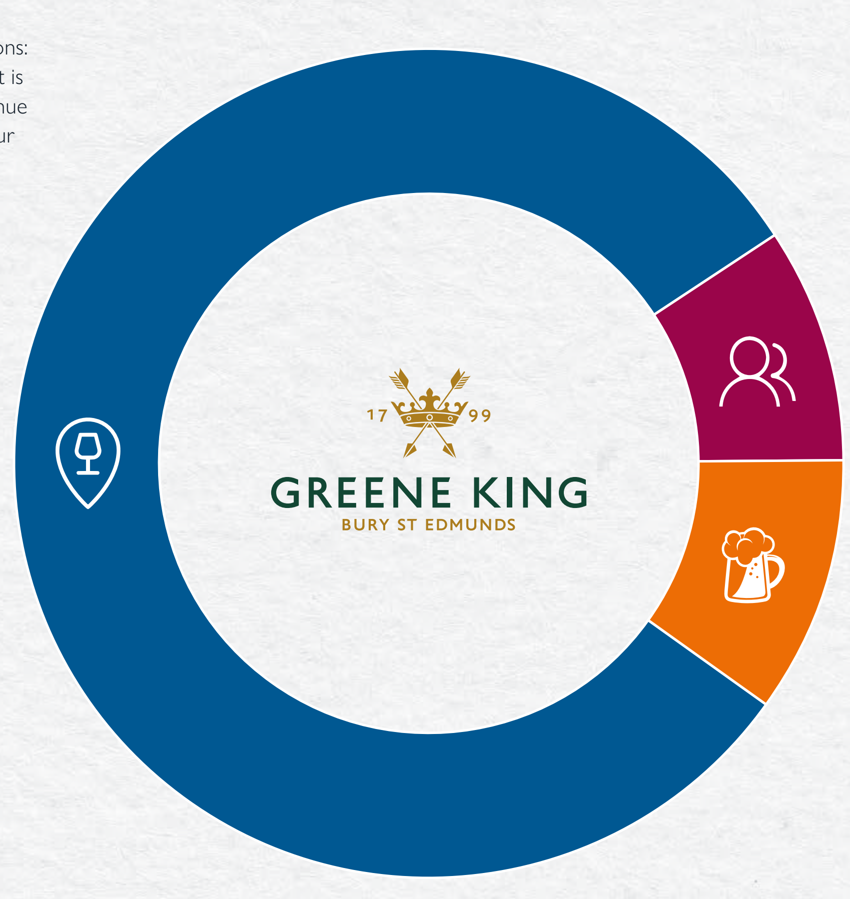
TO BE THE BEST FOR OUR CUSTOMERS, EMPLOYEES, SHAREHOLDERS AND OUR COMMUNITIES

VIEW OUR CORPORATE SOCIAL RESPONSIBILITIES ON PAGES 32 TO 46

OUR BUSINESS DIVISIONS

Our business is split into three complementary divisions: Pub Company, Pub Partners and Brewing & Brands. It is through this integrated business model that we continue to drive long-term growth and cash generation for our shareholders.

VIEW OUR BUSINESS MODEL ON PAGES 12 TO 13



* of revenue

PUB COMPANY

Our food-focused destination pubs and restaurants and community-focused local pubs.

FOCUS BRANDS

1,687

Pubs, restaurants and bars

Revenue

£1,799.2m

MORE INFORMATION ON PUB COMPANY SEE PAGES 26 TO 27

PUB PARTNERS

Our tenanted, leased and franchised pubs.

BRAND

1,043

Tenanted, leased and franchised pubs

Revenue

£190.1m

MORE INFORMATION ON PUB PARTNERS SEE PAGES 28 TO 29

BREWING & BRANDS

Our breweries, which brew our core portfolio of ales.

CORE BRANDS

Two

Breweries

Westgate Brewery, Bury St. Edmunds and Belhaven Brewery, Dunbar.

Revenue

£227.6m

MORE INFORMATION ON BREWING & BRANDS SEE PAGES 30 TO 31

CHAIRMAN'S STATEMENT

> "OUR TEAMS WORKED HARD TO DELIVER VALUE, SERVICE AND QUALITY ON A CONSISTENT BASIS."

OVERVIEW

2018/19 was a year in which Greene King outperformed the market, making the most of the good weather and the World Cup while minimising cost inflation through an ambitious ongoing cost mitigation programme. Our teams worked hard to improve customer experience, and our executives made further progress in embedding those key processes which are so important to delivering value, service and quality on a consistent basis. Excellent progress was made on the refinancing of the Spirit debenture, reducing the cost and increasing the flexibility of our debt. With clear momentum restored to the business over the last year, we are fully focused on delivering our aim of being the best pub and beer company in Britain.

BOARD CHANGES

On 30 April 2019, just after year end, Rooney Anand resigned from the board, leaving Greene King after 14 years as chief executive. Rooney proved himself to be one of the most successful business leaders of our industry, and during his tenure the company has been transformed. On behalf of the board and our shareholders I should like to take this opportunity to thank him again for all he has done and wish him well for the future.

After a comprehensive search we were delighted to appoint Nick Mackenzie to the board on 1 May in succession as chief executive. Nick brings with him rich and relevant experience gained from his time at Merlin Entertainments as well as earlier roles at Bass and Allied Domecq. I am confident that he too will prove to be an outstanding leader for the business and drive continued evolution at Greene King. The reports from the nomination and remuneration committees give further detail on the steps taken to manage this important transition in leadership to the advantage of the business.

On the same day we appointed Sandra Turner, an experienced executive from the FMCG and retail industries, to the board as a non-executive director, bringing further weight to our future deliberations. Sandra's background and experience can be found later in the report.

PERFORMANCE HEADLINES

Group revenue was up 1.8% to £2,216.9m, driven by Pub Company LFL sales up 2.9%, and group profit before tax, exceptional and non-underlying items was up 1.6% to £246.9m. Statutory group profit before tax fell by 12.5% to £172.8m. Adjusted basic earnings per share were up 2.9% to 64.5p, whereas basic earnings per share fell 34.2% to 38.9p.

DIVIDEND

The board has recommended a final dividend of 24.4p, reflecting our continued confidence in the long-term prospects for 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 cash generated from operations and the board continues to target a dividend covered approximately two times by earnings.

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 174 of this annual report.

33.2p
DIVIDEND PER SHARE

38,000
EMPLOYEES

"I am confident that our new chief executive, Nick Mackenzie, will drive continued evolution at Greene King."

PEOPLE

Our success relies on the continuing efforts of the 38,000 talented and dedicated team members within our business. This year they have worked hard to drive momentum back in Pub Company, delivering market outperforming LFL sales and profit growth in a tough cost environment. I would like to thank everyone for their efforts and their ongoing commitment.

LOOKING AHEAD

I believe that with Nick's fresh approach and extensive experience, coupled with Greene King's strong brands, teams and assets, we are in a good position to deliver on our ambition of becoming the best pub and beer company in Britain whilst continuing to drive strong financial returns. We cannot count on repeating last year's weather nor a stable economic environment; however, we will remain focused on the needs of our customers, teams and shareholders.

Philip Yea
Chairman
26 June 2019

FURTHER READING

SEE CHIEF EXECUTIVE'S REVIEW ON PAGES 8 TO 11

VIEW CHIEF FINANCIAL OFFICER'S REPORT ON PAGES 48 TO 51

SEE OUR GOVERNANCE SECTION ON PAGES 58 TO 95

> THE GROUP HAS DELIVERED GOOD RESULTS, RETURNING TO MARKET OUTPERFORMANCE WHILE FULFILLING A STRONG COST MITIGATION PROGRAMME AND MAKING FURTHER PROGRESS IN REFINANCING THE SPIRIT DEBENTURE.”

Nick Mackenzie
Chief executive

STRATEGIC REPORT

08 Chief executive's review
12 Our business model
14 Our core markets
16 Our strategy
18 Key performance indicators
20 Focus on VSQ
22 Focus on responsible retailing
24 Focus on social mobility
26 Operational review
 26 Pub Company
 28 Pub Partners
 30 Brewing & Brands
32 Corporate social responsibility – At a glance
34 Corporate social responsibility – Putting our people first
38 Corporate social responsibility – Supporting our local communities
40 Corporate social responsibility – Operating sustainably
44 Corporate social responsibility – Driving responsible retailing
47 Non-financial information statement
48 Chief financial officer's report
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CHIEF EXECUTIVE'S REVIEW

> STRONG SALES GROWTH IN PUB COMPANY AND BREWING & BRANDS HELPED GROUP REVENUE INCREASE BY 1.8%."

The group reported good results for the last year, delivering on each of its key priorities to improve underlying sales growth in Pub Company, to develop a more efficient and effective organisation, to further strengthen the capital structure and to protect trading from potential Brexit disruption.

PERFORMANCE SUMMARY

Group revenue was up 1.8% to £2,216.9m as strong sales growth in Pub Company and Brewing & Brands offset reduced revenues from the planned rationalisation of our estate as we continue to manage and optimise our portfolio. Group operating profit before exceptional and non-underlying items was down 1.3% to £368.2m, impacted by £14m net cost inflation. Group net interest costs were reduced by 6.8% to £121.3m and group profit before tax, exceptional and non-underlying items was up 1.6% to £246.9m.

Pub Company revenue was up 1.8% to £1,799.2m with strong Like for like (LFL) sales growth of 2.9% offsetting the 2.5% decrease in the average number of pubs trading. We made good progress in both NPS and TripAdvisor scores. Average weekly take (AWT) was up 4.1% and average EBITDA per trading pub was up 3.3%, reflecting our ongoing estate optimisation programme. Pub Company operating profit was up 1.8% to £272.9m and the operating margin was 15.2%, flat year-on-year and up 50 basis points in the second half of the year.

Pub Partners revenue was down 2.0% to £190.1m, driven by the 5.0% decrease in the average number of pubs trading. LFL net income was up 1.5%, boosted by higher rental income and beer sales. Average EBITDA per pub was up 1.0% and LFL net profit was down 0.3%, impacted by increased central costs.

Brewing & Brands revenue was up 5.8% to £227.6m with total beer volume growth of 0.9% supported by the good weather and the World Cup. Own brewed volume (OBV) was down 3.4% ahead of an ale market down 4.1% (source: BBPA). Operating profit was down 10.7% to £27.4m, driven by the estate rationalisation, increased costs and the lower production volumes in our two breweries.

Cash generated from operations[1] of £308.6m comfortably covered our scheduled debt repayments, core capital expenditure and dividend payments. Our strong cash generation reduced net debt by £89.0m to £1,943.3m and net debt to EBITDA to 4.0x.

116 non-core disposals generated net proceeds of £75.8m and £24.0m was spent on five new builds and five single site acquisitions, of which three will open in the new financial year.

Adjusted basic earnings per share[1] were up 2.9% to 64.5p and the board has recommended a final dividend of 24.4p per share, taking the total dividend for the year to 33.2p, in line with last year.

The business generated a strong ROCE of 8.5% which remains comfortably above our weighted average cost of capital. Our annualised returns on investment in core development capex were over 35%. As part of the Spirit debt refinancing programme, we carried out an estate revaluation during the year which indicated a market value of £4.5bn, versus a book value of £3.5bn.

TRADING ENVIRONMENT

The number of licensed premises in the UK remains in decline and was down 2.3% in the year to March 2019 (CGA & Alix Partners Market Growth Monitor, May 2019), driven by the continued closure of drink-led pubs but also, more recently, by an acceleration in restaurant closures. Customer demand was strong over the year with LFL sales growth of 1.7%, driven by drink-led pub LFL sales growth of 3.4% and food-led pub LFL sales growth of 1.6%, offset by slower restaurant LFL sales growth of 0.1% (CGA's Coffer Peach Business Tracker, April 2019).

WE AIM TO BE THE BEST PUB AND BEER COMPANY IN BRITAIN

VIEW OUR STRATEGY ON PAGES 16 TO 17

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 174 of this annual report.

£246.9m

GROUP PROFIT BEFORE TAX, EXCEPTIONAL AND NON–UNDERLYING ITEMS

4.0x

NET DEBT TO EBITDA

8.5%

RETURN ON CAPITAL EMPLOYED

"Attracting and retaining the best people and developing and investing in them are critical to our continued success."

The active management of our large estate and high quality brands enables us to react dynamically to shifting consumer behaviour. We extended the Greene King brand into more food-led pubs this year, helping to improve our drinks offer in those pubs. We also transferred 11 pubs from Pub Company to Pub Partners and four pubs from Pub Partners to Pub Company.

Consumer behaviour and changing demands continue to provide opportunities for dynamic pub operators such as Greene King. Experiential offers are important for customers and this will be particularly significant for pubs as we enter a year without large football tournaments such as the World Cup or the European Championship. Wellbeing remains a key concern for customers with millennials, in particular, seeking healthy food and drink options and placing greater importance on sustainability. The drink premiumisation trend continues, led by the growth of gin-based drinks. Finally, digital innovation continues to give the consumer ever greater choice and convenience through delivery and mobile payment platforms. Digital channels also allow for enhanced engagement between customers and brands, and for experiences to be shared online on customer reviewing platforms.

Despite all these changes, customers still value high quality products, an atmospheric environment, good service and value for money. While we are cognisant of shifting consumer trends and the opportunities they present to us, we also remain focused on providing improvements in the Value, service and quality (VSQ) of our offers, targeting volume-led sales growth and improved brand loyalty.

PEOPLE

Our people are our greatest asset, with around 38,000 team members employed across the group. Attracting and retaining the best people and developing and investing in them are critical to our continued success.

We completed a support centre restructure in the first half of the year to better align central Pub Company support to the simplified brand portfolio and to develop a more streamlined and efficient organisation. We spent £3m in learning, training and development over the year, focusing particularly on our digital training platform, TAP. Over 300,000 training hours were spent on TAP in the year with over 100,000 courses completed. Induction course compliance was up 5% as a result of the online platform, helping to drive improved service scores in our pubs.

FURTHER READING

SEE OUR BUSINESS MODEL ON PAGES 12 AND 13

VIEW OUR STRATEGY ON PAGES 16 AND 17

SEE OUR KPIs ON PAGES 18 AND 19

CHIEF EXECUTIVE'S REVIEW CONTINUED

63%

PUB COMPANY NPS

62%

EMPLOYEE ENGAGEMENT

£1.4m

RAISED FOR MACMILLAN CANCER SUPPORT

"During the year we launched 'Your Voice', a communications and engagement forum to improve conversation within the business."

We invested in enhanced staff benefits, including launching a Friends and Family discount scheme, and continued to focus on employee wellbeing, holding our second annual Wellbeing Week and launching Shine, a programme developed to equip our employees with better work-life balance management skills. In addition, we launched 'Your Voice', a communications and engagement forum to improve conversation within the business. The forum will be used to enable the board to engage with employees via its designated non-executive director, Lynne Weedall, who will attend a number of its meetings. We have also partnered with KPMG to provide the 9% of our workforce who are non-UK EU nationals with a tool to help navigate the implications of Brexit.

Our apprenticeship programme continued to grow with over 1,900 apprentices joining the business and more than 560 vacancies being filled through the scheme this year. Over 11,000 apprentices have benefitted from the Greene King apprenticeship programme since its launch in 2011. We were thrilled to receive the Princess Royal Training award for our apprenticeship programme, as well as the Best Apprenticeship Programme award and Best Training Partnership award at the Training Journal Awards. We were also pleased to maintain our position in the top 100 Apprenticeship Employers by Rate My Apprenticeship and All About School Leavers.

Our increased investment in our people and our focus on their wellbeing helped maintain engagement and employee NPS broadly flat at 62% and 68% in spite of the head office restructure carried out. We are rolling out an employee app this summer, through which we expect to improve engagement and employee retention further, and drive cost efficiencies.

COMMUNITY

Our pubs act as hubs for their local communities, offering a place to sit, socialise and make a difference to local services and good causes. The teams at our pubs, together with team members at our offices and breweries, helped raise £1.4m this year for our national charity partnership with Macmillan Cancer Support. We are proud to report that this took our total raised to date for Macmillan to over £5m.

In January, we launched The Stepping Up Report, in which we committed to creating the best opportunities for individuals from all backgrounds in the hospitality sector. In order to achieve this goal, we set out five ambitions to encourage greater social mobility:

1. Launch 'Releasing Potential', a new employment programme for ex-offenders. Working with the Ministry of Justice, the charity Only A Pavement Away and partners Novus, Clean Sheet and Sodexo, we will support 50 individuals in the first year.
2. Deliver a new commitment to support 20,000 apprentices by 2022.
3. Become the first hospitality company to sign the Business in the Community Race at Work Charter. This will see the appointment of an Executive Sponsor for Race, working towards the capturing of ethnicity data and acting to support the career progression of ethnic minorities.
4. Pledge to increase internal appointments to pub general manager from 64% to 80%.

5. Extend our partnership with The Prince's Trust for a fourth year with a target to increase the number of people being offered a permanent role after successful completion of the 'Get Into Hospitality' programme from 61% to 75%.

OUTLOOK

Over the first eight weeks of the new financial year, trading was impacted by the poor weather and LFL sales in Pub Company were below last year's strong comparatives.

Political and consumer uncertainty is likely to continue to weigh on confidence and the cost inflationary environment persists. However, with clear strategic priorities and our ongoing cost mitigation programme in place, we are confident in delivering another year of progress and we are well positioned to continue driving sustainable long-term growth for our shareholders.

The year ahead will be a 53 week year and will see the implementation of IFRS 16 which will affect a number of the reported KPIs. Further information is provided in the financial review and in note 1 of the financial statements.

Nick Mackenzie
Chief executive
26 June 2019

OUR BUSINESS MODEL

WHAT WE DO

Integrated business model driving long-term growth and cash generation for our shareholders.

1 Strong cash generation reinvested into Pub Company estate to drive growth and support a consistent five to six year capex cycle.

2 Own and third party beers sold to our pubs, driving far-reaching brand recognition and ensuring the best offer for our customers.

3 Pubs transferred between operating models, driving improved profit per pub.

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 and enhancing the recognition of our beer brands.

Qualities underpinning the operations of our three business units:

Large, category leading brands	Consistent investment in our estate	Excellent estate through sustainable, integrated business model	Dedicated and talented team members	Robust financial management

EVERYTHING WE DO ENCOMPASSES OUR FOUR CSR PILLARS

OUR PEOPLE

Organic cash generated from our business consistently covers:

Scheduled debt repayment | Core capex | Attractive dividend

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 the selective acquisition of new sites, while maintaining our long-term progressive dividend policy.

HOW WE GENERATE REVENUE

PUB COMPANY

- the sale of food, drink and revenue from accommodation and gaming machines
- £1,799.2m revenue; £365.8m EBITDA

PUB PARTNERS

- rental income from our properties and income from the supply of food and drink
- £190.1m revenue; £97.2m EBITDA

BREWING & BRANDS

- sales from the distribution of own and third party beers
- £227.6m revenue; £33.2m EBITDA

THE VALUE WE CREATE

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.

EMPLOYEES

We employ around 38,000 people and work hard to make sure that every member of our team is given the opportunity to learn and progress. We maintain high employee engagement scores and have developed an award-winning apprentice scheme.

SHAREHOLDERS

We have 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.

COMMUNITIES

Supporting local communities in our pubs and through our head offices is important to us. We are harnessing our scale to drive change for good through charity partnerships and our social mobility schemes.

ENVIRONMENT

We are passionate about operating in a sustainable way within our environment, actively seeking to reduce our carbon footprint and minimise waste.

CAPITAL ALLOCATION POLICY

We will allocate capital in a manner which supports our strategic objectives and in accordance with the following framework:

1. Invest in our estate and technology to protect and support organic growth and drive innovation and productivity.
2. Improve our asset quality and financial returns by continuing to dispose of non-core properties and recycling capital realised to support acquisition and/or development of higher quality assets.
3. Reduce financial leverage through scheduled debt amortisation programme, continue restructuring Spirit debenture incurring frictional cost where economically sensible and, to the extent appropriate, reduce debt ahead of the scheduled amortisation.
4. Provide sustainable returns to shareholders over the cycle by paying total annual dividends equivalent to around 50% of earnings and consider further distributions where available cash flows allow.

OUR CORE MARKETS

£22.5bn

PUB MARKET VALUE

2.4%

PUB MARKET GROWTH 2018–2021 FORECAST

Our core markets are the UK eating out and UK drinking out markets.

OVERVIEW

Our core market is the UK eating and drinking out market, in which we compete with our 2,730 managed, tenanted and leased pubs. 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.

ECONOMIC ENVIRONMENT

Overall consumer confidence remained subdued this year, softening slightly as a result of the uncertainties around Brexit which is now the top concern for consumers in the UK (source: GfK). Falling inflation, rising real wages and low rates of unemployment, however, have supported consumers' confidence in their personal finances which were three in May 2019 and the forecast for personal finances over the next 12 months is five. While we are encouraged by this outlook, it remains crucial that we can offer our customers the best value, service and quality at our pubs given the wider context of uncertainty.

POLITICAL ENVIRONMENT

We continue to face unprecedented cost increases in the hospitality industry, driven by the National Living Wage, duty, sugar and utilities taxes and we expect further cost pressures to impact on margins in our sector. We have a strong track record of cost savings and aim to minimise the impact of this cost environment for our customers and for our shareholders.

We successfully reached our target of £30-35m of cost mitigation last year, enabling us to limit next cost inflation to £14m through procurement savings, improved labour deployment, a review of our discretionary cost base and the restructuring of head office and field-based operations. We expect gross cost inflation of £45-50m next year and will target a mitigation programme of £30-35m.

UK EATING AND DRINKING OUT

We operate in the wider UK eating and drinking out market which is valued at £89bn and made up of a total of 327,000 outlets. The value of this market is expected to grow at a rate of 1.8% between 2018 and 2021 (2015-2018 CAGR: 1.7%). The pub market is valued at £22.5bn, accounting for a quarter of eating and drinking out spend, and is forecast to grow at a rate of 2.4% between 2018 and 2021 (2015-2018 CAGR: 1.4%).

CONSUMER TRENDS

Consumer behaviour and changing demands continue to provide opportunities for dynamic pub operators such as Greene King. Experiential offers are important for customers and this will be particularly significant for pubs as we enter a year without large football tournaments such as the World Cup or the European Championship. Wellbeing remains a key concern for customers with millennials, in particular, seeking healthy food and drink options and placing greater importance on sustainability. The drink premiumisation trend continues, led by the growth of gin-based drinks. Finally, digital innovation continues to give the consumer ever greater choice and convenience through delivery and mobile payment platforms. Digital channels also allow for enhanced engagement between customers and brands, and for experiences to be shared online on customer reviewing platforms.

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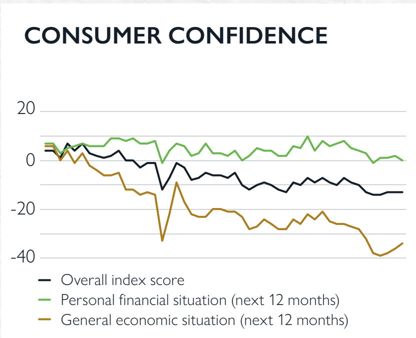
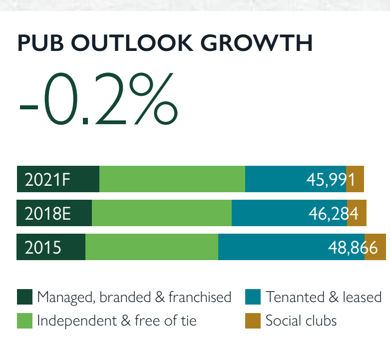
CONSUMER CONFIDENCE



PUB OUTLOOK GROWTH

-0.2%



GREENE KING ALE MARKET SHARE

10.5%

Year	Share
2019	10.5%
2018	10.3%
2017	10.3%
2016	10.5%
2015	10.1%

Source: BBPA

Total eating and drinking out outlet numbers are expected to grow at a rate of 0.3% between 2018 and 2021 (2015–2018 CAGR: 0.3%), driven by continued growth in numbers of coffee and sandwich shops and fast food outlets but offset by an accelerating decline in restaurants. Pub outlet numbers are expected to stabilise, declining at a rate of just -0.2% during 2018 and 2021 (2015-2018 CAGR: -1.8%) as growth in managed, branded and franchised pubs and independent pubs is forecast to offset the decline in tenanted and leased pub numbers.

UK ALE MARKET

The UK beer market was in MAT growth over the last year, with on-trade beer in growth for the first time in over 15 years. This was driven by strong lager growth as a result of the sunny weather and successful World Cup. Greene King total beer volumes were up 0.9% for the year, in line with this trend. Greene King own-brewed volumes were down 3.4%, ahead of the UK ale market which declined 4.1% in the year to April 2019.

With over 200 years' experience of brewing beer, we believe we are well placed to take advantage of the interest from consumers for beers with heritage and provenance. In addition, through our innovative culture and newer craft-style beers, we have a portfolio which caters for a younger generation of beer drinkers. Through this leading portfolio we remain confident in our ability to continue to grow market share and 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 staying at our pubs, hotels and lodges. We believe that the combination of pubs and adjacent rooms is an attractive guest proposition in the context of increasing business and leisure travel. We have 3,327 bedrooms in our estate and see scope for this to grow under the well-established and trusted Greene King local pubs brand.

2018 saw occupancy in provincial hotels remain broadly flat at 76%. RevPAR growth in 2018 was 1.0% and is expected to grow another 1.2% in 2019 (source: PWC UK hotels forecast update 2018 and 2019).

CHANGING THE WAY THEY USE PUBS

- Third space
- Drink resurgence
- Growth in breakfast

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

OUR STRATEGY

OUR OVERALL STRATEGIC OBJECTIVE IS TO BE THE BEST PUB AND BEER COMPANY IN BRITAIN.

This will be delivered through our mission to create memorable experiences that our customers consider to be 'time well spent'. In order to achieve this, we are focused on five long-term strategic pillars and three shorter-term operating and financial priorities.

LONG-TERM STRATEGIC PILLARS

DISTINCT BRANDS THAT MORE CUSTOMERS CHOOSE

WHAT WE DID IN 2018/19

In Pub Company, this was the first year since acquiring Spirit in 2015 that we were able to focus fully on our four core brands – Greene King, Chef & Brewer, Farmhouse Inns and Hungry Horse – which helped to deliver our strong LFL sales growth. We extended the Greene King brand into food with the continued development of the Pub & Carvery, Pub & Dining and Pub & Grill formats. We improved the format segmentation within Hungry Horse and we added five new Farmhouse Inns sites. We stepped up our investment in Chef & Brewer and generated strong returns. In Brewing & Brands, we increased support and distribution for Greene King IPA and Abbot Ale in our own pubs and saw continued strong growth from East Coast IPA.

WHAT WE'LL DO IN 2019/20

We will work across all three divisions to define further and embed the principles of the Greene King brand, we will use this work to develop our employer brand and we will make changes to the Local Pubs segmentation to better capture sales opportunities in the high street. Within Brewing & Brands, we will relaunch Greene King IPA, Old Speckled Hen and our most successful craft brands, while we will grow our exposure to the health and wellbeing category.

OFFERS THAT DELIVER COMPELLING VALUE, SERVICE AND QUALITY

WHAT WE DID IN 2018/19

We maintained a cautious approach to retail pricing by increasing prices below the market rate throughout the year on both drink and food. This led to drink volume and food cover outperformance. We continued to provide compelling known value item (KVI) pricing across our value brands and formats as we reduced further the amount of discounting available across our estate. We improved our overall Net Promoter Score by 3.5%pts to 62.5% as we redeployed labour from midweek to the weekend and we improved both drink and food quality. In Pub Partners, we continued to invest in training our licensees, supporting 1,300 delegates through programmes over the year. In Brewing & Brands, we relaunched a division-wide quality improvement programme.

WHAT WE'LL DO IN 2019/20

We will continue to pursue a volume–led sales growth strategy to deliver continued market outperformance. We will enhance further our season ticket and friends and family reward programmes, invest in our sport capability and the customer experience, and improve our digital booking technology and effectiveness. We will ensure all pub brands have tailored brand service programmes and focus our in-house training on service standards and product knowledge. We will continue to improve our support to licensees in Pub Partners and in Brewing & Brands we will improve our distribution capability and increase our focus on continuous improvement at our breweries.

SEE KPIs ON PAGE 18 AND APMs ON PAGE 174 ON HOW WE MEASURE PERFORMANCE

ENGAGED AND HIGH PERFORMING COLLEAGUES

WHAT WE DID IN 2018/19

We made good progress on improving management induction training attendance, we launched Your Voice, our internal employee communications forum, we improved further our employee benefits and we continued to lead the market with our leading apprenticeship training programme.

WHAT WE'LL DO IN 2019/20

We will make further progress on our aim to have sector-leading recruitment, induction and retention programmes, we will work an all aspects of pub working to aid the drive to improve productivity, we will signal clearer career paths for our people, we will aim to deliver better value and impact from our reward programme and we will develop further our apprenticeship programme and other initiatives designed to attract people into the business.

A WELL-LOCATED AND INVESTED ESTATE

WHAT WE DID IN 2018/19

We continued to invest in our estate on a five to six year cycle, delivering an improved return on investment of over 30% on a reduced average project cost and despite higher underlying costs. We delivered on our disposal proceed targets despite increased Brexit related concerns and we reduced our sale and leaseback costs through disposals and the re-negotiation of some lease terms.

WHAT WE'LL DO IN 2019/20

We will maintain our consistent investment in our estate and help to improve further the customer experience, we will continue to optimise the estate through selected acquisitions and disposals, we will ensure safe and well maintained working environments, and we will provide investment support for the updated segmentation of both our Locals pub estate in Pub Company and our Pub Partners estate.

PRUDENT FINANCIAL MANAGEMENT

WHAT WE DID IN 2018/19

Our business model once again generated sufficient operating cash to cover our scheduled debt repayments, our core capital expenditure and attractive and well covered dividend for shareholders. We delivered strong LFL sales growth but not at the expense of profit growth and we continued to refinance the Spirit debenture, repaying 51% since F17.

WHAT WE'LL DO IN 2019/20

We will again aim to meet our three core business requirements through operating cashflow, we will ensure our excess operating cash and net disposal proceeds will be sufficient to cover any one-off debt refinancing costs as we continue to refinance the Spirit debenture and we will look to continue delevering the balance sheet.

GROUP-WIDE PROJECT PRIORITIES

1. DIGITALLY ENABLING COMMERCIAL LEADERSHIP

The objective of this project is to understand how digital technology can deliver commercial value in Pub Company by implementing technical solutions that make our team members' and customers' drinking and eating out experiences easier and more rewarding.

2. DEVELOPING A FIT-FOR-THE-FUTURE ORGANISATION

In a period of excessive cost increases, there is an urgent requirement to restructure the business to reduce the cost base, improve our ways of working and make the whole company more efficient. Areas under consideration include the centralisation of certain group services.

3. IMPROVING PUB PRODUCTIVITY

The objective of this project is to identify opportunities within Pub Company operations to make productivity/efficiency savings without impacting on service standards to customers or negatively impacting our people.

KEY PERFORMANCE INDICATORS

FOR THE 52 WEEKS ENDED 28 APRIL 2019

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] (%)

35.8%

Year	%
2019	35.8%
2018	31.0%
2017	24.5%

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 35.8%.

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.

RETURN ON CAPITAL EMPLOYED (ROCE)[1,2] (%)

8.5%

Year	%
2019	8.5%
2018	8.4%
2017	9.3%

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.

FREE CASH FLOW[1] (£m)

£86.1m

Year	£m
2019	£86.1m
2018	£89.9m
2017	£119.6

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 £86.1m.

DEFINITION

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.

ADJUSTED BASIC EARNINGS PER SHARE[1] (p)

64.5p

Year	p
2019	64.5p
2018	62.7p
2017	70.8p

SUMMARY

Adjusted basic earnings per share was 64.5p a increase of 2.9% compared to the prior year.

DEFINITION

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

EMPLOYEE ENGAGEMENT SCORE (%)

62%

SUMMARY

Employment engagement remains broadly in line with prior year at 62%.

DEFINITION

The proportion of respondents who selected "I feel engaged and committed at present" as the statement that most accurately reflects their current career intentions.

1. An explanation of the group's use of Alternative Performance Measures (APMs), including definitions and reconciliations, is included on page 174 of this annual report.
2. Prior years ROCE % have been restated following adjustments to net assets and deferred tax. See note 1 of the financial statements for further details.

PUB COMPANY

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

+2.9%

Year	Value
2019	2.9%
2018	-1.7%
2017	1.5%

SUMMARY

We monitor LFL sales in order to understand the performance of our estate excluding the impact of new sites and disposals. LFL sales increased by 2.9%.

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.

NET PROMOTER SCORE[3] (%)

62.5%

Year	Value
2019	62.5%
2018	59.0%
2017	58.4%

SUMMARY

We monitor NPS in order to track customer satisfaction. NPS has increased by 3.5% to 62.5%.

DEFINITION

The percentage of responses where we score 9 or 10 (out of 10) less the percentage of responses where we score 0 to 6 (out of 10) to the statement "I am likely to recommend this pub to a friend and/ or relative."

PUB PARTNERS

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

-0.3%

Year	Value
2019	-0.3%
2018	0.4%
2017	5.0%

SUMMARY

We monitor LFL profit in order to understand the performance of our tenanted estate excluding the impact of disposals. LFL net profit declined by 0.3% 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.

LICENSEE SURVEY SCORE[3] (out of 10)

6.6

Year	Value
2019	6.6
2018	6.3
2017	6.3

SUMMARY

The licensee survey provides independent feedback from our licensees about how they feel about working with Pub Partners. The average score of 6.6 (out of 10) represents an improvement of 5% year on year.

DEFINITION

The licensee survey is independent research conducted with leased/tenanted pubs across all the major pub companies operating in the L&T sector.

BREWING & BRANDS

OWN BREWED VOLUME (OBV) GROWTH[1] (%)

-3.4%

Year	Value
2019	-3.4%
2018	-1.2%
2017	-2.8%

SUMMARY

We monitor OBV growth to assess relative performance of our beer brands. OBV volumes declined by 3.4% compared against the UK ale market down 4.2%[4].

DEFINITION

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

SERVICE SCORE[3] (%)

93.9%

Year	Value
2019	93.9%
2018	91.8%
2017	96.3%

SUMMARY

We monitor service scores to assess the proportion of orders successfully fulfilled, to provide insight on customer satisfaction.

DEFINITION

Brewing & Brands service score is measured as the percentage of deliveries that are made on time and in full across all delivery networks.

3. Key performance indicators have been aligned to provide equal prominence to non-financial and financial indicators, and to remuneration performance measures across the group.
4. Source: BBPA Beer Market data to April 2019.

FOCUS ON VALUE, SERVICE AND QUALITY (VSQ)

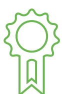
PUB COMPANY

ENHANCING THE CUSTOMER EXPERIENCE

Providing industry-leading value, service and quality for our customers is key to our offer. Our focus on this helped drive our market outperformance in Pub Company over the last year.

VALUE

We are committed to providing our customers with market leading value and have delivered this through consistent and competitive pricing, avoiding high-low discounting.



SERVICE

The excellent service we provide is underpinned by our investment in training and development. Through our new digital training channels, induction course compliance was up 5%. Digital tools have also allowed us to improve our team deployment, helping to optimise resourcing at our pubs throughout the week.

QUALITY

We also invested in improving our top dish quality, boosting our food quality NPS to 89.5%. Meanwhile, the quality of the customer experience has been enhanced by our commitment to acting local: our pub managers have been given increased control over organising local events, engaging with their local communities more effectively and thereby driving improved sales.

The success of our VSQ programme helped us achieve Pub Company LFLs of +2.9% this year, outperforming the market by 1.2%pts[1], and we will continue to target growth through further initiatives to boost VSQ for our customers. Pub Company NPS rose 3.5%pts to 62.5% and our average TripAdvisor score was up 4.5%.

LFLS
+2.9%

TRIPADVISOR SCORE
+4.5%

1. Coffer Peach Business Tracker.

"

CUSTOMERS VALUE HIGH QUALITY PRODUCTS, AN ATMOSPHERIC ENVIRONMENT, GOOD SERVICE AND VALUE FOR MONEY.

While we are cognisant of shifting consumer trends and the opportunities they present to us, we also remain focused on providing improvements in the VSQ of our offer, targeting volume-led sales growth and improved brand loyalty."

Nick Mackenzie
Chief executive

FOCUS ON RESPONSIBLE RETAILING

BREWING & BRANDS

SUCCESSFULLY DEVELOPING LOW ALCOHOL OLD SPECKLED HEN

In November 2018, we launched Old Speckled Hen Low Alcohol to reflect changing lifestyle and consumer landscape embracing healthier living, with a 0.5% abv. version.

The no and low alcohol beer sector is rapidly growing and is now the second fastest growing beer category in supermarkets after craft beer. It is now worth £48.6m, up 35.1% in the last year according to Nielsen data.[1] Nearly a quarter of adults claim they have consumed no or low alcohol beer in the last year as the healthy living lifestyle trend continues to rise.[2]

54%
fewer calories

0.5%
ABV

1. NIELSEN week commencing 06.10.18.
2. POPULUS OMNIBUS May 2018 – 2,000 respondents.

“

THE LOW ALCOHOL BEER MARKET IS FAST EVOLVING AS PEOPLE’S DRINKING HABITS ADAPT TO FIT WITH HEALTHIER LIFESTYLE CHOICES.

Choosing alcohol free drinks shouldn’t mean compromising on the occasion and there is an ever increasing demand for a grown up alternative to soft drinks and alcohol free beers that simply don’t hit the taste mark.

Old Speckled Hen is a trusted and much loved brand whose gluten free version swiftly rose to become market leader when it launched in 2017 and we are confident that Old Speckled Hen Low Alcohol will achieve just that in this market category.”

Matt Starbuck
Managing director,
Brewing & Brands

£48.6m
value of no and low alcohol beer sector[1]

1. According to Nielsen data.

FOCUS ON SOCIAL MOBILITY

LAUNCHING THE STEPPING UP REPORT

In January 2019, we launched The Stepping Up Report, challenging the barriers of social mobility and providing a commitment to create the best opportunities for individuals from all backgrounds in the hospitality sector.

Launched at a reception in Parliament and supported by Education Secretary Damian Hinds, the report comes as the prominence of social mobility as an issue continues to rise in the UK.

In the report, we set out five ambitions to encourage greater social mobility:

1. **Launch Releasing Potential, a new employment programme for ex-offenders.** Working with the Ministry of Justice, the charity Only A Pavement Away and partners Novus, Clean Sheet and Sodexo, we will support 50 individuals in the first year.
2. Deliver a new commitment to support **20,000 apprentices** by 2022.
3. Become the first hospitality company to become **a signatory to Business in the Community's Race at Work Charter.** This will see the appointment of an Executive Sponsor for Race, working towards the capturing of ethnicity data and acting to support the career progression of ethnic minorities.
4. Pledge to increase **internal appointments to pub general manager** from 64% to 80%.
5. **Extend our partnership with The Prince's Trust** for a fourth year with a target to increase the number of people being offered a permanent role after successful completion of the 'Get Into Hospitality' programme from 61% to 75%.

TYLER MARKARIAN, CHEF AT THE DOG & PARTRIDGE IN BURY ST EDMUNDS, HAS SPOKEN ABOUT HIS EXPERIENCE OF WORKING AT OUR PUBS SINCE LEAVING PRISON. HE IS PASSIONATE ABOUT CREATING DISHES PEOPLE ENJOY AND HE IS DEVELOPING HIS CAREER BY TAKING ON A GREENE KING APPRENTICESHIP.

Tyler Markarian
Apprentice

OPERATIONAL REVIEW – PUB COMPANY

PUB COMPANY

OUR PUB COMPANY DIVISION OPERATES A RANGE OF FOOD-FOCUSED DESTINATION PUBS AND RESTAURANTS, COMMUNITY FOCUSED LOCAL PUBS AND A VARIETY OF HOTELS.

OUR FOCUS ON OUR FOUR KEY BRANDS CONTINUES TO DRIVE SALES GROWTH AND ENHANCED CUSTOMER ENGAGEMENT WHILE DELIVERING ECONOMIES OF SCALE AND EFFICIENCIES.

REVENUE
£1,799.2m
+1.8%

EBITDA[1,2]
£365.8m
+0.8%

OPERATING PROFIT[1,2]
£272.9m
+1.8%

OPERATING PROFIT MARGIN[1,2]
15.2%
flat

62.5%
NPS

+20%
ONLINE BOOKINGS

73
CONVERSIONS COMPLETED

Pub Company revenue was up 1.8% despite a 2.5% reduction in the average number of pubs trading from 1,754 to 1,711. LFL sales were 2.9%, ahead of the market, driven by strong drink sales and improving food sales, and AWT was up 4.1% to £20.2k. Operating profit was up 1.8% to £272.9m resulting in an operating profit margin of 15.2%, flat on the previous year, despite the external cost pressures. This was driven by the strong LFL sales growth and the successful cost mitigation programme.

Since the acquisition of Spirit in 2015, when we operated around 14 brands, we have consolidated our managed pubs portfolio around four key brands. Our focus on Greene King Locals, Chef & Brewer, Farmhouse Inns and Hungry Horse continues to drive sales growth and enhanced customer engagement while delivering economies of scale and efficiencies.

Our programme to improve the VSQ of our offer has boosted LFL volumes significantly. We are targeting more compelling and consistent pricing that our customers can rely on and trust, avoiding the high-low discounting that has been prevalent in the industry. Using labour deployment optimisation software we are making sure that we are resourced more appropriately throughout the week, maximising sales opportunities at busier times. In addition, we have maintained our commitment to investing in training to ensure our team members deliver excellent service more consistently to our customers. We have also improved the quality of our leading dishes and rolled out updated perfect drinks serving guidelines to capitalise on the appetite for premium drinks.

This commitment to enhancing VSQ, along with the focus on our four core brands, led to a 3.5%pt rise in Pub Company NPS to 62.5%, while our average TripAdvisor score was up 4.5% with food, service and value measures all in growth. Our brands rank in top positions for value, food and drink quality, menu choice and service, as voted by customers, with Farmhouse Inns maintaining its position as best for overall pub experience (MCA Pub Brand Monitor Q4 2018).

Our Greene King Local pubs delivered LFL sales up 4.6% with the brand's predominantly drink-led offer benefiting from the good weather and the World Cup. Chef & Brewer, our mid-market food-led pub brand, performed well with particularly strong LFL sales growth of 15.3% over the Easter weekend and strong returns on core capex investment. Farmhouse Inns, our suburban and out of town carvery brand, was negatively impacted by the good weather but saw strong breakfast growth of over 30% as well as improvements in service metrics following a focus on weekend labour deployment. Hungry Horse saw good LFL sales growth, particularly in drinks sales, as we invested more in drinks ranging and sports capability.

Delivering an improved customer experience through digital innovation is important for driving continued growth. Online bookings grew 20% year-on-year while Season Ticket subscribers increased to 200,000, aided by a full app roll out in May to maximise impact during the World Cup. Following a review of our Order & Pay trial, we moved the focus of the roll-out to Hungry Horse where we believe customer behaviour will better align to the app than in Greene King Local pubs. We also invested in digital tools to increase the productivity of our team members, distributing tablets to all Pub Company general managers to make administrative duties easier to complete without distracting them from customer-facing activities.

The ongoing cost mitigation programme was primarily focused on Pub Company and we made good progress delivering sustainable procurement savings, on labour productivity and efficiencies, and reducing non-direct costs.

We maintained a consistent core capex cycle of five to six years in Pub Company and spent £88.7m in core capex, covering 192 managed pub developments. Our active estate management programme saw 73 conversions completed, delivering EBITDA returns of 31.3%. We disposed of 46 managed pubs, generating proceeds of £26.6m, and we completed five new builds under the Farmhouse Inns brand and added four single site acquisitions, of which three will open in the new financial year. In addition, four pubs were transferred from Pub Partners to Pub Company, delivering an annualised return of 30.2%. We will continue to explore internal transfers as part of our ongoing estate optimisation programme.

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 174 of this annual report.

OPERATIONAL REVIEW – PUB PARTNERS

PUB PARTNERS

PUB PARTNERS HAS A HIGH QUALITY PORTFOLIO OF MAINLY DRINK-LED PUBS WHICH ARE RUN AS TENANTED, LEASED OR FRANCHISED PUBS, FOCUSED ON OPTIMISING VALUE FROM EACH PUB.

IT OFFERS TENANTS A RANGE OF DIFFERENT AGREEMENT TYPES DESIGNED TO ALIGN THE INTERESTS OF GREENE KING WITH THOSE OF ITS LICENSEES, THEREBY INCREASING LICENSEE TENURE.

REVENUE
£190.1m
-2.0%

EBITDA[1,2]
£97.2m
-4.0%

OPERATING PROFIT[1,2]
£87.1m
-4.7%

OPERATING PROFIT MARGIN[1,2]
45.8%
-1.3%pts

11

PUBS TRANSFERRED FROM PUB COMPANY

87%

LICENSEES CONFIDENT IN THEIR BUSINESS

13,000

DELEGATES ATTENDED OUR TRAINING PROGRAMMES

In Pub Partners, we have a high quality portfolio of 1,043 mainly drink-led pubs. It generates significant and stable cash flow for the group, adds purchasing scale, enhances the Greene King brand and provides flexibility in our estate planning. The success of Pub Partners is built on our ambition to have the best proposition in the market combined with unrivalled people capability and a focus on optimising value from each of our pubs.

Pub Partners revenue was down 2.0% to £190.1m, driven by the 5.0% decrease in the average number of pubs trading. LFL net income was up 1.5%, boosted by higher rental income and beer sales. LFL net profit was down 0.3%, impacted by increased central costs.

The high quality of our Pub Partners estate has been maintained through ongoing estate portfolio management and disciplined capital allocation. We disposed of 70 non-core pubs, generating proceeds of £49.1m, added one single site acquisition and we invested £18.7m in the core estate. In addition, 11 pubs were transferred from Pub Company to Pub Partners.

We have several different agreement types in place designed to best align the interests of Greene King with those of its licensees and support long and successful tenures. Since the implementation of the Pubs Code in 2016, we have had five licensees take up a Market Rent Only agreement. Meanwhile, our average licensee tenure increased to six years and two months, reflecting the strong relationships we build with our licensees. We were pleased that, when surveyed earlier this year, 87% of our licensees felt confident in their business.

The development of both our licensees and our support teams is critical. We continued to invest in training our licensees, supporting over 1,300 delegates through programmes over the year. We are also working on improving our licensee engagement through more regular listening groups and area meetings. We recently completed a restructure of the support centre, reducing the average number of pubs each Business Development Manager (BDM) is responsible for by 17%.

We continued to improve sales and efficiencies at our licensees' pubs, helping to drive the average EBITDA per pub up 1.0% to £89.8k. We are providing 11% of our Pub Partners pubs with food through the Greene King supply chain and 30% are signed up to our digital services package for online purchasing. In addition, 24% of our operators currently use our Sports Club package, delivering customer promotions for sports events.

We were delighted that The Red Lion & Sun in Highgate was awarded the 'Pub of the Year' and 'Best Wine Pub' at the Great British Pub Awards and the Crown in Carlisle was awarded 'Best Turnaround Pub'. In addition, two of our Pub Partners pubs were included in Estrella Damm's Top 100 Restaurants in the UK this year.

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 174 of this annual report.

OPERATIONAL REVIEW – BREWING & BRANDS

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 COMMITMENT TO CONSISTENT INVESTMENT IN OUR CORE ALE BRANDS HELPED THEM WIN MARKET SHARE AND MAINTAIN THEIR UK MARKET-LEADING INVESTMENT.

REVENUE
£227.6m
+5.8%

EBITDA[1,2]
£33.2m
-7.8%

OPERATING PROFIT[1,2]
£27.4m
-10.7%

OPERATING PROFIT MARGIN[1,2]
12.0%
-2.3%pts

CORE BRANDS

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.

Total beer volumes were up 0.9%, boosted by the good weather and successful World Cup, and revenue in Brewing & Brands was up 5.8%, reflecting the stronger sales contribution from foreign beers and the trend towards premium beers. OBV was down 3.4% against an ale market down 4.1% and a cask ale market down 8.1% (source: BBPA, April 2019). Operating profit was down 10.7% and the operating profit margin was down 2.3%pts, reflecting the estate rationalisation, increased costs, the lower production volumes through our breweries and the impact of this on brewing efficiency. As we exited the year, costs were being realigned to these lower volumes.

Greene King's core brands maintained their UK market leading positions. Greene King IPA continues to be the fastest selling top 10 cask ale brand in the on-trade. Abbot Ale saw strong volume growth of 9.6% and remains the number one premium cask ale brand in the on-trade and the fourth largest ale brand in the UK. Old Speckled Hen is the number one premium ale brand in the UK with the highest brand awareness in its category. This year, we launched Low Alcohol Old Speckled Hen and we gained distribution in 1,300 take home outlets and 2,000 pubs, positioning it for strong growth next year. Belhaven Best remains the number one draught ale brand in Scotland and number four keg ale brand in the UK. In addition, East Coast IPA continued its strong growth with total volume growth of 10%, making it the fastest growing of the top ten ale brands and the sixth largest craft beer brand in the UK.

We were appointed the exclusive UK distributor for Estrella Galicia this year, supplying the core brand and its 0.0% abv and gluten-free variants, as well as 1906 Reserva Especial and 1906 Black Coupage.

Our market leading portfolio is underpinned by a disciplined brand investment programme. Greene King IPA continues to be the Official Beer of England Cricket and puts its name to the Greene King IPA Championship in rugby. To mark Belhaven brewery's 300th birthday, we are investing in upgrading the visitor experience and relaunched Belhaven's award-winning Twisted Thistle IPA. We also launched a new Greene King brewery website, featuring a 3D virtual tour of the Westgate brewery in Bury St Edmunds.

We were pleased to receive several awards in recognition of our beers and our ongoing innovation in brewing: Low Alcohol Old Speckled Hen won a Monde Silver Award for quality; Twisted Grapefruit IPA was named Beer of the Year at the annual Scottish Beer Awards; Intergalactic won a gold medal at the World Beer Awards; and we won silver awards for Twisted Thistle IPA and Belhaven Black. Yardbird Pale Ale was named the best ale at the Grocer Drink Awards, winning the gold award in the Ale & Others category. In addition, our new head brewer Ross O'Hara qualified as a Master Brewer with the Institute of Brewing and Distilling, making him the youngest Master Brewer in the world.

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 174 of this annual report.

CORPORATE SOCIAL RESPONSIBILITY – AT A GLANCE

OUR OVERALL MISSION IS TO BE THE BEST PUB AND BEER COMPANY IN BRITAIN IN THE EYES OF OUR MAIN STAKEHOLDERS AND WITHIN THIS, CORPORATE SOCIAL RESPONSIBILITY (CSR) PLAYS AN IMPORTANT PART.

Our commitment to each of our main stakeholders has helped us grow from a regional Suffolk brewer into the leading pub and beer company that we are today. Through the four pillars of our CSR strategy we will continue to drive the long-term sustainability of our business.

LAST YEAR:

Raised for Macmillan Cancer Support

£1.43m

Young people in our 'Get into Hospitality' programme

110

Pubs awarded four or five star rating for food hygiene

1,660

Spent on training and development

£3m

OUR CSR STRATEGY IS BUILT ON FOUR CORE PILLARS:

PUTTING OUR PEOPLE FIRST

Developing people who exceed expectations

We pride ourselves in investing in our people. Attracting, retaining and developing our people is at the forefront of everything we do.

38,000

TEAM MEMBERS

MORE INFORMATION ON PAGES 34 TO 37

SUPPORTING OUR LOCAL COMMUNITIES

Making a difference to local communities we serve

Our pubs are at the heart of the community and provide support for local charities and causes as well as our national charity partner, Macmillan Cancer Support.

£1m

DONATIONS VIA PENNIES

MORE INFORMATION
ON PAGES 38 TO 39

OPERATING SUSTAINABLY

Operating in a more sustainable way

As one of the country's largest pub and beer companies we have a responsibility to the environment to champion sustainability and this year we have made solid progress.

12m

PLA STRAWS TURNED INTO COMPOST

MORE INFORMATION
ON PAGES 40 TO 43

DRIVING RESPONSIBLE RETAILING

Driving the responsible retailing agenda

We understand the importance of providing our customers with a wide choice of food and drink so they can make healthier decisions when dining or drinking with us.

35%

SUGAR REDUCTION IN APPLE CRUMBLE

MORE INFORMATION
ON PAGES 44 TO 46

CORPORATE SOCIAL RESPONSIBILITY – PUTTING OUR PEOPLE FIRST

WHAT WE FOCUS ON

AT GREENE KING WE PRIDE OURSELVES ON INVESTING IN OUR PEOPLE.

We are a leading UK employer, with around 38,000 team members working in our pubs, restaurants, hotels, breweries, distribution centres and offices across the country. Talent attraction, retention and development are at the forefront of everything we do and by providing a great place to work, we are creating a sustainable future for our business.

38,000

PEOPLE EMPLOYED

62%

EMPLOYEE ENGAGEMENT SCORE

"

Apprenticeships provide the opportunity to learn and earn. We offer apprenticeships up to Level 5, which is equivalent to a Higher National Diploma, and have seen time and time again our people move from a stop-gap job serving behind the bar to developing their career to become a general manager."

Graham Briggs
Head of apprenticeships

RECRUITING THE WORKFORCE OF THE FUTURE

We have a strong recruitment programme that is built on our recognised brand, our excellent nation-wide estate and our value proposition as one of the leading UK employers. We are passionate about providing employment opportunities in the communities we serve and helping to drive social mobility through talent attraction, development and retention.

APPRENTICESHIPS

We value the role apprenticeships play within our business, providing our people with excellent training and giving us fantastic, motivated and skilled employees.

Since its inception, our apprenticeship programme has supported over 11,500 apprentices with 95% of our pubs having benefited from the scheme and 60% of our pubs with an apprentice currently in training. The programme continues to attract high levels of applicants and 1,911 apprentices joined the scheme this year. We were pleased to win six awards over the last 12 months in recognition of our success.

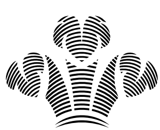
- 2,151 learners are currently on the programme.
- 1,911 apprentices started this year.
- Over 11,500 people benefited from apprenticeships so far.
- Over 25% of our learners have additional learning support needs and a large proportion started an apprenticeship with grades lower than five GCSEs (A-C).

THE PRINCE'S TRUST

We have worked with over 300 young people since our Get into Hospitality programme with The Prince's Trust was launched in 2016.

The three week programme helps 16–30 year olds receive work experience with an end goal of each student having the required skills to help them gain a job. Where successful with employment with us, they have the opportunity to enrol onto our apprenticeships scheme.

In 2018, we were the first company to launch "Get into Hospitality Now"; a shorter programme with The Prince's Trust. The two day programme invites young people who are ready to work but unable to get a job, to gain valuable work experience and so far 49 candidates have taken part.



WORKING WITH EX-OFFENDERS

Greene King is taking a proactive role in employing ex-offenders with hospitality and catering experience and/or qualifications from their time in prison.

Working with charities NOVUS and Only a Pavement Away, the programme is specifically designed to create a clear pathway for ex-offenders returning back into the community to access a range of employment opportunities with Greene King.

MORE INFORMATION ON PAGES 24 TO 25

CORPORATE SOCIAL RESPONSIBILITY – PUTTING OUR PEOPLE FIRST

CREATING A GREAT PLACE TO WORK

WE UNDERSTAND THE IMPORTANCE OF CREATING A GREAT WORKPLACE FOR OUR PEOPLE.

WELLBEING

Our commitment to our people and to being one of the UK's leading employers means investing in our team members' wellbeing.

For the third year running, Wellbeing Week was held at our support centres in Bury St Edmunds and Burton on Trent. The week promotes and educates team members on their physical, social and emotional wellness, and includes workshops, health promotion activities, webinars and advice from a variety of wellness experts. We have successfully launched the 'Shine' programme throughout Greene King for all our leaders with a modular programme harnessing resilience, mental and emotional wellness to include all aspects of both work and home life.

YOUR VOICE

In a bid to create strong and positive two way conversations between our teams and leadership team, we launched 'Your Voice'.

This communications and engagement forum is chaired by members of the operating board and senior leadership team and encourages our teams to discuss things that matter to them via their own business unit representatives.

LGBT+ NETWORK

Greene King's LGBT+ Network, The Village Greene, was officially launched in April at the City of Quebec in London, which is one of London's oldest gay-friendly pubs.

The Village Greene was set up to create a community of like-minded team members to share experiences, provide support and help the business in promoting diversity.

TEAM 47

Team 47 has been created to help women within Greene King to network with each other and help to grow women's careers, ensuring they are represented at all levels of the company.

The number 47 represents the percentage of women who make up Greene King's workforce.

LEARNING AND DEVELOPMENT

We spent over £2.6m in the continuous learning, training and development of our people.

One area of focus has been to make sure we give our teams a great start through our enhanced and blended learning inductions. Induction participation and engagement was up to 93 %, which is a rise of 23% in less than two years. After the successful launch of our online learning platform TAP in 2017, we have seen a significant increase in the number of online training hours this year to 311,660 and looking forward this engagement is only set to continue. Examples of learning and development programmes currently in place include:

- **Talent Toolkit** – general managers have access to innovative learning tools to easily identify the development opportunities for them and their teams.
- **TAP** – global leading online platform for learning, training and development powered by Cornerstone.
- **Greene Kingdom** – innovative learning modules supporting our people in both their work and personal lifestyles.
- **Shine** – wellbeing initiative for our leaders throughout Greene King.

DIVERSITY AND INCLUSION

We promote an environment in our pubs, restaurants, hotels, breweries and offices 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, beliefs, ethnic or national origin, sex, marital or civil partnership status, gender reassignment (whether proposed, started or completed and under or not under medical supervision), disability or past disability, part-time or fixed-term status, pregnancy or maternity, parental responsibilities, sexual orientation or age (a protected characteristic).

GENDER PAY GAP

We are committed to fairness, inclusion and equality for all our team members. While some of the figures have improved from our 2017 report, we recognise that we still have more to do to enable women to progress into more senior roles and narrow our gender pay gap. We will make progress by:

- Continuing to develop our diversity and inclusion strategy, including appointing an executive sponsor from the business.
- Implementing the key actions from the diversity and inclusion strategy, in line with the agreed timelines, to support not only women but other currently under-represented groups.
- Continuing to review our talent and succession and reward and progression related processes and provide line managers with guidance to ensure that decisions are free from unconscious gender bias.

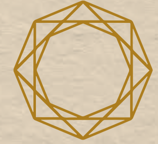
We are proud that 40% of our pub general managers are women but we know that this is not reflected at the more senior regional business development manager level. Feedback from our colleagues says that this is due to the requirements of the job, including covering a wide geography which can make it difficult to balance family commitments. We have worked to address this, including reducing the size of the area covered by our BDMs and are pleased to see an improvement in the number of females being appointed to these roles, up 8% since the end of the reporting period.

	Greene King Combined		Greene King Retail Services		Greene King Services	
	Median	Mean	Median	Mean	Median	Mean
Gender pay gap	1.0%	13.5%	0.0%	3.1%	9.4%	14.5%
Gender bonus gap	52.9%	19.7%	40.0%	-38.7%	6.2%	42.7%

TARGETS FOR THE NEXT 12 MONTHS

- Support 50 ex-offenders through the Releasing Potential Programme
- Increase support for internal career progression from 64% to 68%
- Extend partnership with The Prince's Trust
- Launch diversity and inclusion policy

AWARDS & RECOGNITION



PRINCESS ROYAL TRAINING AWARDS

2018 Princess Royal Training Awards Social Mobility Award for Best Recruitment 2018 – (Apprenticeship Programme and Princes Trust)

Training Journal Awards:

Best Apprenticeship Programme 2018

Best Training Partnership 2018 (with our apprenticeship provider)

Top 100 Apprenticeship Employer by Rate My Apprenticeship – survey by our own apprentices

Best Apprentice / School Leaver Recruitment Strategy

CORPORATE SOCIAL RESPONSIBILITY – SUPPORTING OUR LOCAL COMMUNITIES

WHAT WE FOCUS ON

OUR PUBS ACT AS HUBS FOR THEIR LOCAL COMMUNITIES, OFFERING A PLACE TO SIT, SOCIALISE AND MAKE A DIFFERENCE TO LOCAL SERVICES AND GOOD CAUSES.

Alongside running social and community events, our pubs hold fundraising events and provide support for local charities that are important to their team members and customers. In addition, our pubs' fundraising activities have been the beating heart behind our national charity partnership with Macmillan Cancer Support, which this year celebrated having raised more than £5 million since 2012.

£1,437,990

RAISED FOR MACMILLAN, BRINGING OUR OVERALL TOTAL TO £5.6M

We understand that raising so much money is not achieved without an incredible amount of hard work, so on behalf of Macmillan and those we help – thank you Greene King. You are helping to make a real difference to the lives of people living with cancer."

Rachel Gascoigne
Senior partnership manager, Macmillan Cancer Support

MACMILLAN CANCER SUPPORT

SUPPORTING PEOPLE LIVING WITH CANCER AT CHRISTMAS

Our food development team partnered with Macmillan dieticians to compile ten Christmas recipes adapted to suit people living with cancer.

Difficulties eating can relate to cancer itself, such as weight loss or poor appetite, or the side effects of treatment such as changing tastes. The recipes aimed to provide solutions at Christmas time when food and cooking is so important to so many people.

We welcomed a group of people living with cancer for a cookery experience to test out the recipes at our development kitchen in Burton on Trent, to effectively support employees affected by cancer.

OTHER ACHIEVEMENTS INCLUDE

- **Macmillan May 2018** – Record breaking fundraising month, raising £371,000
- **We Love Macmillan Nurses in September 2018** – fundraiser to complement Macmillan's World's Biggest Coffee Morning raised £165,000

A step change in our fundraising activity this year has been the launch of Pennies, the digital charity box. Customers who are paying for a bill over £15, via chip & pin, are invited to make a voluntary 25 pence donation with 90% going to Macmillan and 10% to Pennies. We have had over one million individual donations and raised £215,000 through this scheme this year and project to raise over £1 million next year.

Beyond our fundraising activity, we continued work on our Macmillan at Work training programme, designed to give line managers and HR teams the tools and information to effectively support team members affected by cancer.

FIRST WORLD WAR CENTENARY

Flanders Fields, the official beer of The Royal British Legion's campaign marking the centenary of the end of World War One, was brewed in collaboration with former servicemen and women. It raised £32,961 for The Royal British Legion.

OTHER CHARITIES

We continue to support Pub is the Hub and this year donated £30,000 towards its Community Services Fund, supporting rural pubs who want to diversify their services for the benefit of their communities. This is the sixth year Greene King has given to the fund, bringing the total donated to £100,000.

We are passionate about supporting local communities and this year supported more than 100 local causes close to our head office and pub company support centre, through raffle prize donations and event sponsorship.

AWARDS & RECOGNITION

Better Society 2017 AWARDS

Awarded Highly Commended in the Better Society Awards

TARGETS FOR THE NEXT 12 MONTHS

- Raise £2m for Macmillan
- Continue drive for Macmillan May
- Embed Macmillan at Work

CORPORATE SOCIAL RESPONSIBILITY – OPERATING SUSTAINABLY

WHAT WE FOCUS ON

WE ARE PASSIONATE ABOUT OPERATING IN A SUSTAINABLE WAY WITHIN OUR ENVIRONMENT BOTH LOCALLY IN OUR PUBS AND BREWERIES, TO NATIONALLY AND BEYOND, AND SUSTAINABILITY IS CENTRAL TO OUR CSR STRATEGY.

We have focused on reducing waste and energy and have made good progress this year.

Our industry-leading closed loop solution to tackling single use plastic straws has been a big step forward for us this year and we are proud to have turned 12 million PLA straws into compost.

Some of the things we have done this year include conducting 411 pub energy audits in partnership with British Independent Utilities to ensure we have best practice in reducing energy, introducing a kitchen behaviour programme to ensure we have optimum controls in place and successfully completing a 'Smart Cellar' rollout, reducing the energy used by our main cellar chillers.

WASTE STATISTICS

11,674
TONNES OF FOOD DIVERTED TO ANAEROBIC DIGESTION TO GENERATE ENERGY

1 tonne of food waste will generate 300kWh of energy. Greene King has produced 3,502,200 kwh of electricity. This is enough electricity to power 10,507 UK homes for a month (based on an average consumption of 4000 KWH p/a).

3.33m
LITRES OF USED COOKING OIL CONVERTED TO BIODIESEL

57
TONNES OF TIN RECYCLED

20,156
TONNES OF GLASS RECYCLED

676,313
PINTS OF WATER SAVED PER DAY

5,169
TONNES OF CARDBOARD RECYCLED

761
TONNES OF MIXED PLASTIC RECYCLED

WATER

Obtaining a Water Supply and Sewerage Licence in 2017 gave us the control and transparency to continue reducing the water we use via accurate and correct water data.

By benchmarking our estate and being able to spot and remedy leaks quickly and effectively, we've been saving 676,313 pints per day.

FOOD WASTE INNOVATION

In April, we became first pub company to join forces with Too Good To Go, a free app designed to help businesses reduce food waste across the country by offering customers surplus carveries at a discount at the end of the day.

The partnership saw all 111 Farmhouse Inns and Greene King Pub and Carveries get on board with the app.

Too Good To Go enables customers to save meals towards the end of the business' day from going to waste. Meals are typically half price or less, with the Greene King carveries costing from only £3.29.

PLASTIC

In February 2018, we removed plastic straws from our bars, only providing them on request and ensured used straws were recycled. We also removed all plastic stirrers and single use plastic cups. We saw a 60% reduction in the straws used, saving 18 million a year.

In August, we introduced compostable PLA straws, across our entire managed pub estate. Thought to be an industry first, the scheme will remove 30 million plastic straws from use every year.

We worked with waste partner, SWRnewstar, to find a unique closed loop solution whereby the PLA straws are segregated in the pub, taken back through the supply chain and decomposed in an 'In Vessel composter' at a commercial composting facility.

PLA, which is made from plant-based materials, decomposes naturally in a controlled composting environment in as little as 12 weeks. The decomposed straws will be recycled into nutrient-rich soil which can be used to fertilise plants and crops.

30 million
PLASTIC STRAWS REMOVED FROM USE

CORPORATE SOCIAL RESPONSIBILITY – OPERATING SUSTAINABLY

Insulated jackets for draught beer robots

CREATING GREENER BREWERIES AND OFFICES

Brewing & Brands

Our brewing, packaging and distribution activities in Bury St Edmunds are certified to the international standard for Environmental Management Systems (ISO 14001:2015), which demonstrates our commitment to continual improvement in our environmental practices.

Water

Water saving and re-use initiatives are continually evaluated as part of Greene King's production and packaging activities. A project to re-use chiller water back into the cask washer has resulted in savings of approximately 500 cubic metres of water per week, which is equivalent to the amount three average family households use in a year.

Energy and carbon

A warm up routine and insulated jackets were implemented onto our draught beer robots, to enable them to continue operating efficiently during cold weather. This is forecast to save over 200,000kWh per annum.

Greener Thinking Forum

Our Greener Thinking Forum is supported by team members representing departments across the business in the bid to find greener ways of operating. The Forum pushed for the removal of non-recyclable cups from the offices' waste streams and to date this has prevented around 80,000 cups ending up as waste.

$500m^3$

OF WATER SAVED PER WEEK VIA WATER CHILLER

80,000

NON-RECYCLABLE CUPS SAVED

AWARDS AND RECOGNITION

Finalist in the Best Sustainable Pub Company category

Better Society 2017 AWARDS

Shortlisted for the Waste Management and Recycling Programme of the Year

FOOTPRINT AWARDS

Shortlisted for the Waste Prevention & Waste Management Award

waste2zero
FOODSERVICE WASTE MANAGEMENT & PREVENTION AWARDS

Best Product, Technology and Innovation category

GREENHOUSE GAS EMISSIONS

CO_2 emissions by type	Source of emissions	2018/19 tonnes of CO_2e	2017/18 tonnes of CO_2e
Direct emissions Scope 1	Natural gas	64,209	65,247
	Gas oil	570	760
	Kerosene	302	367
	LPG	4,134	3,943
	Red diesel	54	58
	Refrigerants	3,837	3,979
	Owned vehicles	8,052	8,942
Total direct emissions Scope 1		81,158	83,297
Indirect emissions Scope 2	Electricity	93,983	116,912
Gross emissions		175,140	200,209
Turnover in Pub Company and Brewing & Brands (£m)		2,026.8	1,982.8
Tonnes CO_2e per £100k turnover		0.086	0.101

The table above, which has been produced in compliance with the requirements of the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013, shows the main greenhouse gas emissions in tonnes of CO_2 equivalent (CO_2 e) 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 (2017 for 2017/18 and 2018 for 2018/19). 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 (2017 for 2017/18 and 2018 for 2018/19).

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.

TARGETS FOR THE NEXT 12 MONTHS

- Convert all non-customer facing areas to LED lights
- Remove single use plastics from Christmas crackers
- Introduce technology to analyse and reduce food waste in our pubs
- Introduce endotherm chemicals to reduce energy for heating
- Extend food distribution with charities Fareshare and the Felix Project to give unused food to those in need

CORPORATE SOCIAL RESPONSIBILITY – DRIVING RESPONSIBLE RETAILING

WHAT WE FOCUS ON

AS THE COUNTRY'S LEADING PUB RETAILER, WE RECOGNISE OUR RESPONSIBILITY TO PROVIDE OUR CUSTOMERS WITH A WIDE CHOICE OF FOOD AND DRINK.

By doing this, they can choose healthier options such as vegan dishes and low-alcohol beer. We also label our products clearly with allergen and calorie information.

CATERING TO OUR CUSTOMERS' NEEDS

NUTRITION AND ALLERGENS

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.

GLUTEN

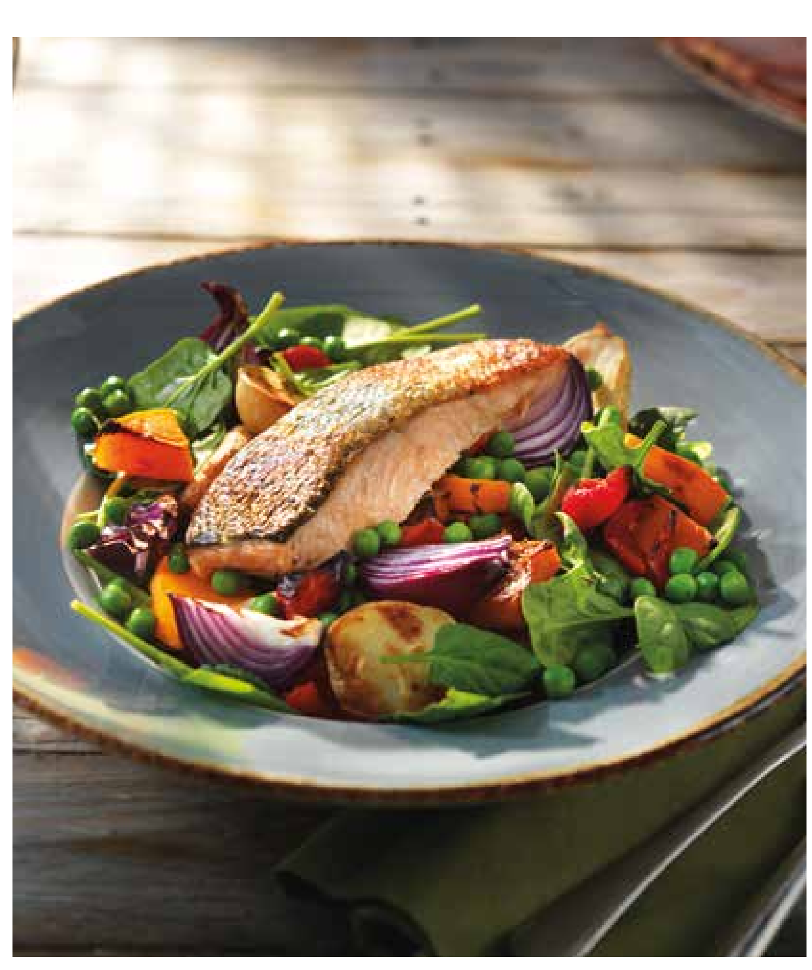
As part of our spring summer 2019 menu cycle, all of our menu brands across the estate now have no-gluten containing ingredient menus.

REFORMULATION

We have carried out a number of reformulation projects with our suppliers to reduce the sugar content of the dishes on our menus, in line with Public Health England's sugar targets.

Our main focus areas were ice creams, sweet sauces and popular dessert items. We have been successful in reducing the sugar content of our vanilla ice cream by 5%, our chocolate sauce by 10% and toffee sauce by 15%.

We have also been successful in achieving a 35% reduction in sugar content for our Apple Crumble, a 20% reduction for our Vegan Chocolate Torte, and a 10% reduction in sugar content for our Triple Chocolate Brownie product – we aim to achieve further reductions with our Triple Chocolate Brownie product over the next year.



PROVIDING CHOICE AND INFORMATION

We continue to show calorie labelling on some of our menus and highlight where healthier swaps can be made.

Full allergen information of all of our meals continues to be accessible from a member of the team at pub level, as well as on our branded websites.

We are currently looking to invest in improving further our allergen information and improve the presentation of our data for our customers both digitally in pub and on our websites.

VEGAN DISHES

In order to cater for the sustained popularity of vegan diets, we have continued to challenge our suppliers to provide new and innovative products to progress onto our menus as vegan dishes.

A number of our brands, for example Pub & Dining and Farmhouse Inns, now have dedicated menus or sections for our vegan diners, assisting our vegan guests in navigating to the dish selection available to them.

CORPORATE SOCIAL RESPONSIBILITY – DRIVING RESPONSIBLE RETAILING

CHILDREN'S MENUS

We continue to implement our Children's Menu Guideline Report, which was devised last year by our nutrition team, to improve the dish selection available on our children's menus.

We have reviewed our children's menu offerings across the estate. The following improvements have been achieved:

- Introduction of reduced sugar product lines in order to ensure sugar reduction for our dessert dishes in particular.
- A complete portion size review of all dishes, ensuring all brands have appropriate portion sizes for children up to eight years of age and over.
- Five a day labelling on our children's menus, identifying key products such our children's pizza as an option for our young guests to enjoy one of their five a day through the addition of vegetables in the pizza sauce and topping.
- Implementing 'Pick & Mix' selections throughout all of our children's menus in order to ensure all parents are able to make decisions on the dishes they wish to select when choosing to dine with us.
- Improvement of the menu messaging and imagery used on our menus in order to encourage healthier meal selections.

DESIGNATED DRIVER

For the ninth year in a row over 1,000 of our pubs took part in an annual Christmas anti-drink drive campaign with Coca-Cola, by offering nominated drivers free soft drinks.

LABELLING

Our brewing division is changing its packaging to reflect the Chief Medical Officer's 14 units per week for both men and women, ahead of the deadline in October. We changed this information on the Enjoy Responsibility website in 2016.

ENJOY RESPONSIBLY

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

SUGAR TAX

The Government launched its Soft Drinks Industry Levy in 2018, making this the first year we have worked with the 'sugar tax'.

In a bid to offer our customers more options, we have launched vitamin based waters on our children's menus as well as slim-line/diet alternatives where possible on our bars. This year we launched Coke Zero on tap in an extra 500 pubs.

FOOD STANDARDS IN OUR PUBS

We are proud that, out of the 1,551 Greene King managed pubs in England and Wales, 1,516 (97.7%) were awarded a four or five-star rating by their local authority and 97.6% 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.

See also the information on Old Speckled Hen Low Alcohol on page 22

TARGETS FOR THE NEXT 12 MONTHS

- Continue to reformulate our menus to reduce the content of sugar, salt and calories
- Improve the way we communicate allergen information
- Make further improvements to our children's menus to increase choice and signpost healthier options

NON-FINANCIAL INFORMATION STATEMENT

In accordance with the new non-financial reporting requirements as set out in sections 414CA and 414CB of the Companies Act 2006, certain information on environmental, employee and social matters is set out in the annual report. The strategic report contains reference to our policies, due diligence processes and information on how we are performing on various measures in these areas. Pages 54 to 57 contains information on our principal risks and uncertainties and pages 18 to 19 sets outs our non-financial key performance indicators. For the five areas covered by the new requirements, signposts to further information in relevant sections of the annual report are outlined below.

ENVIRONMENT

- Operating sustainably including greenhouse gas emissions – corporate social responsibility report – pages 40 to 43.

EMPLOYEES

- It is our policy to ensure that employees are selected, recruited, developed, remunerated and promoted on the basis of their skill and suitability for the work performed. The company is committed to treating all employees fairly and equally and will endeavour to provide workplace adaptions and training for employees or candidates who have a disability and colleagues who become disabled during their employment.
- Putting our people first – corporate social responsibility report – pages 34 to 37.
- Diversity and inclusion – corporate social responsibility report – page 37.
- Gender pay gap reporting – corporate social responsibility report – page 37.
- Gender diversity:

	Female	Male
Directors	1	6
Senior managers	46	141
All employees	20,601	17,807

SOCIAL MATTERS

- Business model relationships – our business model – pages 12 to 13.
- Driving responsible retailing – corporate social responsibility report – page 44 to 46.
- Alcohol – corporate social responsibility report – page 46 and www.greeneking.co.uk/enjoy-responsibly.

HUMAN RIGHTS

- 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 team members 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 whistleblowing policy for our team members encourages them 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 external supplier email or hotline and no significant issues were raised through these during the year.
- Modern Slavery Statement – www.greeneking.co.uk/modern-slavery-statement.
- Data privacy notice – the company has paid particular attention to embedding data privacy into the company's ways of working through a governance committee, incident management, training and awareness, quality control and a change programme that focuses on privacy by design and default. For an explanation of how the company uses personal data see the privacy notice at www.greeneking.co.uk/privacy.

ANTI-CORRUPTION AND ANTI-BRIBERY

- This year we have released new anti-bribery training for our support centre staff and pub managers, who have been encouraged to take part in the short online training programme via our online development platform TAP. The session goes through the law and responsibility each team member faces.
- We have updated our gifts and hospitality policy and all gifts must be recorded on a central database. Gifts over £250 also require line manager's approval and anything more than £5,000 requires permission from the chief executive.

CHIEF FINANCIAL OFFICER'S REPORT

FREE CASH FLOW WAS £86.1M AFTER CORE CAPITAL EXPENDITURE AND THE PAYMENT OF THE DIVIDEND."

INCOME STATEMENT

£ million	52 weeks ended 28 April 2019	52 weeks ended 29 April 2018
Revenue	2,216.9	2,176.7
Adjusted operating profit[1]	368.2	373.1
Adjusted net finance costs[1]	(121.3)	(130.1)
Adjusted profit before tax[1]	246.9	243.0
Exceptional and non-underlying items	(74.1)	(45.5)
Profit before tax	172.8	197.5

Revenue was £2,216.9m, an increase of 1.8% compared to the prior year with strong growth in Pub Company and Brewing & Brands offsetting the planned decline in total pub numbers. Pub Company revenue was up 1.8% to £1,799.2m and accounts for 81% of group revenue. Non-core disposals helped AWT per pub rise 4.1% and average EBITDA per pub rise 3.3%. Total revenue in Pub Partners was £190.1m, down 2.0% driven by a decline in average trading pubs of 5.0%. Tenanted and leased AWT per pub increased 3.0% and average EBITDA per pub grew 1.0% due to the continuing improvement in the quality of the pub estate. Brewing & Brands grew revenue 5.8% to £227.6m with total beer volumes up 0.9%.

£ million	52 weeks ended 28 April 2019	52 weeks ended 29 April 2018	YOY change
Pub Company	£272.9	£268.2	1.8%
Pub Partners	£87.1	£91.4	-4.7%
Brewing & Brands	£27.4	£30.7	-10.7%
Corporate	£(19.2)	£(17.2)	11.6%
Group adjusted operating profit[1]	£368.2	£373.1	-1.3%

Operating profit before exceptional and non-underlying items was £368.2m, which was a decline of 1.3% on the prior year. Group operating profit margin before exceptional and non-underlying items was down 0.5% pts to 16.6%. Pub Company margin was flat versus the prior year at 15.2% and it was up 0.5% pts in the second half, reflecting the benefits from investments in VSQ and estate optimisation. The decline in group operating margin was driven by the reduction in both the Pub Partners margin from 47.1% to 45.8% and the Brewing & Brands margin from 14.3% to 12.0%.

Pub Company operating margin (%)	
F18 reported margin	15.2
Underlying trading	0.5
Investment	0.0
Estate optimisation	0.2
Inflation	-2.2
Mitigation	1.5
F19 reported margin	15.2

Net interest costs before exceptional and non-underlying items were £121.3m, 6.8% lower than last year due to overall lower debt and the impact of refinancing activities in the year.

Profit before tax, exceptional and non-underlying items was £246.9m, 1.6% higher than last year.

Basic earnings per share before exceptional and non-underlying items of 64.5p was up 2.9%. Statutory profit before tax was £172.8m, down 12.5% versus the prior year.

1. Adjusted measures exclude the impact of exceptional and non-underlying items as detailed in note 5 of the financial statements.
2. 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 period.

£368.2m

Operating profit before exceptional and non-underlying items[1]

(£m) **-1.3%**

Year	Value
2019	£368.2m
2018	£373.1m
2017	£411.5m

£246.9m

Profit before tax and exceptional and non-underlying items[1]

(£m) **+1.6%**

Year	Value
2019	£246.9m
2018	£243.0m
2017	£273.5m

£482.0m

EBITDA[1,2]

(£m) **-0.9%**

Year	Value
2019	£482.0m
2018	£486.6m
2017	£524.1m

TAX

The effective rate of corporation tax (before exceptional and non-underlying items) of 19.1% is marginally higher than the UK corporation tax rate of 19.0% due to adjustments for non-deductible expenses, compared to 20.0% in the previous year. This resulted in a tax charge against operating profits (before exceptional and non-underlying items) of £47.1m (2018: £48.6m). The exceptional and non-underlying tax charge of £5.3m (2018: £34.4m credit) 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 £550m (2018: £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.

The group has recognised an uncertain tax provision of £4.1m in respect of the only open corporation tax enquiry relating to tax deductions claimed on capitalised revenue expenditure.

During the year the group completed a full review of deferred tax, as a result of which, in line with IAS 8, the group has restated balances as at 30 April 2017, and restated its financial results for the year ending 29 April 2018. See note 1 for further details.

EXCEPTIONAL AND NON-UNDERLYING ITEMS

Exceptional and non-underlying items were £79.4m, consisting of a £53.5m charge to operating profit, a £20.6m charge to finance costs and a net exceptional and non-underlying tax charge of £5.3m. Items recognised in the year included the following:

1. A £6.2m charge for employee related costs, which included one off additional defined contribution pensions payments as well as a material restructuring cost associated with changes to management. A further £0.4m of legal and professional fees were incurred in relation to group refinancing activities and defending uncertain tax positions.
2. A net impairment charge of £56.7m (2018: £70.4m). Of this total, a net £55.0m charge was made against the carrying value of property, plant and equipment.
3. A net profit on disposal of property plant and equipment of £17.0m (2018: £33.0m).
4. A past service cost of £4.9m, across both the Greene King and Spirit pension schemes, for guaranteed minimum pension equalisation following the High Court judgment on this issue in relation to the Lloyds Banking Group's defined benefit pension scheme.
5. The £20.6m charge (2018: £10.6m credit) for exceptional and non-underlying finance costs included a £5.4m loss (2018: £19.2m gain) in respect of the mark-to-market movements in the fair value of interest rate swaps not qualifying for hedge accounting, £10.7m costs (2018: £11.6m) recycled from the hedging reserve in respect of settled interest rate swap liabilities and a £4.1m loss (2018: £3.0m profit) on the settlement of financial liabilities.
6. The exceptional and non-underlying tax charge of £5.3m consisted of a £9.2m tax charge in respect of prior years, a £4.1m tax charge in respect of the uncertain tax provision explained above, a £0.9m charge in respect of deferred tax rate changes, a £5.5m credit in respect of non-underlying items and a £3.4m credit in respect of other exceptional items.

CHIEF FINANCIAL OFFICER'S REPORT CONTINUED

CASH FLOW AND CAPITAL STRUCTURE

£ million	52 weeks ended 28 April 2019	52 weeks ended 29 April 2018
EBITDA[1]	482.0	486.6
Working capital and other movements[2]	(35.5)	(22.9)
Net interest paid[2]	(116.9)	(127.1)
Tax paid[2]	(21.0)	(9.4)
Adjusted cash generated from operations	308.6	327.2
Core capital expenditure	(119.1)	(132.2)
Net repayment of trade loans/Other non-cash movements	(0.5)	(2.2)
Free cash flow before dividend	189.0	192.8
Dividend	(102.9)	(102.9)
Free cash flow	86.1	89.9
Net disposal proceeds	75.8	117.5
New build/brand conversion capital expenditure	(44.3)	(61.0)
Exceptional and non-underlying items/ share issues	(5.9)	(46.8)
Refinancing items	(22.7)	(57.4)
Change in net debt	89.0	42.2

The group continued to be highly cash generative with free cash flow of £86.1m, after funding core capital expenditure of £119.1m and dividend payments of £102.9m. This is significantly ahead of scheduled debt repayments of £52.2m. Net disposal proceeds at £75.8m reflected our ongoing programme of estate optimisation and we invested £44.3m in five new builds, five single site acquisitions of which three are to be converted in F20 and 79 brand conversions.

The group disposed of 41 trading pubs in Pub Company, 69 trading pubs in Pub Partners and six closed pubs, raising proceeds of £79.3m, which was partially offset by exiting a small number of leases.

The group continued to make good progress against its strategic aim to further strengthen its capital structure. During the year the group made unscheduled repayments of Spirit secured bonds with a total nominal value of £176.0m, recognising a net loss of £4.1m. In June 2018 £62.3m (30%) of the Spirit A4 secured bond was prepaid and, in September 2018, a further £51.9m (25%) of the Spirit A4 secured bond was prepaid. In December 2018 the group, in an open-market transaction, purchased and subsequently cancelled £61.8m (39%) of the Spirit A5 secured bond.

Exceptional gains or losses recognised in respect of these transactions amount to the difference between the carrying value of the repaid or cancelled bonds (comprising the nominal value and a fair value premium) and the settlement amount paid (comprising the sum of the nominal value and a prepayment penalty in the case of the A4 bonds, and the clean purchase price paid in the case of the A5 bonds).

The group also partially terminated two interest rate swap contracts in line with the partial prepayments of the A4 and A5 Spirit secured bonds, resulting in cash payments totalling £16.6m. A further payment of £2.0m was made during the year to eliminate over-hedges on interest rate swap contracts held in respect of the outstanding Spirit secured bonds.

The amount shown under refinancing items in the cash flow table above comprises £18.6m (2018: £42.6m) attributable to the settlement of derivative liabilities and £4.1m (2018: £14.8m) of other costs and non-cash movements attributable to refinancing.

Since June 2017 the group has repaid a total of £393m of Spirit secured bonds which represents 51% of the nominal value of the Spirit secured debt outstanding at F17 year end.

In February 2019 the group issued an additional £250m of secured bonds (class A7) with a fixed coupon of 3.593% out of the Greene King secured financing vehicle in connection with the securitisation of an additional 177 of the group's pubs. The net issuance proceeds were applied to the repayment of revolving credit facility loans, creating capacity to fund the further migration of assets and debt out of the Spirit secured financing vehicle.

Since the year end the group has given notice that it will prepay the remaining 45% (£93.5m) of the Spirit A4 secured bond on 28th June 2019. The group has also agreed to fully terminate the corresponding interest rate swap contract on this date.

In line with our strategic priorities, the group's objective is to maximise the strength and flexibility of its balance sheet, and to maintain a capital structure which meets the short, medium and long-term funding requirements of the business. The principal elements of the group's capital structure are its £750m revolving credit facilities, which were £192m 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 group carrying value of £1,537.5m (2018: £1,343.5m) and an average life of nine years (2018: ten years), secured against 1,539 pubs (2018: 1,429 pubs) with a group carrying value of £2.0bn (2018: £1.3bn). The Spirit debenture had secured bonds with a carrying value of £379.5m (2018: £563.6m) and an average life of eight years (2018: nine years), secured against 695 pubs (2018: 872 pubs) with a group carrying value of £0.8bn (2018: £1.0bn).

The group's credit metrics remain strong with 99.6% of net interest costs at a fixed rate, and the group's average cash cost of debt reduced to 5.8% from 6.1% last year. Fixed charge cover increased to 2.3x from 2.2x last year and net debt to EBITDA reduced to 4.0x from 4.2x last year. The Greene King secured vehicle had a free cash flow debt service cover ratio of 1.5x at the year end, giving 27% headroom. The Spirit debenture vehicle had a free cash flow debt service cover ratio of 2.3x giving 44% headroom.

Overall the group's net debt reduced in the year by £89.0m to £1,943.3m.

1. EBITDA represents earnings before interest, tax, depreciation, amortisation and exceptional and non-underlying items.
2. Adjusted measures excluding the impact of exceptional and non-underlying items as detailed in note 5 of the financial statements.

BALANCE SHEET

£ million	28 April 2019	29 April 2018 restated[1]
Goodwill and other intangibles	1,216.9	1,240.2
Property, plant and equipment	3,543.4	3,597.8
Post-employment assets/(liabilities)	31.1	13.6
Net debt	(1,943.3)	(2,032.3)
Derivative financial instruments	(230.0)	(241.1)
Other net liabilities	(510.2)	(505.1)
Net assets	2,107.9	2,073.1
Share capital and premium	300.9	300.7
Reserves	1,807.0	1,772.4
Total equity	2,107.9	2,073.1

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 28 April 2019, there was an IAS 19 net pension asset of £31.1m representing an improvement of £17.5m since the previous year end. The closing assets of the group's two pension schemes totalled £865.4m and closing liabilities were £834.3m compared to £859.2m and £845.6m respectively at the previous year end.

The improvement in position is due to contributions made by the group during the year, combined with the net remeasurement gain of £17.0m (2018: £21.5m). Included in the remeasurement are key assumptions relating to the discount rate of 2.5% (2018: 2.8%), RPI inflation of 3.3% (2018: 3.1%) and CPI inflation of 2.2% (2018: 2.0%).

Total cash contributions in the year were £3.3m.

The triennial reviews for both the Greene King and Spirit pension schemes have now been finalised. The Greene King scheme has an actuarial deficit of £25.3m, broadly in line with the last valuation, and the Spirit scheme has an actuarial surplus of £11.3m.

RETURN ON CAPITAL EMPLOYED

The group is focused on delivering the best possible returns on its assets and on the investments it makes and on capital discipline, through targeted investment in new build pubs, single site acquisitions and in developing its existing estate to drive organic growth alongside disposals of non-core pubs. ROCE of 8.5% has improved by 10 bps compared to the prior year and remains comfortably ahead of the group's cost of capital.

DIVIDEND

The board has recommended a final dividend of 24.4 pence per share, in line with last year, subject to shareholder approval. This will be paid on 13 September 2019 to shareholders on the register at the close of business on 9 August 2019.

The proposed final dividend brings the total dividend for the year to 33.2 pence 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.

IFRS 16

The new accounting standard is applicable for accounting periods beginning on or after 1 January 2019, and will be applied for the first time by the group for the 53 weeks ending 3 May 2020.

The group has elected to use a modified retrospective approach in valuing the right-of-use asset on a site-by-site basis due to the age and complexity of the estate.

IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings as at 29 April 2019, with no restatement of comparative information.

The following table shows the estimated effect of adopting IFRS 16 on the consolidated balance sheet at 29 April 2019:

£ million	29 April 2019
Goodwill and other intangibles	(102)
Property, plant and equipment	900
Post-employment assets/(liabilities)	–
Net debt	(1,135)
Derivative financial instruments	–
Other net liabilities	267
Net assets	(70)
Share capital and premium	–
Reserves	(70)
Total equity	(70)

For the period ending 3 May 2020, the group's operating profit metric will improve by an estimated £15m under IFRS 16 as the new depreciation expense is expected to be lower than the IAS 17 operating lease charge; however finance costs are expected to be higher than this, estimated at £31m, such that net profit after tax and the underlying earnings metric are expected to be lower compared to the previous IAS 17 reporting basis.

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 IFRS 16, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Richard Smothers
Chief financial officer
26 June 2019

1. Deferred tax, goodwill and retained earnings have been restated. See note 1 for further details.

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.

GREENE KING 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 and progress 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

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.

The nature of our principal risks has remained largely unchanged during the year. Many of the risks are impacted by 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 as a separate item 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 on pages 54 to 57.

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 2021/22 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 nine years and eight years respectively. The group also has available £750m under revolving credit facilities of which £400m (Facility A), expiring in October 2021, is available to provide liquidity and to manage its seasonal cash flows. The remaining £350m (Facility B), 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. This facility expires in November 2020 but is subject to an extension option to October 2021, which management expects to exercise. The board's expectation is that Facility A would be renegotiated prior to its maturity in October 2021 to ensure the continued availability of liquidity. Facility B is expected to be refinanced into longer term debt instruments.

The group's latest strategic plan ('the plan'), covering the period to the end of the 2021/22 financial year, was approved by the board in February 2019. 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, UK's withdrawal from the EU, 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.

The above scenarios are hypothetical and severe for the purposes of creating outcomes that have the ability to threaten the viability of the group. In the case of these scenarios arising, the group has various options available to maintain liquidity in order to continue in operation. These options include reduction in discretionary cash spend such as non-essential capital expenditure, dividends or unscheduled refinancing payments.

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.

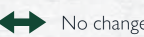
PRINCIPAL RISKS AND UNCERTAINTIES

Risk type	Specific risk areas	Links to our strategic priorities	Change since last year
Strategic risks – business strategy	Failure to adopt the right strategy for the group or one of its business units or poor execution of that strategy could lead to reduced revenue, profitability and lower growth rates than our strategic objectives.	1 2 3 4	↔
Strategic risks – customer offer	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, profitability and lower market share and growth rates than anticipated. It remains unclear how consumers will respond to the outcome of the Brexit negotiations.	1 2 3 4 5	↔
Economic and market risks – economic uncertainty and cost pressures	We are at risk of a weakening economy and softer consumer confidence in the UK in the light of the ongoing Brexit uncertainty and political impasse. We also continue to face significant cost headwinds, including the National Living Wage/National Minimum Wage, the Apprenticeship Levy, business rates and utilities taxes, all of which could lead to reduced revenue, profitability and lower growth rates to the extent that we are not able to mitigate against them. In Pub Partners any difficulties our tenants face also impact us.	1 2 3 4	↑
Operational and people risks – GDPR compliance	A significant personal data breach through failure to comply with the EU General Data Protection Regulation and the UK Data Protection Act 2018 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.	1 3 5	↔
Operational and people risks – cyber/IT security	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.	1 3 5	↓
Operational and people risks – suppliers, distributors and our own production facilities	We are reliant on a number of key suppliers and third party distributors to supply goods, including in particular food and drinks, 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 significantly 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.	1 2	↑

Strategic priorities

1. Build distinct brands that more customers choose
2. Provide offers that deliver compelling value, service and quality
3. Develop engaged and high performing colleagues
4. Maintain a well-located and invested estate
5. Prudent financial management

Change since last year



Mitigation	Risk tolerance
Our group strategy is focussed on building brands that customers admire, creating offers that deliver compelling value, service and quality, developing engaged and high performing teams, maintaining a well-located and invested estate and managing our finances prudently. Pub Company continues to focus on its four key brands, on reducing costs and on improving service standards. For Pub Partners a key focus area is to reduce the impact of the MRO option tenants have under the Pubs Code and in Brewing & Brands the focus is on improving productivity and driving OBV growth. 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.	We are comfortable managing risks which we understand and are consistent with the delivery of our strategic objectives.
We are continuing to invest in delivering value, service and quality to our customers and to focus on our four main brands. We maintain an active estate management programme, refining brands and segmenting our portfolio to align our offers with shifting consumer trends. Marketing is targeted towards encouraging more visits, often with a focus on events and where appropriate managers are encouraged to organise events designed to appeal to their local population. We use guest satisfaction tools, TripAdvisor scores and net promoter scores to collect customer feedback and measure performance of our pubs and we encourage our managers to respond to relevant feedback. 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. Food and drink quality remain a high priority, as do a focus on team training and digital enhancements. For Pub Partners there is an ongoing focus on improving the support we offer to licensees and in Brewing & Brands we have relaunched a focus on quality.	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.
We have a relentless focus on value, service and quality and are continuing to invest in our pubs. We aim to mitigate many of the anticipated cost increases facing the business, through procurement and productivity savings, with a particular focus on cross functional co-operation and the use of technology. On procurement we aim to work closely with our key suppliers to reduce costs without impacting the customer offer. We have a well hedged portfolio, with a broad geographic spread of pubs across the country, including in London and the south east, brands covering each of the value, mainstream and premium segments of the market, and a mixture of drink-led and food-led pubs. We maintain an active estate management programme, enabling us to refine our brands and segment our portfolio to align with shifting consumer trends.	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.
A wide range of policy, technical, procedural, and operational compliance control improvements have been implemented across the business, covering all aspects of the requirements. We have a data governance committee, data protection officer and data protection champions across the business. Processes are in place to manage data breaches, which are followed up appropriately to ensure that lessons are learnt, and subject access requests are now handled centrally to ensure legislative requirements are met. Staff training is given to all employees and solutions have been or are being implemented for a number of issues identified during the implementation programme. A range of activities will further improve management of these risks during the year, including the provision of specialist training for those employees whose roles involve significant amounts of personal data processing.	We have a low tolerance for significant breaches of GDPR.
Working with specialist third party companies we continuously monitor and evaluate cyber threats to our business. As a result of this evaluation our cyber security programme is constantly adapted to strengthen our IT security controls, improve our threat surveillance, patching and user education and to ensure that we continue to retire legacy systems so that our defences remain robust and relevant in the ever-changing threat landscape. Disaster recovery plans for our critical applications have been successfully tested, and the architecture has been updated and tested to improve the scale of speed of recovery of our IT systems.	We have a low tolerance for significant breaches within our IT operations.
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. We have agreed a one year extension to our drinks distribution contract with our third party supplier and are reviewing a range of options to provide longer term security of supply to our pubs and those of our customers. 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.	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.

FOR MORE INFORMATION ABOUT OUR STRATEGY
SEE PAGES 16 TO 17

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Risk type	Specific risk areas	Links to our strategic priorities	Change since last year
Operational and people risks – recruitment, retention and development of employees and licensees	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. Whilst the long term impact of the Brexit negotiations is yet to be fully understood, we are already seeing reduced migration from the EU. This, coupled with unemployment being at historically low levels, gives rise to a challenge in recruiting and retaining enough talented people. For our Pub Partners division we face similar issues with regard to licensees.	1 2 3	Increased
Operational and people risks – compliance with a range of legislation including health and safety, food safety and employment legislation	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, in our pubs, offices or breweries, this could have a significant impact on our reputation, leading to investigations by relevant authorities and 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.	1 2 3 4	No change
Financial risks – funding requirements	If we are unable to meet the funding requirements of the group we risk reduced revenue and lower profitability than our strategic plan.	1 4 5	Decreased
Financial risks – covenant risks	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.	1 4 5	No change
Financial risks – pension scheme funding	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.	5	Decreased

Strategic priorities

1. Build distinct brands that more customers choose
2. Provide offers that deliver compelling value, service and quality
3. Develop engaged and high performing colleagues
4. Maintain a well-located and invested estate
5. Prudent financial management

Change since last year

Increased

Decreased

No change

Mitigation	Risk tolerance
We have both a branded recruitment plan to ensure that we attract suitable candidates and operate a range of apprenticeship programmes and other initiatives designed to attract people into the business. 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 £2.6m in the year on training and development, and utilise 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. We will also look at opportunities to reduce our exposure through more efficient shift planning and task allocation and look at areas where technology investment can reduce our reliance on people. 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.	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.
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. We have refreshed our training modules to make them more engaging for our young workforce. In our brewing business we are working closely with our distribution partners to raise standards of health and safety across the sector and are improving safety competence and awareness amongst our middle management population. 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.	We have no tolerance for health and safety or food safety breaches within our operations.
The group's debt structures and financing requirements are reviewed by the board who ensure that the capital structure plan continues to support the requirements of the strategic three year plan. Long term financing is provided by the group's securitisation and debenture vehicles, which have remaining weighted average lives of nine years and eight years respectively. The group also has available £750m under revolving credit facilities of which £400m is available to provide liquidity and to manage its seasonal cash flows. The remaining £350m is available to fund the internal transfer of pubs from the Spirit debenture vehicle, improving the group's ability to refinance its Spirit secured loan notes and related interest rate swaps. During the second half of the financial year, we made further progress on our debt refinancing plan. Since June 2017, we have repaid £393m, or 51% of the nominal value of the Spirit debenture, while we tapped the Greene King securitisation for £250m at 3.6%, creating headroom within our revolving credit facility for future bond repayments from the debenture.	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.
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 impact on covenant headroom across all debt platforms is considered by management when assessing potential future transactions.	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.
All our final salary schemes are closed to future accrual to reduce volatility. 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. The Greene King and Spirit schemes both underwent a full actuarial valuation during 2018/19. The Spirit scheme is in surplus on an actuarial basis and therefore continues to not require funding from the company. The Greene King scheme remains in deficit, but does not require a material increase from the current £3m funding annual contribution. The company is engaged proactively with each pension scheme trustee on journey planning.	We expect to maintain funding levels for our pension schemes at manageable levels.

FOR MORE INFORMATION ABOUT OUR STRATEGY
SEE PAGES 16 TO 17

"AS A BOARD WE TAKE CORPORATE GOVERNANCE VERY SERIOUSLY AND I WILL CONTINUE TO ENSURE THAT WE MAINTAIN HIGH STANDARDS THROUGHOUT MY TENURE."

Philip Yea
Chairman

CORPORATE GOVERNANCE

60 Board of directors
62 Corporate governance
68 Nomination committee report
71 Audit and risk committee report
75 Directors' remuneration report
92 Directors' report and disclosures
95 Directors' responsibilities statements

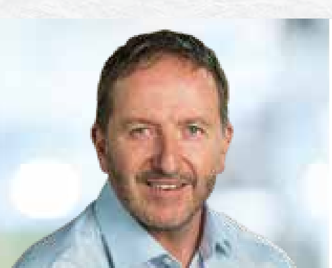
BOARD OF DIRECTORS

PHILIP YEA (64)
Chairman

DATE APPOINTED
2016

EXTERNAL APPOINTMENTS
Chairman of Equiniti Group plc. Non-executive director of Aberdeen Standard Asia Focus plc and non-executive director of Marshall of Cambridge (Holdings) Ltd.

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.



NICK MACKENZIE (51)
Chief executive

DATE APPOINTED
1 May 2019

EXTERNAL APPOINTMENTS
None.

RELEVANT PREVIOUS EXPERIENCE
Nick Mackenzie joined Greene King in May 2019 from Merlin Entertainments plc where he spent 17 years, most recently managing director of Midway Attractions, the largest division within the group. Nick started his career in pubs at Bass and Allied and held a non-executive director role at Daniel Thwaites PLC before joining Greene King.

RICHARD SMOTHERS (51)
Chief financial officer

DATE APPOINTED
2018

EXTERNAL APPOINTMENTS
Trustee of The National Childbirth Trust and chair of its audit, risk and scrutiny committee.

RELEVANT PREVIOUS EXPERIENCE
Richard Smothers 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 (58)
Non-executive director

DATE APPOINTED
2011

EXTERNAL APPOINTMENTS
Chief executive of J Sainsbury plc.

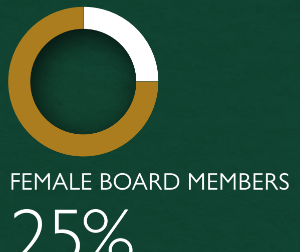
RELEVANT PREVIOUS EXPERIENCE
Mike Coupe brings knowledge and experience from working for other large, multi-site retail organisations, including Asda and Tesco.

COMMITTEE MEMBERSHIP
Nomination committee

Remuneration committee

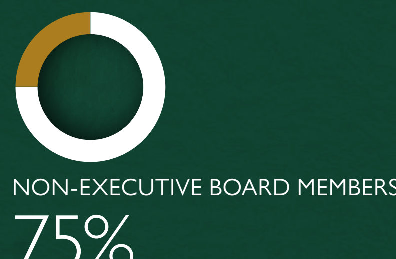
Audit and risk committee

Committee chairman



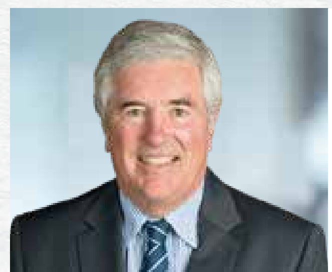
FEMALE BOARD MEMBERS

25%



NON-EXECUTIVE BOARD MEMBERS

75%



ROB ROWLEY (69)

Senior independent non-executive director

DATE APPOINTED

2014 (Appointed senior independent director 2015)

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.

LYNNE WEEDALL (52)

Non-executive director

DATE APPOINTED

2012

EXTERNAL APPOINTMENTS

Non-executive director and member of the nomination and remuneration committees of Treatt plc. Non-executive director and member of the remuneration and nomination committees of William Hill PLC (from 1 July 2019).

RELEVANT PREVIOUS EXPERIENCE

Lynne Weedall was group HR director of 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.

GORDON FRYETT (65)

Non-executive director

DATE APPOINTED

2016

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 at Tesco including Group Property Director. Gordon was also non-executive director of Severn Trent plc from 2009 until 2016.

SANDRA TURNER (66)

Non-executive director

DATE APPOINTED

1 May 2019

EXTERNAL APPOINTMENTS

Non-executive director, senior independent director and chair of the remuneration committee of Greggs plc. Non-executive director and chair of the remuneration committee of Carpetright plc. Non-executive director and chair of the remuneration committee of McBride plc. Non-executive director of Huhtamäki Oyj.

RELEVANT PREVIOUS EXPERIENCE

Sandra Turner has many years' experience in the consumer goods and retail sectors, including for Wilkinson Sword, Unilever and Tesco, where she was commercial director of Tesco Ireland.

SENIOR MANAGEMENT

The senior management team comprises Nick Mackenzie, 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

> “THE KEY PRIORITY FOR THE BOARD WAS TO MANAGE THE SUCCESSION OF OUR CHIEF EXECUTIVE, DEALING WITH THE TERMS ON WHICH ROONEY ANAND LEFT THE BUSINESS AND THE RECRUITMENT OF NICK MACKENZIE.”

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.

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 (2016 version) (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.

The key priority for the board during the 2018/19 financial year was to manage the succession of our chief executive, dealing with the terms on which Rooney Anand stepped down as chief executive and a director on 30 April 2019 and the recruitment of our new chief executive, Nick Mackenzie, who joined the board on 1 May 2019. More details are set out in the nomination committee report on page 68 and the directors’ remuneration report on page 75.

All this was done alongside an ongoing focus on the performance of the business, the debt structure of the business, oversight of risk management, alignment of remuneration policies with shareholder interests and sound investor relationships.

I would like to reiterate my earlier comments thanking Rooney for his huge commitment and contribution to Greene King over the past 18 years and to welcome Nick to the board. I would also like to thank my fellow directors for their continued support. The year just gone and 2019/20 will be ones of transition for the board and I am confident that, as we help Nick settle into his new role, we will also 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

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 and the senior independent director is Rob Rowley. Rooney Anand was chief executive throughout the year, standing down from the board on 30 April 2019, just after the year end. Nick Mackenzie joined the board as the new chief executive on 1 May 2019. Sandra Turner also joined the board on 1 May 2019, bringing the number of non-executive directors (excluding the chairman) on the board to five.

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.

The directors' biographies are on pages 60 and 61.

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	●		
Nick Mackenzie	No			
Mike Coupe	Yes	●	●	●
Gordon Fryett	Yes	●	●	●
Rob Rowley	Yes	●	●	●
Richard Smothers	No			
Sandra Turner	Yes	●	●	●
Lynne Weedall	Yes	●		●

In addition, during the year Rooney Anand was a director who was not independent as he was chief executive.

CORPORATE GOVERNANCE CONTINUED

LEADERSHIP

Role of the board

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

The offices of chairman and chief executive are separate and distinct and the division of responsibilities between them has been clearly established, set out in writing and agreed by the board. These were updated with effect from 1 May 2019.

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. He is to take a leading role, supported by the chief executive, in shaping the composition and structure of the board and to ensure continuity by means of succession planning.

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 remuneration 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 (updated with effect from 1 May 2019), 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 below. By delegating key responsibilities to these committees, the board is able to ensure that adequate time is devoted by board members to the oversight of key areas within their responsibility.

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
- Oversee the group's operations and review performance in light of the group's strategy, objectives, business plans and budgets

NOMINATION COMMITTEE

reviews structure, size and composition of the board;

makes recommendations for appointments;

succession planning.

MEMBERS

Philip Yea (Chairman)
Mike Coupe
Gordon Fryett
Rob Rowley
Sandra Turner
Lynne Weedall

Nomination committee report
Pages 68 to 70

AUDIT AND RISK COMMITTEE

reviews and monitors full year and interim results;

monitors internal financial controls;

oversees external audit relationship;

oversees risk management.

MEMBERS

Rob Rowley (Chairman)
Mike Coupe
Gordon Fryett
Sandra Turner (joined 1 May 2019)

Audit and risk committee report
pages 71 to 74

REMUNERATION COMMITTEE

sets remuneration policy;

sets executive director remuneration and incentives;

approves annual performance objectives;

approves granting of long-term incentives.

MEMBERS

Lynne Weedall (Chairman)
Mike Coupe
Gordon Fryett
Rob Rowley
Sandra Turner

Directors' remuneration report
pages 75 to 91

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, with a particular focus on the group's largest business unit, Pub Company.

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 from time to time, 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 takes into account the views of the audit and risk committee, 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.

The most significant activity for the board this year has been dealing with the succession plans for the chief executive. During the year Rooney Anand advised the board of his intention to step down from the board at the end of the financial year, and work therefore began to manage the transition to a new chief executive, including agreeing the arrangements applicable to Rooney's departure and recruiting a suitable successor. The nomination committee report on page 68 outlines the process followed for and the background to the appointment of Nick Mackenzie as the new chief executive, and the nomination committee report and the directors' remuneration report on page 75 outline the work of the committees in dealing not only with the remuneration package agreed for Nick Mackenzie but also the terms of Rooney Anand's departure, including a payment of £850,000 in consideration of him agreeing to various post-termination covenants.

Other focus areas for the board during the year included business performance, and the actions being taken by management to address the continuing cost challenges and to improve performance. The board also kept under review the debt structure of the company and the ongoing work to refinance parts of the Spirit debenture. It also received various reports on the performance of key competitors to enable it 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.

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	–	–	–
Richard Smothers	8/8	–	–	–
Non-executive directors				
Mike Coupe[1]	8/8	3/3	4/4	3/4
Gordon Fryett	8/8	3/3	4/4	4/4
Rob Rowley	8/8	3/3	4/4	4/4
Lynne Weedall	8/8	3/3	–	4/4
Philip Yea	8/8	3/3	–	–

1. Mike Coupe was unable to attend one scheduled meeting of the remuneration committee due to a prior commitment with J Sainsbury plc.

CORPORATE GOVERNANCE CONTINUED

LEADERSHIP CONTINUED

Operation of the board continued

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 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 informally with the chairman and the chief executive on an informal basis. 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.

With an external facilitator having been used for the board evaluation exercise in the 2017/18 financial year, the decision was taken to manage the process internally this year. A questionnaire, covering the board and its various committees and the chairman, was made available for completion by the board and the company secretary. The results were fed through to the chairman, the chairmen of the various board committees and (for the evaluation of the chairman) the senior independent director. Topics covered included board and committee structure, board composition and functionality, board and committee processes, governance, strategy and risk and communications with shareholders.

The results of the evaluation exercised were presented to the board by the chairman in April 2019. There was a general view that the board and its committees, despite it being a year of transition, were operating appropriately, and the suggestions raised in the previous year were seen as having been implemented and as improvements. No strong themes that required addressing were raised although it was agreed that board diversity needed improvement and that there should be more focus on risk appetite. Consideration will also be given to improving communications with shareholders and it was further agreed that the non-executive directors would benefit from more time with senior management. These topics will be considered in more detail during the current financial year.

Rob Rowley, the senior independent non-executive director, used the input from the questionnaires as the basis of his evaluation of the chairman. There were no issues raised for the chairman to deal with.

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

The performance of the executive directors is reviewed annually by the remuneration committee in conjunction with their annual pay review and the payment of bonuses.

Training and support

The training needs of the board and its committees are regularly reviewed, and each director is responsible for ensuring their skills and knowledge of the company remain up to date. Particular emphasis is placed on ensuring that directors are aware of proposed legislative changes in areas such as corporate governance, financial reporting and sector specific issues.

Newly-appointed directors receive a tailored induction (proportionate to their role) 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. New directors are also given the opportunity to visit a number of the group's pubs and restaurants and the brewery. The induction programme for Nick Mackenzie as chief executive is on-going and includes meetings with major shareholders, advisers, key suppliers, stakeholders and other industry leaders.

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

Commitment and conflicts of interest

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

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

COMMUNICATION WITH SHAREHOLDERS

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

Institutional shareholders and analysts

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

In connection with the succession arrangements regarding the chief executive the chairman and Lynne Weedall, as chairman of the remuneration committee, met a number of institutional shareholders and representatives of the proxy voting agencies to explain the background behind the decisions agreed with regard to Rooney Anand's termination arrangements, and as regards the appointment of Nick Mackenzie as the company's chief executive. The composition of the board, auditor rotation and the company's approach to diversity and inclusion were also discussed.

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.

Annual general meeting (AGM)

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

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

The next AGM will be held on 6 September 2019 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 and were updated on 1 May 2019, are available on request or to download from the company's website and will be available for inspection at the AGM.

NOMINATION COMMITTEE REPORT

"OUR SMOOTH AND WELL-MANAGED SUCCESSION PROCESS SUPPORTED OUR BUSINESS AND WAS IN THE BEST INTERESTS OF SHAREHOLDERS."

I am pleased to introduce our nomination committee report for 2018/19 which explains the committee's focus and activities during the year.

As explained further below, during the year the committee has worked, together with the remuneration committee, to agree appropriate terms for the departure of Rooney Anand as our chief executive and for the recruitment of Nick Mackenzie to this role. We believe that this work facilitated a smooth and well managed succession process which has supported our business and is in the best interests of our shareholders.

I am grateful to have had the opportunity to meet a number of institutional shareholders recently to explain the decisions taken with regard to Rooney's departure terms and the recruitment of Nick. The discussions were open and constructive and we are grateful for the feedback received. During the meetings, we also covered a number of other governance topics with some of the shareholders and I should make it clear that we are happy to receive feedback from all shareholders at any time on any governance related issue.

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 four meetings during the year. Attendance at these meetings by the committee members is shown in the table on page 65.

MANAGING THE SUCCESSION OF THE CHIEF EXECUTIVE

As I have explained in my chairman's statement introducing the annual report, Rooney Anand became our chief executive in 2005. During the following 14 years, Rooney's leadership has contributed significantly to build our business to where it is today.

Throughout this period, Rooney remained engaged on the contractual terms of his original 2004 letter of appointment. The terms of this contract were, however, inadequate to provide for the smooth succession process which was a commercial imperative for Greene King in 2018/19. In particular:

- Rooney's contract permitted Rooney to leave on six months' notice (whereas the company was required to give Rooney 12 months' notice). This was sub-optimal, and would have left the company exposed had Rooney decided to give such notice unilaterally, given that the company would then have had to undertake a search process and that any identified successor from outside the company would likely not be available until the end of their own notice period.

- Rooney's contract did not contain adequate post-employment covenants, particularly the covenants which are now regarded as commercially necessary to protect a company from the individual joining mainstream competitors and non-solicitation of employees. Again, it was vital for Greene King to secure such protections. Rooney is one of the most experienced and successful senior executives within the pub industry, and as he is not retiring on stepping down from the company, he could have chosen to remain active as an executive within our industry.

With this background, the nomination committee and the remuneration committee, working together, reached a position which we regarded as in the best interests of the company and our shareholders to ensure a smooth transition, Rooney's full focus on working for Greene King in 2018/19 and providing important commercial protections for our company for a further year from May 2019. This involved:

- Rooney's agreement to work until the end of the 2018/19 financial year. This involved Rooney serving six months' notice on 6 November 2018. In line with our remuneration policy, this allowed Rooney to participate in the company's annual bonus plan for 2018/19 as he worked throughout this period and, given the agreed nature of his departure, for the company to allow Rooney 'good leaver' status under the company's long-term incentive plans.
- Rooney agreeing appropriate and clearly enforceable post-termination non-compete and non-solicitation restrictions. During the 12 months after his termination date, Rooney is prohibited from taking on an executive position with 18 named competitors (or any non-executive role with the most significant nine of these companies). He has also agreed to indemnify the company for any loss should these covenants be breached. In return for these new undertakings, a payment of £850,000 (broadly equivalent to one year's fixed pay (salary, pension contributions and benefits) was made to Rooney.

The principal terms of the settlement agreement agreed with Rooney were disclosed on the company's website on 7 May 2019 and are also described in the remuneration report on page 89. In reaching this agreement, the committees were very conscious of the current sentiment concerning termination payments, but felt that the potential risk to the company arising from the weakness of the 2004 letter of appointment could not be left unaddressed, and that payment of £850,000, being broadly equal to the one year's base salary plus benefits and pension contributions which would have been payable had the company given Rooney notice of termination, was proportionate compensation for Rooney delaying his potential departure to ensure a smooth transition and agreeing not to join named key competitors or soliciting current members of the company's team for a period of twelve months following his leaving our employment. In working with the remuneration committee, the nomination committee was unanimous as to the commercial risks of having a hiatus in the company's leadership if there had not been a negotiated agreement, and the risks if no post-employment covenants had been agreed. The agreed covenants themselves are in line with best practice, being specifically tailored to named competitors and supported by a personal indemnity in case of breach.

RECRUITMENT OF NICK MACKENZIE

In order to secure the best possible successor as chief executive for the start of the 2019/20 financial year a search was initiated to identify potential external candidates to succeed Rooney as chief executive. Executive search consultancy Russell Reynolds, 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, were appointed to assist the committee with the search. They drew on their high-level professional networks, industry knowledge and internal research resources to identify a comprehensive list of potential candidates. Key criteria for the search were to find proven leaders who demonstrated the right management style and who would be a good cultural fit for the board.

The committee chairman, Philip Yea, together with the chair of the remuneration committee, Lynne Weedall, an experienced HR executive met with shortlisted candidates, from which a preferred candidate, Nick Mackenzie, was selected for the final stages. Shortlisted candidates visited a number of the company's sites as part of the process.

All of the committee members were given the opportunity to meet the preferred candidate, Nick Mackenzie, and the committee was in unanimous agreement that he would be an excellent appointee, recognising that his broad experience of and track record in the leisure industry and knowledge of the pub business would enable him to steer Greene King through its next phase of development. The committee then worked with the remuneration committee to determine the remuneration package to be offered to him and to finalise the terms of a comprehensive service agreement, to which he has agreed, including a number of post-termination covenants which are now standard for all our senior executives. Further details are set out in the directors' remuneration report on page 75.

A conditional offer was made to Nick in October 2018 before Rooney's intention to step down was announced in November 2018. Following confirmation of his intended appointment in January 2019, Nick Mackenzie joined the board on 1 May 2019.

RECRUITMENT OF SANDRA TURNER

The committee has been working to appoint an additional female non-executive director for some time. The Zygos Partnership (acquired by Russell Reynolds in December 2017) assisted the committee in relation to the search. From a long list of candidates a short list was drawn up for the chairman to interview. The preferred candidate, Sandra Turner, then met other members of the board and in due course the committee agreed to recommend her appointment to the board. Sandra has many years' experience in the consumer goods and retail sectors, including for Wilkinson Sword, Unilever and Tesco, where she was commercial director of Tesco Ireland, and will bring to the board a strong mix of experience from both these and various non-executive roles in diverse consumer-oriented companies. Her appointment was effective from 1 May 2019.

NOMINATION COMMITTEE REPORT CONTINUED

BOARD AND MANAGEMENT SUCCESSION PLANNING AND TALENT

Rob Rowley has indicated to the board that he currently plans not to seek re-election at our 2021 AGM. The committee has therefore recently begun the process of recruiting a new non-executive director who will be able to take over in due course as chairman of the audit and risk committee. The Lygon Group, 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, has been appointed to assist in relation to the search. A specification has been drawn up with a view to preferably finding a current or recently retired FTSE100 chief financial officer and work is under way to identify and interview potential candidates.

Wider group succession plans and talent were also considered by the committee during the year, with the group HR director reporting on the company's ongoing talent review, covering both career development programmes and the apprenticeship schemes operated by the company, as well as more specific information on the senior management team. The committee will continue to monitor management's progress in increasing diversity at all levels of employment and in improving recruitment, retention and career progression opportunities across the group.

OTHER MATTERS CONSIDERED BY THE COMMITTEE

The first three year term of the chairman, Philip Yea, was due to expire in February 2019 and, ahead of that, and led by Rob Rowley as senior independent director, an evaluation of the chairman was undertaken as a result of which it was agreed to reappoint Philip Yea for a further term of three years. The committee also reviewed the composition of the various board committees and determined that, other than asking Sandra Turner to join all of the committees, no changes were required to the composition of the board committees.

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 internal evaluation exercise was undertaken in relation to the board and its committees. The evaluation report for the committee was reviewed in detail and agreement was reached on the key point raised, namely oversight of the company's diversity and inclusion activities.

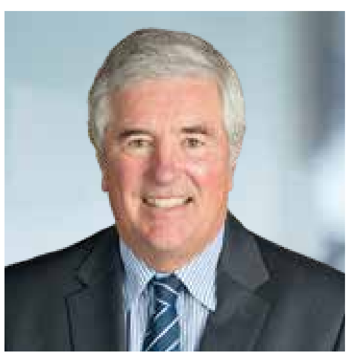
Other matters considered by the committee during the year included the training requirements of the directors and the committee's terms of reference. It was agreed during the year to update the terms of reference of the committee, with effect from 1 May 2019, as part of a wider exercise looking at all of the key board governance documents.

DIVERSITY

The board approves of the principle of trying to improve its diversity and in particular to recruit more women into senior management and director roles. It acknowledges the Hampton review's recommendations that boards of FTSE 350 companies should aim for a minimum 33% female representation by 2020. There are currently two female directors on the board, Sandra Turner and Lynne Weedall, out of a board of eight members. Further board rotation planned in 2020 will provide another opportunity to improve diversity generally and to increase female membership of the board, and to ensure that there remains a suitable range of skills, experience and knowledge across the board members.

The board also recognises the need to improve the diversity of the company's middle and senior executive cohorts, and is committed to helping management take all reasonable steps to improve the diversity mix at senior levels during the coming years.

AUDIT AND RISK COMMITTEE REPORT



"IMPLEMENTATION OF THE NEW ACCOUNTING STANDARD IFRS 16 WAS A KEY FOCUS AREA DURING THE YEAR, GIVEN ITS EFFECTIVE START DATE OF 29 APRIL 2019."

This is my third year as chairman of the audit and risk committee and I am pleased to introduce our report for 2018/19. 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: implementation of the new accounting standard IFRS 16; the year-end financial statements, including the viability statement, interim report and associated audit matters; compliance with the General Data Protection Regulation; estimation of deferred tax; 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. Since the year end Sandra Turner has been appointed to the board and also joined the committee.

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 auditors, and reviews the quality and effectiveness of both the internal and the external audit. In addition, the committee is responsible for considering the company's whistleblowing 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. For further information please see the risk management section on page 52. The committee receives regular updates on regulatory, accounting and reporting developments and their application to the company.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

OPERATION OF THE COMMITTEE

The committee held four meetings during the year. Attendance at these meetings by the committee members is shown in the table on page 65. On each occasion the chairman of the committee, external auditors, chief financial officer and senior members of the finance function attended, as well as the company secretary, head of risk and members of the internal audit function. By rotation, senior 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 identified for the coming year include an increased focus on risk appetite.

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 below. The committee also reviewed management's attestation paper setting out the information that had been provided to the external auditor to enable it to form its opinion on the group's financial statements and demonstrating that it was appropriate for the directors to make the representations set out in the letter of representation.

SIGNIFICANT ISSUES CONSIDERED BY THE AUDIT AND RISK COMMITTEE IN RELATION TO THE FINANCIAL STATEMENTS FOR 2018/19

Matter considered	What the committee did
Estimation of deferred tax	The committee reviewed the results of testing by the external auditor and considered the scope and detailed analysis performed by management. Particular attention was given to historical tax arrangements where deferred tax impacts were complex and the classification of certain adjustments that impacted the determined tax basis. Following the implementation of an agreed scope and approach, the committee was satisfied that the risk of material error had been appropriately mitigated.
Impairment of property, plant and equipment and intangible assets	The committee continued to review the impairment analysis with management and results of their testing with the external auditor. The committee paid particular attention to the testing over the arithmetic accuracy and consistency of the impairment model, the key assumptions used by management in the model and the purpose of and rationale for management's manual adjustment of the model's automated calculations where appropriate. The committee noted a reduction in management manual adjustments in the impairment model. The committee also reviewed the valuation of the legacy Greene King estate by Christie & Co and the valuation of the legacy Spirit estate by Colliers during the year. 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. The committee reviewed the updated valuation of goodwill and noted no issues with recoverability. The committee also determined that the assumptions used in the valuation performed by management were appropriate.
IFRS 16 accounting standards (leases)	Due to the company's large portfolio of leases, the committee spent time during the year considering reports from management on the new accounting standard IFRS 16 (leases) and its impact on both the group's consolidated results and financial position. The committee agreed the use of the modified retrospective approach due to the age and complexity of the estate. The committee discussed with management the impact on the forecast FY20 figures as well as long term incentive performance targets and agreed the approach that each division should take when assessing performance measures. The committee determined that management's plan to implement IFRS 16 was on track for the group's effective start date of 29 April 2019.
Revenue recognition	The committee noted the potential fraud risk associated with the recognition of revenue across the group, but concurred with the external auditor that the large number of individual pubs in Pub Company and Pub Partners meant there was a low inherent risk of material fraud occurring undetected. This was further mitigated by the work of the internal retail audit team. The committee satisfied itself that there were sufficient controls and reconciliations to eliminate the additional risk of management override and to ensure proper revenue cut off at the year end, and were therefore satisfied that the revenue recognised in the year was materially correct.

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. The committee then recommended to the board that it could make the required disclosure as set out on page 65.

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 external auditor independence and objectivity and the external auditor's compliance with the FRC's ethical standard and has a policy in relation to the use of the external 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.

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. These financial restrictions apply in all situations and the audit and risk committee is required to pre-approve all non-audit services. Any single piece of 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 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 issuance of a comfort letter regarding a bond issuance relating to the Greene King securitisation. The total fees earned by Ernst & Young LLP during the year amounted to £667k of which £95k (14%) 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 LLP have been the auditor since then, with an annual rolling contract and subject to an annual shareholder vote at the AGM. Ernst & Young LLP are required to rotate the audit partner responsible for the group every five years and 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 the light of the transitional provisions on audit matters thereunder which allow a period until April 2024 before an audit tender and change is required the committee recommended to the board, and the board accepted the recommendation, that Ernst & Young LLP should be retained as the group's external auditor for the time being. The committee has decided to commence planning for a full audit tender, in which Ernst & Young LLP will not be permitted to partake, during 2019/20, so that the new external auditor would be ready for the start of the 2021/22 financial year. The company was in compliance with the Order during the year.

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

INTERNAL AUDIT

The company's internal audit function is responsible for reviewing the effectiveness and efficiency of the systems of internal control in place to safeguard the assets of the company. Under the terms of reference for the function, the internal audit team has direct access to the audit 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.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

STATUTORY CODE

Our tenanted and leased division, Pub Partners, is committed to the ongoing compliance of the Pubs Code etc. Regulations 2016 (the Code). A compliance report was prepared by the Code Compliance Officer (CCO) for the reporting period 1 April 2018 to 31 March 2019 and submitted to the committee. During the reporting period, the company was not subject to any investigations, enforcement or representations in reference to unfair business practices by the Pubs Code Adjudicator (PCA). The company participated in the Beer Duty and Waste consultation, published by the PCA in November 2018, and has begun implementing the changes required following the publication of the statutory guidance in April 2019, which comes into effect on 1 July 2019. All new and existing Business Development Managers received Code training and further supplemental Code support through team meetings, briefings and bulletins.

During the reporting period, the company received 23 market rent only notices, of which 18 were accepted. One Code-related complaint was received in relation to a breach of Regulation 41(4), provision of discussion notes. The complaint was dealt with under the company's established complaints procedure and the breach was upheld. Four referrals were made to the PCA, three of which were withdrawn following agreeable negotiations and resolutions between the parties, and one referral remains open.

The report was approved by the chairman of the committee to enable submission to the Pubs Code Adjudicator in July 2019.

OTHER MATTERS CONSIDERED DURING THE YEAR

Throughout the year the committee continued to review management's plans and risk based approach for compliance with the General Data Protection Regulation. The committee also received regular reports from management on cyber security issues and how external threats were managed. Significant investment continued to be made in hardware, software and user awareness and management 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 whistleblowing policy and its application across the business. All whistleblowing reports were investigated by the employee relations team and resolved satisfactorily, with no significant issues emerging.

The terms of reference of the committee were also reviewed during the year and updated, with effect from 1 May 2019, to recognise the additional reporting obligations in regard to section 172 of the Companies Act 2006 and to reflect the requirements of the UK Corporate Governance Code 2018.

The committee reviewed and proposed the company's group tax strategy to the board which was approved and published on its website in May 2019.

INTERNAL CONTROL AND RISK MANAGEMENT

As disclosed in the risks and uncertainties section of this report on page 54, there is an on-going process for identifying, evaluating and managing the principal risks faced by the company. The board has overall responsibility for the group's risk management framework and systems of internal control and for reviewing their effectiveness, whilst the audit 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;
- 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 network user access, statutory code compliance, 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 TRANSITION FROM ROONEY ANAND TO NICK MACKENZIE WAS DISCUSSED WITH A NUMBER OF OUR LARGER SHAREHOLDERS."

ANNUAL STATEMENT

Dear shareholder

I am pleased to present to you the directors' remuneration report for the year ended 28 April 2019.

During the year the remuneration committee considered a number of matters including:

- 2018/19 performance and remuneration outcomes
- The leadership changes at Greene King
- 2019/20 remuneration approach
- Appropriate responses to recent feedback received from leading investors
- Changes in remuneration practice and governance, including those arising from the revised UK corporate governance code to which we are subject in 2019/20

I have summarised the key points for you in the sections below.

2018/19 PERFORMANCE AND REMUNERATION OUTCOMES

As described in the strategic report, 2018/19 was a year of market outperformance with our teams maximising the opportunities presented by the good weather and the World Cup, whilst delivering on our cost mitigation programme. Reflecting this, total revenue was up 1.8% and group profit before tax and exceptional and non-underlying items was up by 1.6% to £246.9m.

Progress was also made on other aspects of the strategic pillars underlying the annual business plan. In particular, our customer measures, net promoter score and TripAdvisor ratings, continued to show improvement. The investment in our people in both staff benefits and improved training in addition to our focus on wellbeing helped to maintain our engagement levels. As I set out last year, both our customer and employee KPIs are important lead indicators of business health that we will continue to focus on during 2019/20.

Reflecting this strong performance against the stretching targets set at the beginning of the year, bonus pay outs for the year were 77.0% of opportunity for Rooney Anand, the chief executive (2018/19: 43.3%) and 62.8% of opportunity for Richard Smothers, the chief financial officer (2018/19: 35.0%). Full details of the performance against each element of the bonus is set out on page 85.

The 2016 LTIP will not vest as the performance conditions were not met.

The committee believes that the bonus and LTIP outcomes appropriately reflected the broader performance of the company. As a result, no adjustments to the performance outcomes achieved were made by the committee in respect of either plan.

LEADERSHIP CHANGES

It is very important that shareholders read the nomination committee report as well as the report of the remuneration committee to understand the full context for the actions which were taken by both committees with regards to leadership changes at Greene King in our 2018/19 financial year.

As set out by the chairman, Rooney Anand left Greene King on 5 May 2019 after 14 years as chief executive. During his tenure Rooney transformed the business and I would like to take this opportunity to thank Rooney for his contribution to Greene King. Details of Rooney's leaving arrangements are set out below and also on page 89.

The arrangements which were applied to Rooney's departure were in line with our remuneration policy and also, we believe, necessary and appropriate to secure the best outcome for the company and its shareholders.

DIRECTORS' REMUNERATION REPORT CONTINUED

As explained fully in the nomination committee report, throughout the period in which Rooney was our chief executive, Rooney remained engaged on the contractual terms of his original 2004 letter of appointment. The terms of this contract were, however, insufficient to provide for the smooth succession process which was needed for Greene King in 2018/19. Specifically, the requirement for Rooney to give the company only six months' notice could have left the company exposed in the process of finding an appropriate successor, and the absence from Rooney's 2004 contractual terms of what would now be regarded as standard post-termination restrictive covenants posed a real risk to the company's business at a time of leadership transition.

- Rooney's intention to leave the business was announced on 6 November 2018.
- Rooney continued to work as our chief executive until the end of the 2018/19 financial year. During this period Rooney remained fully focused and led the team to the 2018/19 result described above. This provided much needed stability for the business in what could otherwise have been a period of uncertainty. This stability in the business also allowed an appropriate search to be undertaken for Rooney's successor.
- Rooney additionally entered into a settlement agreement that provides important commercial protections for the Company until May 2020. During the period of one year from his departure, Rooney is prohibited from taking on an executive position with 18 named competitors (or any non-executive role with the most significant nine of these companies). He is also restricted in the same period from soliciting any of the existing Greene King executives to work for him in any other business. He has also agreed to indemnify the company for any loss should these covenants be breached.
- The remuneration treatments which we have applied to Rooney reflect all of the above and are, we believe, appropriate and strongly in shareholders' best interests to secure the best outcomes for the company:
  - As Rooney worked the full 2018/19 year, he remained eligible to receive a bonus for 2018/19 subject to the achievement of the applicable performance conditions (as described above and as fully disclosed on page 85 of this report).
  - Rooney has been treated as a 'good leaver' and allowed to retain his LTIP awards granted in 2016, 2017 and 2018, but these will only vest subject to achievement of the original performance conditions which will be applied three years after the grant of each award, and subject to time pro-rating for any vested shares. To the extent that the 2017 and 2018 awards vest, a further two-year holding period will apply.
  - A payment of £850,000 (broadly equivalent to one year's fixed pay (salary, pension contributions and benefits)) was paid in May 2019 in consideration of Rooney agreeing to the post-termination covenants and indemnities described above. This amount is comparable to what the company would have had to pay had we given Rooney 12 months' contractual notice on 1 May 2019, but that theoretical scenario would not have benefited from the very important covenants which were secured.

Nick Mackenzie joined us as chief executive on 1 May 2019 and brings broad experience of the leisure industry and knowledge of the pub business. His joining arrangements are set out on page 90, but include:

- A base salary which is lower than that of our prior chief executive. The committee is aware of the practice of phasing base salary increases for newly appointed executive directors; however, as Nick's salary level is both appropriate and market aligned, there is no intention to 'catch-up' to the level of the previous chief executive's salary in the short term. Any future increases will be aligned with our remuneration policy and will be fully set out in the relevant remuneration report.
- Pension contributions at 15% of base salary per annum, which are also lower than those of our prior chief executive (25% of base salary); and
- No 'buy-out awards' in respect of his pay arrangements at his previous employer.

As a committee we have listened carefully to the strong case made by shareholders in early 2019 regarding the 'fairness' of executive directors' pension contribution rates being aligned to those available to the majority of the workforce. Our offer of appointment terms to Nick was originally made in October 2018 and so pre-dated these developments, but we have committed to undertaking a company-wide review of pensions in 2019 to better understand the granularity of the issue at Greene King further. We expect to disclose the outcomes of this review as part of our 2020 directors' remuneration report and (if appropriate) as part of our three-yearly renewal of our directors' remuneration policy which will take place at the 2020 AGM. We will also consider our policy on share ownership requirements beyond cessation of employment as we prepare for the 2020 AGM.

During the spring of 2019 we met with a number of our larger investors and the leading proxy advisory agencies to discuss a broad range of governance matters, and at these meetings one of the topics discussed was the terms of the transition from Rooney to Nick as chief executive, including the remuneration treatments for both individuals. We received generally positive feedback from the majority of those with whom we met, and the commercial value of the arrangements was acknowledged, for which we are very grateful.

2019/20 REMUNERATION APPROACH

The committee's intended approach to executive remuneration for 2019/20 is set out on pages 89 to 91. I would like to draw your attention to the following points:

Salary: Nick Mackenzie's salary at £600,000 is £45,000 below that of Rooney Anand. Richard Smothers' salary is unchanged for 2019/20.

Pension and benefits: As set out above, Nick Mackenzie's pension benefit is 10% lower than that of Rooney Anand. All other benefits are as set out in the policy report on pages 78 to 83. Richard Smothers' pension and other benefits are unchanged from the prior year.

Bonus: the maximum bonus opportunity for both executive directors remains at 150% for 2019/20. Our policy towards the level of on-target bonus remains unchanged: we are committed to paying no more than 50% of maximum bonus at on-target achievement, and in certain years may set the level of payment for on-target below 50% of maximum if appropriate. This was the case in 2018/19 (and remains the case in 2019/20) where on-target bonus is set at 30% of maximum to ensure appropriate affordability of bonus within our business plan. In line with our policy, the bonus measures continue to be weighted towards financial metrics, however, the committee continues to believe that a balance of financial and non-financial metrics are key to the future success of the business and will deliver sustainable shareholder value.

LTIP: LTIP awards will remain at 150% for both executive directors for 2019/20. The measures and weightings are unchanged from 2018/19.

DEVELOPMENTS IN REMUNERATION PRACTICE AND GOVERNANCE

During 2018/19 the committee considered the revisions to the UK Corporate Governance Code on remuneration matters. Although we will fully report on the committee's response to the new code in our directors' remuneration report for 2019/20, the committee has already undertaken some actions which it was appropriate to initiate at an early stage. These include:

- clarifying the committee's ability to adjust purely formulaic outcomes for all incentive plans;
- supporting the whole board's initiative to develop good structures for employee engagement and establishing regular meaningful dialogue with employees through the Your Voice employee engagement forums;
- inclusion of the remuneration of the company secretary in the definition of senior executives within the committee's terms of reference; and
- from 2019, receiving an annual report on reward structures across our entire workforce enabling the committee to have an informed insight on how pay arrangements across our organisation support our strategy.

The committee continues to be very mindful of investor views and interest in executive remuneration and the governance around executive remuneration and disclosure. We will continue to make changes at the relevant time and will be carefully considering feedback and seeking views from our larger shareholders and proxy agencies as we review our directors' remuneration policy during 2019/20.

I would like to thank again all our shareholders who have invested time in considering and providing feedback on executive remuneration at Greene King over the past year. I am happy to receive feedback from our shareholders at any time in relation to our remuneration policies.

Shareholders will be asked to approve as a normal business matter the annual advisory vote on our directors' remuneration report at the forthcoming AGM. Whilst the directors' remuneration policy (approved at our 2017 AGM) is not required to be presented for shareholders' approval this year, it has been set out in full in this report to assist you in reviewing the directors' remuneration report. I hope to receive your support in relation to our directors' remuneration report.

Lynne Weedall
Chairman of the remuneration committee
26 June 2019

DIRECTORS' REMUNERATION REPORT CONTINUED

POLICY REPORT (UNAUDITED)

This section of the report summarises Greene King's current directors' remuneration policy which was approved at the 2017 AGM by 93% of shareholders who voted.

The policy as approved by shareholders is available to view on our website as part of the 2017 annual report (www.greeneking.co.uk/investor-centre). No changes have been made to the policy for 2019/20.

The summary of the policy set out in the following pages is for information only. It reproduces the main sections of our 2017 policy but updated to provide additional relevant information as follows:

- The indicative total remuneration levels charts have been updated to include Nick Mackenzie and Richard Smothers
- The service contracts section includes details on Nick Mackenzie's contract
- The non-executive directors' appointments section has been updated to include the date of Sandra Turner's appointment.

Any other changes in the following summary of the policy are minor and provide appropriate cross references to the main annual report on remuneration.

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 83.

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, 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 2018/19 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 page 85. 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.

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%[1] for the chief executive and 20% for the chief financial officer.	–
Benefits	To be appropriately competitive with those offered at comparator companies.	Benefits comprise the provision of company cars (or cash allowances in lieu thereof), fuel for company cars, life assurance, permanent health insurance and private medical insurance.	Benefits are reviewed periodically in line with market practice and are not pensionable.	–
All employee share schemes	All employees, including executive directors, have the opportunity to build their shareholding in a tax-efficient way by participating in the company's HMRC approved sharesave scheme.	Employees are invited to participate in the sharesave in January each year provided that they have the requisite service.	The maximum saving under the sharesave scheme will be no more than HMRC approved limits, allowing employees to buy company shares at up to a 20% discount at the end of a three or five year savings period.	–

1. Pension contribution for Nick Mackenzie is 15%. See page 90 for his remuneration arrangement.

DIRECTORS' REMUNERATION REPORT CONTINUED

Notes:

1. A description of how the company intends to implement the policy set out in this table for 2019/20 is set out in the annual report on remuneration on pages 89 to 91.

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 both the delivery of profit growth, key financial metrics, strategic performance indicators and specific individual objectives. Details of the performance metrics for 2018/19 and 2019/20 are set out on pages 85 and 90.

3. 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. Details of the performance conditions and targets for the 2019/20 awards are set out on page 91.

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 qualifying 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) 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).

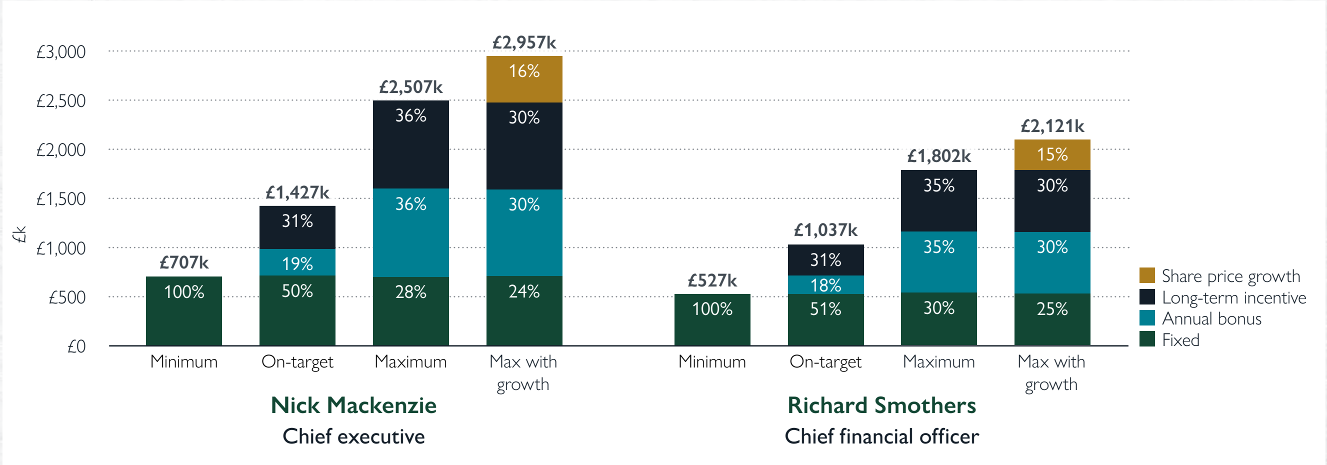
   While performance conditions will generally remain unchanged once set, the committee has the usual discretions to amend the measures, weightings and targets in exceptional circumstances (such as a major transaction) where the original conditions would cease to operate as intended. Any such changes would 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.

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 30% of the maximum award for the purposes of these illustrations to reflect the on target opportunity for 2019/20. The actual on-target level may vary from year to year, with 50% being considered the normal level of opportunity.
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. The basis of the calculation of the share price appreciation in the maximum with growth column is that the share price is assumed to increase by 50% across the performance period.

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 on-going remuneration obligations existing prior to appointment may continue, provided that they are put to shareholders for approval at the earliest opportunity.

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

Service agreements and exit payment policy

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

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

DIRECTORS' REMUNERATION REPORT CONTINUED

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.

Nick Mackenzie's employment, which commenced on 1 May 2019, also his date of appointment to the board, is subject to the terms of a contract dated 17 November 2018. 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.

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 – chairman	2 February 2016	1 February 2022
Mike Coupe	26 July 2011	25 July 2020
Gordon Fryett	1 December 2016	30 November 2019
Rob Rowley	18 July 2014	17 July 2020
Sandra Turner	1 May 2019	30 April 2022
Lynne Weedall	11 October 2012	10 October 2021

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 the 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.

In December 2018, it was agreed that Rooney Anand could take up a paid non-executive role as chairman of Casual Dining Group once his successor had been confirmed, provided the role took no more than one working day per month for the balance of his notice period.

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 and also during the spring of 2019 to discuss a broad range of governance matters, including the terms of the transition from Rooney to Nick as chief executive.

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.

During the year employee communication forums (Your Voice) were established to enable two way communications between our employees and the management team and board. A range of matters have been discussed and whilst executive remuneration has not been raised to date, the committee would consider any feedback when making its decisions on executive remuneration.

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 in 2018/19

The remuneration committee is appointed by the board. The members were 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.

The committee also notes and welcomes the UK financial reporting council's review of the UK corporate governance code and the directors remuneration reporting regulation changes. As set out through this report and in the chair's introductory letter, a number of changes have been made in response to these items and the committee looks forward to explaining how further changes have been implemented in next year's report.

During the year there were four scheduled meetings of the committee. Attendance at these meetings is shown in the table on page 65.

Advisers to the remuneration committee

FIT Remuneration Consultants LLP (FIT) provide advice to the committee on general remuneration matters and comparator information. The committee is satisfied that FIT are independent advisers to the committee as they do not provide any other services to the company. Fees paid during the year to FIT in respect of advice to the committee, generally charged on a time spent basis, were £66,224 plus VAT. FIT were appointed by the committee in 2016 on the basis of their experience.

The committee also took advice from Deloitte LLP and Addleshaw Goddard during the year in connection with the senior leadership changes. Their fees were £8,500 and £17,500 respectively. Both firms were appointed by the committee and their fees were charged on standard terms. At the invitation of the committee, except where their own remuneration was being discussed, the following people attended meetings and provided advice to the committee: Philip Yea (chairman), Rooney Anand (chief executive) and Andrew Bush (group HR director).

DIRECTORS' REMUNERATION REPORT CONTINUED

Shareholder voting at the 2018 AGM

The table below shows the results of the advisory vote on the 2017/18 directors' remuneration report at the AGM held in September 2018.

	Votes for	Percentage	Votes against	Percentage	Votes withheld
Approval of the remuneration report [1]	209,958,040	99.46%	1,131,248	0.54%	11,712,806

1. Details of the binding vote on the remuneration policy are provided on page 78.

Audited information

Single figure of remuneration

The tables below show the details of the total remuneration paid to each director in 2018/19 and 2017/18.

Executive directors	Salary or fees [1] £'000	Taxable benefits [2] £'000	Pension-related benefits [3] £'000	Annual bonus £'000	Long-term incentives [4] £'000	Total £'000
Rooney Anand						
2018/19	645	29	161	745	–	1,580[5]
2017/18	645	29	161	419	–	1,254
Richard Smothers [6]					–	
2018/19	425	17	85	400	–	927
2017/18	172	7	34	90	–	303

Non-executive directors	Salary or fees £'000	Taxable benefits £'000	Pension-related benefits £'000	Annual bonus £'000	Long-term incentives £'000	Total £'000
Philip Yea						
2018/19	250	–	–	–	–	250
2017/18	250	–	–	–	–	250
Mike Coupe						
2018/19	50	–	–	–	–	50
2017/18	50	–	–	–	–	50
Gordon Fryett						
2018/19	50	–	–	–	–	50
2017/18	50	–	–	–	–	50
Rob Rowley [7]						
2018/19	60	–	–	–	–	60
2017/18	60	–	–	–	–	60
Lynne Weedall [7]						
2018/19	60	–	–	–	–	60
2017/18	60	–	–	–	–	60

Notes:

1. There were no increases to fees or salaries from 2017/18 to 2018/19 as set out in the 2017/18 report.
2. Taxable benefits comprised a car allowance, fuel allowance (for Rooney Anand), life assurance, permanent health insurance, health screening and private medical insurance.
3. Pension benefits for the executive directors comprised cash in lieu of pension contributions and were in line with the policy table on page 79.
4. Long term incentives in 2018/19 comprised the value of the awards granted in July 2016, which were due to vest in July 2019. These awards were subject to performance targets measured over the three years to May 2019. As set out on page 86, these awards failed to meet the minimum performance conditions and as such the value of the award has been stated as nil. As set out in the 2017/18 report, awards granted in 2015 also failed to vest.
5. Further details of Rooney Anand's termination arrangements are set out on page 89.
6. Richard Smothers joined the company on 4 December 2017 and the 2017/18 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. 2018/19 data reflects a full year of employment.
7. Rob Rowley and Lynne Weedall continue to receive an additional fee of £10,000 over the base fee of £50,000 for chairing the audit and risk committee and the remuneration committee respectively.
8. In 2017/18 Kirk Davis was employed as a director until 31 January 2018 when he resigned from the board and left the company. His single figure of remuneration for 2017/18 was £475,000. Full details are provided in the 2017/18 directors remuneration report on pages 64 and 65.

2018/19 annual bonus outcome

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

The targets for the 2018/19 bonus were not disclosed in the 2017/18 report due to commercial sensitivity. Full details of the weightings, targets and performance against those targets are set out in the tables below. Performance against the combined financial and individual targets resulted in bonuses being paid at £744,975 (115.5% of salary and 77.0% of maximum bonus opportunity) for Rooney Anand and £400,350 (94.2% of salary and 62.8% of maximum bonus opportunity) for Richard Smothers.

71.7% of Rooney Anand's bonus was based on financial and other objective measures. The remaining 28.3% was based on personal objectives, the key criteria of which were the identification and development of credible successors for the chief executive role and how those options were developed in conjunction with Philip Yea, the chairman. The relative weighting of the 2018/19 bonus to these objectives reflected the strategic importance of this work to the business as a whole. After careful consideration, given the smoothness of the handover between Rooney and Nick Mackenzie and the degree of cooperation between him and the chairman on this crucial activity and the quality of other senior leaders recruited during this period of transition, the committee decided to award Rooney the maximum level for this element of the 2018/19 bonus. Given the commercial and personal sensitivities regarding this element of 2018/19 bonus, it is not possible to give further disclosure of the specific actions which ensured the successful delivery of these objectives.

As set out on page 90, the policy requires any bonus payable in excess of 100% of salary, after tax, to be reinvested in shares and held by Rooney for one year.

86.7% of Richard Smothers' bonus was based on financial and other objective measures. The 13.3% relating to personal targets was based on securing changes to the capital structure of the group and improvements to internal financial reporting. The committee considered feedback from the chief executive when making their recommendation and decided to award 11.7% of the maximum award for this element.

The committee believes that the payments are reflective of the overall 2018/19 performance of the company.

	Percentage of maximum bonus	Target range	Actual performance	Bonus awarded as a percentage of maximum
Rooney Anand				
PBTE	46.7%	£220.52m – £258.88m	£246.9m	26.3%
Free cash flow	20.0%	£55.84m – £65.56m	£86.0m	20.0%
Pub company customer net promoter score	5.0%	59.0 – 64.0	62.5	2.4%
Personal targets	28.3%	see commentary above	see commentary above	28.3%
Total	100.0%			77.0%

	Percentage of maximum bonus	Target range	Actual performance	Bonus awarded as a percentage of maximum
Richard Smothers				
PBTE	46.7%	£220.52m – £258.88m	£246.9m	26.3%
Free cash flow	20.0%	£55.84m – £65.56m	£86.0m	20.0%
Pub company customer net promoter score	10.0%	59.0 – 64.0	62.5	4.8%
Staff engagement	10.0%	64.0 – 67.0	62.0	0.0%
Personal targets	13.3%	see commentary above	see commentary above	11.7%
Total	100.0%			62.8%

DIRECTORS' REMUNERATION REPORT CONTINUED

Vesting of 2016 long-term incentive awards

The LTIP awards granted on 28 July 2016 were based on EPS and ROCE targets with a three year performance period ended 28 April 2019. The performance conditions did not achieve the minimum level of performance and as such, all outstanding 2016 LTIP awards will lapse on the third anniversary of their grant on 29 July 2019.

2018 LTIP awards

As set out in the 2018 remuneration report, the LTIP awards made in 2018 were 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 2021. 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, weighting and targets applicable to the 2018 LTIP awards were disclosed in the 2018 report and are also set out in the table below.

Target and weighting	ROCE[1]: 50%	Adjusted basic EPS[1]: 25%	Free cash flow[2]: 25%
100% vesting	8.70%	72.6p	£210m
50% vesting	8.50%	68.5p	£195m
20% vesting	8.20%	64.6p	£185m

1. Measured for 2020/21.
2. Three year aggregate free cash flow to the end of 2020/21.

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.

Details of the awards granted to Rooney Anand and Richard Smothers on 19 July 2018 are as follows:

Director	Scheme	Type of award	Basis of award granted	Share price used for award purposes	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	543.4p	178,045	£967,500	April 2018 – April 2021	19 July 2021 – 19 July 2023	20 July 2023 – 18 July 2028
Richard Smothers	LTIP	nil-cost option	150% of salary of £425,000	543.4p	117,316	£637,500	April 2018 – April 2021	19 July 2021 – 19 July 2023	20 July 2023 – 18 July 2028

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 29 April 2018	Granted during the period	Vested during the period	Lapsed during the period	Outstanding at 28 April 2019[3]	Performance period
Rooney Anand	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 [2]	nil	81,302	–	–	–	81,302	May 2016 – May 2019
	28-Jul-16	Growth LTIP [2]	nil	81,302	–	–	–	81,302	May 2016 – May 2019
	19-Sep-17	LTIP	nil	173,294	–	–	–	173,294	May 2017 – May 2020
	19-Jul-18	LTIP	nil	–	178,045	–	–	178,045	April 2018 – April 2021
Richard Smothers	4-Jan-18	LTIP	nil	45,995	–	–	–	45,995	May 2017 – May 2020
	19-Jul-18	LTIP	nil	–	117,316	–	–	117,316	April 2018 – April 2021

1. As set out in the 2017/18 report, the 2015 LTIP awards lapsed during the year.
2. As set out above the 2016 LTIP awards will lapse on the third anniversary of their grant as a result of the performance conditions not having been met.
3. Page 89 sets out details of the treatment of Rooney Anand's outstanding awards.

Interests under the sharesave scheme

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

	Outstanding as at 29 April 2018	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 29 April 2019	Option price (p)	Exercise period
Richard Smothers	–	4,128	–	–	4,128	436p	1 April 2022 – 30 September 2022

Directors' shareholdings and share interests

Under the shareholding guidelines in place, executive directors are 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.

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 28 April 2019 was 704.4p.

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

	At 29 April 2018	At 28 April 2019			
	Legally owned	Legally owned	Subject to performance under the LTIP	Total	Shareholding as percentage of base salary as at 28 April 2019
Executive directors					
Rooney Anand	616,947	616,947	513,943	1,130,890	674%
Richard Smothers[1]	–	9,770	163,311	173,081	16%
Non-executive directors					
Philip Yea	40,000	40,000	–	40,000	–
Mike Coupe	3,690	3,690	–	3,690	–
Gordon Fryett	2,000	2,000	–	2,000	–
Rob Rowley	3,000	3,000	–	3,000	–
Lynne Weedall	3,051	3,051	–	3,051	–

1. In addition to the above Richard Smothers has an interest under the sharesave scheme disclosed above.

There has been no change in the interests of the current directors since 28 April 2019 to the date of this report.

Other information (unaudited)

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% increase	2.3% increase
Taxable benefits	0.0% increase	15.0% decrease
Annual bonus	77.8% increase	27.7% increase

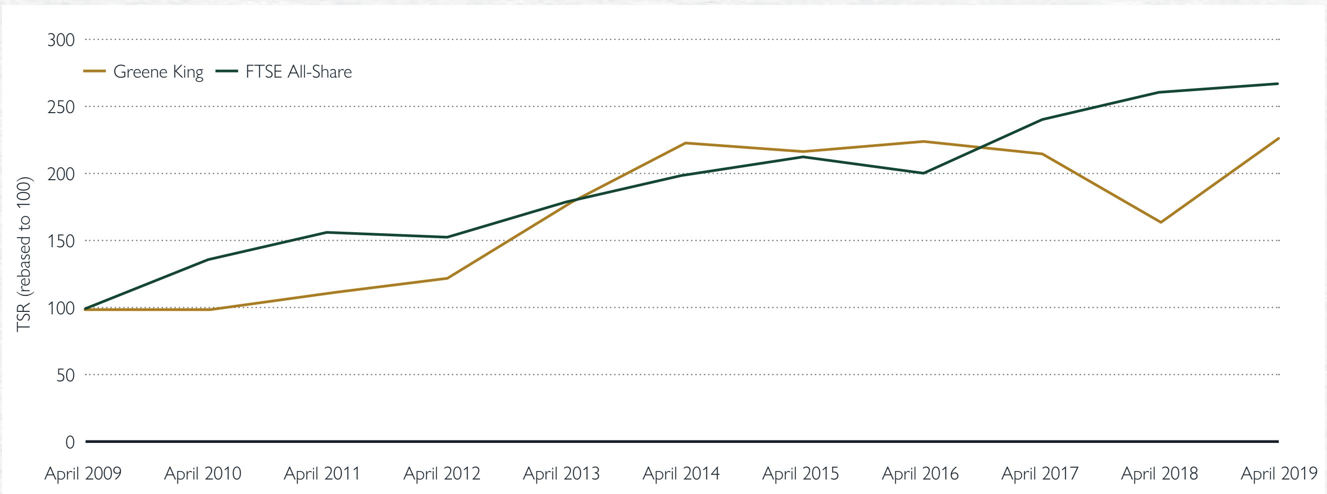
DIRECTORS' REMUNERATION REPORT CONTINUED

Typical pay rises for the group's salaried employees in 2018/19 were in the range of 2.0% to 2.5%. The 2.3% shown above reflects the average salary change for employees. The average cost of benefits for the employee group has decreased due to a change in policy on the provision of medical benefits and a reduction in employees eligible for the company car scheme. The value of the benefits to individual employees in real terms has been maintained.

Details of the bonus payment for Rooney Anand are set out on page 85 and reflect the outcome of the performance measures. All bonuses paid are performance related and the level of payment reflects business and, where relevant, personal performance.

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 ten 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.

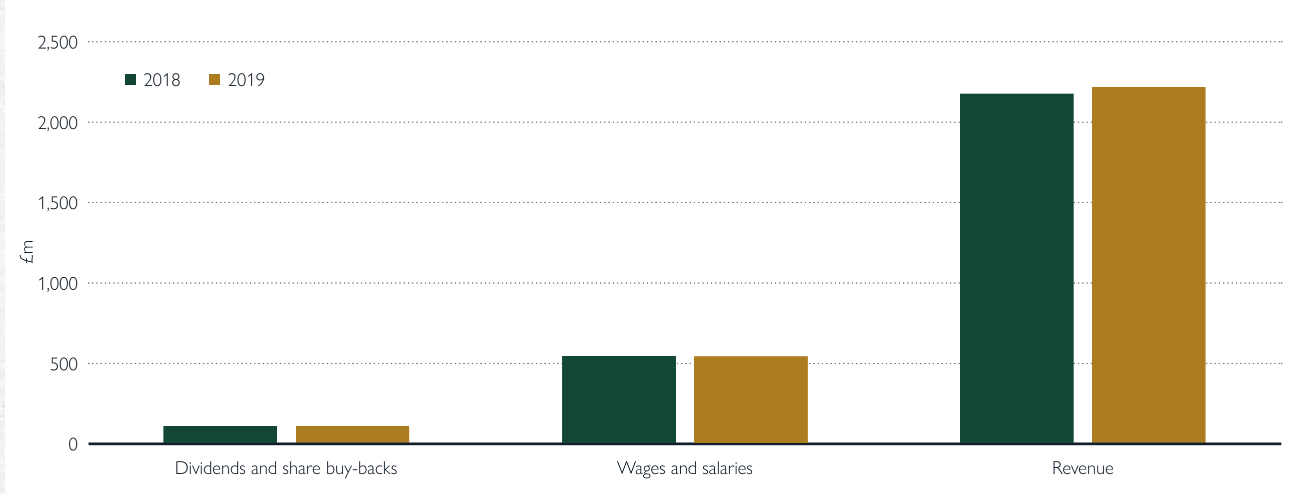


The table below shows the total remuneration for the chief executive over each of the last ten years.

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
CEO single figure (£'000)	1,096	1,406	1,248	2,689	2,517	2,139	2,295	1,154	1,254	1,580
Annual bonus percentage of maximum	97%	100%	75%	72%	97%	60%	97.5%	36%	43%	77%
LTIP percentage of maximum	0%	0%	0%	100%	100%	100%	88%	9%	0%	0%

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

During the year Rooney Anand held the following other directorships. None of these organisations are related parties of the group.

Role	Fee
Non-executive chairman of JB Drinks Holdings Limited	£50k (2017/18 £50k)
Senior independent director for WM Morrison Supermarkets plc	£104k (2017/18 £102k)
Non executive chairman of Casual Dining Group Limited (from December 2018)	£52k (5 months of annual fee of £125k)

Rooney was also appointed chairman of the education and skills charity, Worldskills UK from January 2019. He receives no fee.

Richard Smothers is a non-executive director/trustee at the National Childbirth Trust, chairing the audit, risk and scrutiny committee.
He receives no fee.

Implementation of remuneration policy in 2019/20

Leadership changes

As announced in November 2018, Rooney Anand stepped down as a director of Greene King on 30 April 2019 and ceased employment on 5 May 2019.

The details of Rooney's leaving arrangements were announced in May 2019 and are set out below.

- Rooney received salary, contractual benefits (including pension) and payment for any accrued holiday entitlement up to 5 May 2019.
- In order to secure an appropriate period of managed transition and commercial protection for the business until May 2020, a payment of £850,000 (broadly equivalent to one year's fixed pay (salary, pension contributions and benefits)) was paid on 10 May 2019 in consideration of Rooney agreeing appropriate and clearly enforceable post-termination non-compete and non-solicitation restrictions. During this period, Rooney is prohibited from taking on an executive position with 18 named competitors (or any non-executive role with the most significant nine of these companies).
- As Rooney worked the full 2018/19 year, he received a bonus for 2018/19 as set out on page 85. The remuneration policy requires that, to the extent that any bonus is payable in an amount in excess of 100% of salary, the excess, after any tax, will be reinvested in shares and held by Rooney for one year.
- Following a pro-rata reduction (where relevant) to reflect complete months in the performance period to the date of leaving, Rooney currently holds the following outstanding awards under the company's long term incentive plans (LTIP):
  a. nil-cost options over 115,529 company shares granted in 2017, and
  b. nil-cost options over 59,348 company shares granted in 2018.
- These awards will remain capable of vesting at the normal time subject to achievement of the applicable performance conditions. To the extent that the 2017 and 2018 awards vest, a further two-year holding period will apply. **To note:** as set out on page 86, the 2016 LTIP award fully lapsed as the performance conditions were not achieved.
- Legal fees of £28,187 in connection with Rooney's leaving arrangements were paid directly to third party service providers.
- The payments set out above are in full and final settlement of all claims against the company. Rooney will also be reimbursed for any expenses properly incurred.

DIRECTORS' REMUNERATION REPORT CONTINUED

Nick Mackenzie joined Greene King and the board as chief executive on 1 May 2019. When agreeing Nick's joining arrangements, the committee carefully considered both the level of remuneration required to secure a chief executive with the skills to continue to deliver value for shareholders and to lead Greene King through its next phase of development as well as shareholder feedback on executive remuneration. This included a review of market information from both the hospitality sector and other organisations of a similar size to Greene King. In light of these considerations (and as set out in the following pages), Nick's remuneration is as follows:

Base salary	£600,000
Bonus – as a percentage of base salary	150%
LTIP – as a percentage of base salary	150%
Pension contribution – as a percentage of base salary	15%

Additionally, Nick's contract sets out a notice period of 12 months from both him and the company and contains mitigation provisions, a 12 month restriction on employment by a competitor and a non-solicitation clause. The inclusion of these provisions is aligned with other executives and senior management.

Salary

Executive directors' salaries are generally reviewed annually. The table below provides a summary of executive director salaries with effect from 29 April 2019 and previous year levels where relevant. As set out above, Nick Mackenzie's joining salary is £600,000 and, after a market review of the hospitality sector and other organisations of a similar size to Greene King the committee did not increase Richard Smothers pay for 2019/20.

Name	Position	From 29 April 2019	From 30 April 2018	Percentage increase
Nick Mackenzie	Chief executive	£600,000	n/a	n/a
Richard Smothers	Chief financial officer	£425,000	£425,000	0%

Typical pay increases for the group's salaried employees (which include pub and restaurant managers but exclude colleagues working for them in those pubs and restaurants) were 2.0 – 2.5%.

Pension and benefits

The cash in lieu of pension contributions for Richard Smothers will continue in line with the policy table on page 79. As set out above, the committee considered shareholder feedback when agreeing the level of pension benefits for Nick Mackenzie and reduced the level to 15% (from 25% for Rooney Anand). Benefits will be in line with the policy table on page 79.

Annual bonus for 2019/20

The annual bonus opportunity for 2019/20 for both executive directors will be 150% of salary, in line with the remuneration policy approved by shareholders. 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 2019/20 annual report.

The table below sets out the measures and weightings of the 2019/20 annual bonus for both Nick Mackenzie and Richard Smothers. In line with our policy, the bonus measures continue to be weighted towards financial metrics. However, the committee continues to believe that a balance of financial and non-financial metrics are key to the future success of the business and will deliver sustainable shareholder value. The committee considers that the targets are of the same level of stretch and difficulty as previous years, whilst providing management with then opportunity to be rewarded for delivering performance in a difficult trading environment.

Measures	Nick Mackenzie (weighting as a percentage of maximum opportunity)	Richard Smothers (weighting as a percentage of maximum opportunity)
PBTE	46.7%	46.7%
Free cash flow	20.0%	20.0%
Pub Company net promoter score	10.0%	10.0%
Team engagement	10.0%	10.0%
Personal targets	13.3%	13.3%
Total	100.0%	100.0%

LTIP awards

The awards to be made in 2019 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 in line with the policy on page 79.

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 2022. 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 2019/20 will continue to be based on return on capital employed (ROCE), adjusted basic EPS and cumulative free cash flow. The committee believes that these measures continue to be appropriate on the following basis:

- ROCE ensures that management focuses on generating returns in excess of the cost of capital and 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
- Adjusted basic EPS growth rewards the delivery of growth in profits and is a widely understood profit-based measure across the business; and
- Free cash flow 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 targets are set out in the table below

Target and weighting	ROCE: 50%	Adjusted basic EPS: 25%	Free cash flow: 25%
100% vesting	9.20%	68.5p	£240m
50% vesting	9.00%	64.6p	£220m
20% vesting	8.90%	62.3p	£180m

The performance target ranges shown above reflect the three year plan and will be measured at the end of 2021/22. Accordingly they have been set in anticipation of the impact of IFRS 16, which will apply in the year of measurement. In detail:

- The EPS range shown above reflects a comparable level of stretch to the targets set for prior years. However, the growth takes into account the estimated impact of IFRS 16.
- As for EPS, the ROCE range reflects a comparable level of stretch to the ROCE targets set for prior years. However, the impact of IFRS 16 is to increase positively the inputs to ROCE (particularly operating profit due to the revised recognition of lease expenses) and accordingly the ROCE range as stated for the period to 2021/22 is higher than that for the LTIP awards made in 2018.
- IFRS 16 does not impact free cash flow and, as for the other measures, the targets continue to have the same degree of difficulty and stretch as in prior years.

IFRS 16 will also impact the measurement of the EPS and ROCE performance conditions for the in-flight 2017 and 2018 LTIP awards. The committee will consider the appropriate treatment for these awards during 2019/20 and will provide details in next year's report.

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 2019/20 are as set out below. The chairman and other non executive directors will not be entitled to any benefits.

Name	Position	From 29 April 2019	From 30 April 2018	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%
Sandra Turner[1]	Non-executive director	£50,000	n/a	n/a
Lynne Weedall	Non-executive director	£60,000	£60,000	0.0%

1. Appointed 1 May 2019.

Approved by the board on 26 June 2019

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 28 April 2019. The company has chosen, in accordance with section 414C(11) of the Companies Act 2006, to include matters of strategic importance in the strategic report which otherwise would be required to be disclosed in the directors' report. The following cross-referenced material is incorporated into this directors' report:

Viability statement	page 53
Employees	pages 34 to 37
Greenhouse gas emissions	page 43
Governance report	pages 62 to 67
Statement of directors' responsibilities	page 95

PROFITS AND DIVIDENDS

The group's profit before tax for the period amounted to £246.9m (2018: £197.5m). An interim dividend of 8.8p per share (2018: 8.8p) was paid on 18 January 2019. The directors recommend a final dividend of 24.4p per ordinary share (2018: 24.4p), making a total dividend for the year of 33.2p per share (2018: 33.2p). Subject to the approval of shareholders at the AGM, the final dividend will be paid on 13 September 2019 to shareholders on the register at the close of business on 9 August 2019.

DIRECTORS

Details of the current directors are given on page 60 to 61. After the year end, Rooney Anand resigned from the board on 30 April 2019, having served for 14 years as chief executive. Nick Mackenzie was appointed to the board as the new chief executive on 1 May 2019. Sandra Turner was also appointed as a non-executive director on 1 May 2019.

The board has recommended that all of the current directors offer themselves for re-election at the forthcoming AGM and that Nick Mackenzie and Sandra Turner stand 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' DUTIES

The directors are cognisant of their duty to promote the success of the company in accordance with section 172 of the Companies Act 2006. During the year, processes have been put in place to enable the directors to report in the next annual report the ways in which they have fulfilled their duties.

DIRECTORS' INTERESTS IN SHARES

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

	29 April 2018	28 April 2019
Rooney Anand	616,947	616,947
Mike Coupe	3,690	3,690
Gordon Fryett	2,000	2,000
Rob Rowley	3,000	3,000
Richard Smothers	0	9,770
Lynne Weedall	3,051	3,051
Philip Yea	40,000	40,000

Nick Mackenzie, who was appointed after the year end, held 93,515 shares in Greene King plc on his appointment on 1 May 2019. Sandra Turner, who was also appointed after the year end, holds no shares in Greene King plc. There have been no other changes in the interests of the current directors between 28 April 2019 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:

	29 April 2018	28 April 2019
Standard Life Investments (Holdings) Limited / Standard Life Aberdeen plc	5.00%	5.00%
The Capital Group Companies, Inc	18.22%	9.98%
Royal London Asset Management Limited	3.01%	3.01%
Deutsche Bank AG	8.93%	4.99%
BlackRock, Inc.	6.32%	6.52%
Dimensional Fund Advisors LP	–	5.00%

Between 28 April 2019 and the date of this report the company has been notified of the following significant holdings (3% or more) of voting rights:

	28 April 2019	26 June 2019
BlackRock, Inc.	6.52%	5.83%

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 85,471 ordinary shares, with an aggregate nominal value of £10,683.88 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.

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 18 July 2018. The authority, which has not been exercised, was approved and remains exercisable until the next annual general meeting or 6 December 2019, 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 or their closely associated persons 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.

ARTICLES OF ASSOCIATION

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

APPOINTMENT AND REPLACEMENT OF DIRECTORS

The number of directors on the board shall be no less than five nor more than 12. Directors may be appointed by the company by ordinary resolution or by the board of directors. A director appointed by the board of directors holds office until the next 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.

DIRECTORS' REPORT AND DISCLOSURES CONTINUED

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 60 to 61. Having made enquiries of fellow directors and of the company's auditor, each of these directors confirms that:

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

GOING CONCERN

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

The directors are of the opinion that the group's forecast and projections, which take account of reasonably possible changes in trading performance, and its stress testing to take account of 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 midday on Friday 6 September 2019 at the Millennium Grandstand, Rowley Mile Racecourse Conference Centre, Newmarket, Suffolk. The notice of the AGM is set out in the separate circular to shareholders.

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

By order of the board

Lindsay Keswick
Company secretary
26 June 2019

DIRECTORS' RESPONSIBILITIES STATEMENTS

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- in respect of the group financial statements, state whether IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's financial position and financial performance;
- in respect of the parent company financial statements, state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and/or the group will continue in business.

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

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

DIRECTORS' RESPONSIBILITY STATEMENT

The directors confirm, to the best of their knowledge:

- that the consolidated financial statements are prepared in accordance with IFRSs, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the company and undertakings included in the consolidation taken as a whole;
- that the annual report, including the strategic report, includes a fair review of the development and performance of the business and the position of the company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- having taken into account all matters considered by the board and brought to the attention of the board during the year, the directors consider that the annual report, taken as a whole, is fair, balanced and understandable. The directors believe that the disclosures set out in this annual report provide the information necessary for shareholders to assess the company's performance, business model and strategy.

The directors of Greene King plc are listed on pages 60 to 61.

Phillip E Yea
Director

Nick S Mackenzie
Director

26 June 2019

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

98 Independent auditor's report
106 Group income statement
107 Group statement of comprehensive income
108 Group balance sheet
110 Group cash flow statement
111 Group statement of changes in equity
112 Notes to the accounts
166 Company balance sheet
167 Company statement of changes in equity
168 Notes to the company accounts
174 Alternative performance measures

SHAREHOLDER INFORMATION

179 Shareholder information

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF GREENE KING PLC

OPINION

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 28 April 2019 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 28 April 2019	Company balance sheet as at 28 April 2019
Group income statement for the 52 weeks ended 28 April 2019	Company statement of changes in equity for the 52 weeks ended 28 April 2019
Group statement of comprehensive income for the 52 weeks ended 28 April 2019	Related notes 32 to 43 to the financial statements including a summary of significant accounting policies
Group statement of changes in equity for the 52 weeks ended 28 April 2019	
Group cash flow statement for the 52 weeks ended 28 April 2019	
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 54 to 57 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 52 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 page 112 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- 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 53 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	• 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. • We have identified deferred tax as a significant risk due to the identification of errors in respect of prior periods. This has resulted in the restatement of prior period comparatives in the 2019 accounts. (The detail of this restatement is documented in note 1)
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.
Materiality	• Overall group materiality of £12.1m which represents 5% of profit before tax and exceptional and non-underlying items.

INDEPENDENT AUDITOR'S REPORT CONTINUED

TO THE MEMBERS OF GREENE KING PLC

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 forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How we addressed the key audit matter	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 (2019: £3,543.4m PP&E net book value and £65.0m net impairment charge; 2018: £3,589.2m and £63.3m respectively) *Refer to the audit and risk committee report (pages 71 to 74); accounting policies (pages 118 to 126); and Note 14 of the consolidated financial statements (pages 144 to 146)* Management perform 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 tested, on a sample basis, 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 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 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 matter	How we addressed the key audit matter	Key observations communicated to the audit and risk committee
Revenue recognition, due to the risk of fraudulent recognition of revenue through management override (2019: £2,216.9m, 2018: £2,176.7m) *Refer to the audit and risk committee report (pages 71 to 74); accounting policies (pages 118 to 126); and Note 3 of the consolidated financial statements (pages 127 to 128)* 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; • machine income, where net takings are recognised as earned. Greene King Pub Partners and Pub Company divisions, given their high disaggregation with over 2,500 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 for those controls we have chosen to rely on, we have tested the operating effectiveness of those controls. In addition we have performed the following procedures: – Completed tests of detail on a representative sample of revenue transactions recorded in the period. – Used data analysis tools on 100% of revenue transactions in the year for the largest division, Pub Company division, to test the correlation of revenue to cash receipts to support the occurrence of revenue. – Performed disaggregated analytical review on revenue recorded by division and month to identify unusual or unexpected trends; and – 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.	As a result of the procedures performed, we concluded that revenue had been recognised appropriately in accordance with the revenue recognition policy and accounting standards.
Estimation of deferred tax (2019: net deferred tax asset £29.1m, 2018: £39.5m as restated) *Refer to the audit and risk committee report (pages 71 to 74); accounting policies (pages 118 to 126); and Note 1 of the consolidated financial statements (pages 112 to 118)* We have identified deferred tax as a new significant risk in the current period due to the identification of errors in respect of prior periods. This has resulted in the restatement of prior period comparatives in the 2019 accounts. (The detail of this restatement is documented in note 1.) These errors arose as the result of complexities in the underlying accounting for deferred tax, and the impact on deferred tax of the historic tax planning arrangements entered into not being captured, or not being captured correctly in the calculations prepared by management. • Management has completed a detailed review of the calculation of existing and historic deferred tax balances and assessed the completeness of these balances as at the current and prior period balance sheet dates.	We have audited the 2019 deferred tax position and the restated comparative position. We used specialists in tax accounting to verify the appropriateness of the deferred tax balances calculated by completing the following key procedures: – Reviewed memoranda prepared by management setting out the methodology for calculating each existing deferred tax balance and confirmed that the principles are compliant with IAS 12. – Tested revised calculations of deferred tax and the underlying information prepared by management as at the FY19 and prior balance sheet dates. This included detailed testing of Management's calculation in respect of deferred tax on property, plant and equipment. – Reviewed the accounting and tax bases for balance sheet balances and for consolidation adjustments to assess completeness of deferred tax impacts and accounting. – Reviewed all submitted 2018 tax returns to confirm there are not any other items on which deferred tax should have been recognised to test the completeness of deferred tax balances. – Reconciled the aggregate of profit before tax recorded in the statutory accounts of all subsidiaries to the consolidated profit before tax amount to identify possible further sources of deferred tax not yet considered.	Material errors were identified in respect of prior periods and accordingly the comparative periods have been restated. Disclosure of the nature and magnitude of the restatement is documented in note 1 in accordance with IAS 8. The principal differences identified were as follows: • Incorrect assumptions in respect of accounting depreciation of property, plant and equipment in the deferred tax calculation and inconsistencies in the supporting information were identified; • Deferred tax calculated on the differences between the carrying values of the Spirit bonds and off-market contract liabilities in the group accounts and the equivalent carrying values in the statutory accounts were not calculated correctly; • Deferred tax calculated in respect of complex tax planning arrangements involving derivative contracts and intra-group lease premiums were not calculated correctly. Following correction of the errors in prior period by way of a prior period restatement, we conclude that the deferred tax balances recorded in the current year balance sheet are appropriate and free from material error.

INDEPENDENT AUDITOR'S REPORT CONTINUED

TO THE MEMBERS OF GREENE KING PLC

KEY AUDIT MATTERS CONTINUED

In the prior year, our auditor's report included a key audit matter in relation to **capital expenditure accounting**. Based on our experience and results of our audit in the prior year, we noted that improved processes and controls in place have increased the rigour with which additions are reviewed and approved by management such that the opportunity for items being misclassified between capital and expense is significantly reduced. We therefore do not consider the risk of material error to be significant, and is therefore no longer considered a significant risk and nor was it considered a key audit matter in the current year.

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 division 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 £12.1 million (2018: £12.1 million), which is 5% (2018: 5%) of profit before tax and exceptional and non-underlying items. We used pre-tax profit before exceptional and non-underlying items of £246.9m 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 determine materiality for the company using net assets, a measure chosen due to the nature of the company's business activity, which is that of investment holding. As the materiality calculated under this basis is higher than that for the group, we cap the materiality for the company at that of the group being £12.1m (2018: £13.9m calculated using the net asset calculated materiality).

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% (2018: 75%) of our planning materiality, namely £9.0m (2018: £9.0m). 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 £2.7m to £9.0m (2018: £2.3m to £8.0m).

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 (2018: £0.6m), 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 97 and 179 to 180, 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.

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 95 – 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 71 to 74 – 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 62 – 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.

INDEPENDENT AUDITOR'S REPORT CONTINUED

TO THE MEMBERS OF GREENE KING PLC

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 95, 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.

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 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 54 to 57 including The Pubs Code etc. Regulations 2016, Health & Safety Regulations, 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 who receive 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 they 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 https://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 AGM on 7 September 2018 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 28 April 2019.
- The period of total uninterrupted engagement including previous renewals and reappointments is 21 years, covering the periods ending 2 May 1998 to 28 April 2019.
- 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
26 June 2019

Notes:

1. The maintenance and integrity of the Greene King plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
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 28 APRIL 2019

		2019			2018		
	Note	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) (restated[1]) £m	Total (restated[1]) £m
Revenue	3	2,216.9	–	2,216.9	2,176.7	–	2,176.7
Operating costs	4	(1,848.7)	(53.5)	(1,902.2)	(1,803.6)	(56.1)	(1,859.7)
Operating profit	3,4	368.2	(53.5)	314.7	373.1	(56.1)	317.0
Finance income	7	1.1	–	1.1	1.0	–	1.0
Finance costs	7	(122.4)	(20.6)	(143.0)	(131.1)	10.6	(120.5)
Profit before tax		246.9	(74.1)	172.8	243.0	(45.5)	197.5
Tax	10	(47.1)	(5.3)	(52.4)	(48.6)	34.4	(14.2)
Profit attributable to equity holders of parent		199.8	(79.4)	120.4	194.4	(11.1)	183.3
Earnings per share							
– Basic[1]	12			38.9 p			59.1 p
– Adjusted basic[2]	12	64.5 p			62.7 p		
– Diluted[1]	12			38.7 p			58.9 p
– Adjusted diluted[2]	12	64.3 p			62.6 p		
Dividends per share (paid and proposed in respect of the period)	11			33.2 p			33.2 p

1. Exceptional and non-underlying tax has been restated. As a consequence basic and diluted EPS has been restated. See note 1 for further details.
2. Adjusted basic and diluted earnings per share exclude the effect of exceptional and non-underlying items.

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE 52 WEEKS ENDED 28 APRIL 2019

	Note	2019 £m	2018 (restated[1]) £m
Profit for the period		120.4	183.3
Other comprehensive income to be reclassified to the income statement in subsequent periods			
Cash flow hedges:			
– (Losses)/gains on cash flow hedges taken to other comprehensive income		(21.2)	15.5
– Transfers to income statement on cash flow hedges		21.9	25.6
Deferred tax on cash flow hedges	10	0.6	(7.0)
		1.3	34.1
Items not to be reclassified to the income statement in subsequent periods			
Remeasurement gains on defined benefit pension schemes	9	17.0	21.5
Deferred tax on remeasurement gains	10	(2.9)	(3.6)
		14.1	17.9
Other comprehensive income for the period, net of tax		15.4	52.0
Total comprehensive income for the period, net of tax		135.8	235.3

1. Exceptional and non-underlying tax has been restated. As a consequence profit for the period and total comprehensive income for the period, net of tax has been restated. See note 1 for further details.

GROUP BALANCE SHEET

AS AT 28 APRIL 2019

	Note	As at 28 April 2019 £m	As at 29 April 2018 (restated[1]) £m	As at 30 April 2017 (restated[1]) £m
Non-current assets				
Property, plant and equipment	14	3,537.0	3,589.2	3,621.9
Intangibles	13	112.2	124.7	163.7
Goodwill	13	1,104.7	1,115.5	1,134.6
Financial assets	15	13.4	13.2	16.3
Derivative financial instruments	23	–	1.5	–
Deferred tax assets	10	9.5	20.1	22.9
Post-employment assets	9	32.4	13.6	16.8
Prepayments		0.1	0.2	0.2
Trade and other receivables	18	–	0.1	0.1
		4,809.3	4,878.1	4,976.5
Current assets				
Inventories	17	51.1	47.7	45.0
Financial assets	15	9.0	10.5	10.1
Income tax receivable	10	–	10.2	–
Trade and other receivables	18	89.7	87.5	93.3
Prepayments		32.6	26.3	27.6
Cash and cash equivalents	19	185.3	168.5	443.0
		367.7	350.7	619.0
Property, plant and equipment held for sale	20	6.4	8.6	5.1
		374.1	359.3	624.1
Total assets		5,183.4	5,237.4	5,600.6
Current liabilities				
Borrowings	22	(66.2)	(54.6)	(219.7)
Derivative financial instruments	23	(21.7)	(20.6)	(30.9)
Trade and other payables	21	(408.9)	(420.0)	(429.3)
Off-market contract liabilities	24	(17.8)	(17.9)	(21.3)
Income tax payable	10	(13.2)	–	(12.6)
Provisions	24	(31.3)	(29.5)	(26.9)
		(559.1)	(542.6)	(740.7)
Non-current liabilities				
Borrowings	22	(2,062.4)	(2,146.2)	(2,297.8)
Derivative financial instruments	23	(208.3)	(222.0)	(313.9)
Trade and other payables	21	(1.7)	(1.8)	(1.9)
Off-market contract liabilities	24	(219.2)	(228.6)	(264.1)
Post-employment liabilities	9	(1.3)	–	(28.0)
Provisions	24	(23.5)	(23.1)	(14.6)
		(2,516.4)	(2,621.7)	(2,920.3)
Total liabilities		(3,075.5)	(3,164.3)	(3,661.0)
Total net assets		2,107.9	2,073.1	1,939.6

	Note	As at 28 April 2019 £m	As at 29 April 2018 (restated[1]) £m	As at 30 April 2017 (restated[1]) £m
Issued capital and reserves				
Share capital	25	38.7	38.7	38.7
Share premium	26	262.2	262.0	261.7
Merger reserve	26	752.0	752.0	752.0
Capital redemption reserve	26	3.3	3.3	3.3
Hedging reserve	26	(161.6)	(158.1)	(192.2)
Own shares	26	–	(0.5)	(0.2)
Retained earnings		1,213.3	1,175.7	1,076.3
Total equity		2,107.9	2,073.1	1,939.6
Net debt	28	1,943.3	2,032.3	2,074.5

1. Deferred tax, goodwill and retained earnings have been restated. See note 1 for further details.

Signed on behalf of the board on 26 June 2019

Richard Smothers
Director

GROUP CASH FLOW STATEMENT

FOR THE 52 WEEKS ENDED 28 APRIL 2019

	Note	2019 £m	2018 £m
Operating activities			
Operating profit		314.7	317.0
Operating exceptional and non-underlying items	5	53.5	56.1
Depreciation	14	105.6	103.7
Amortisation	13	8.2	9.8
EBITDA[1]	3	482.0	486.6
Working capital and other movements	27	(41.4)	(46.8)
Interest received		0.7	1.0
Interest paid		(117.6)	(130.2)
Tax paid		(21.0)	(44.8)
Net cash flow from operating activities		302.7	265.8
Investing activities			
Purchase of property, plant and equipment		(163.4)	(193.2)
Sale of other investments	15	–	0.3
Advances of trade loans	15	(5.5)	(3.4)
Repayment of trade loans	15	6.1	5.9
Sales of property, plant and equipment		75.8	117.2
Net cash flow from investing activities		(87.0)	(73.2)
Financing activities			
Equity dividends paid	11	(102.9)	(102.9)
Issue of shares		0.2	0.3
Purchase of own shares		–	(0.5)
Payment of derivative financial liabilities	28	(18.6)	(42.6)
Securitised bond issuance	28	250.0	–
Financing costs	28	(15.8)	(3.2)
Repayment of borrowings	28	(539.9)	(505.2)
Advance of borrowings	28	226.8	187.0
Net cash flow from financing activities		(200.2)	(467.1)
Net increase/(decrease) in cash and cash equivalents		15.5	(274.5)
Opening cash and cash equivalents	19	168.5	443.0
Closing cash and cash equivalents	19	184.0	168.5

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 28 APRIL 2019

	Note	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Hedging reserve £m	Own shares £m	Retained earnings £m	Total equity £m
At 30 April 2017 (as previously stated)		38.7	261.7	752.0	3.3	(192.2)	(0.2)	1,080.9	1,944.2
Prior year adjustment		–	–	–	–	–	–	(4.6)	(4.6)
At 30 April 2017 (restated)		38.7	261.7	752.0	3.3	(192.2)	(0.2)	1,076.3	1,939.6
Profit for the period (restated)		–	–	–	–	–	–	183.3	183.3
Other comprehensive income:									
Actuarial gains on defined benefit pension schemes (net of tax)		–	–	–	–	–	–	17.9	17.9
Net loss on cash flow hedges (net of tax)		–	–	–	–	34.1	–	–	34.1
Total comprehensive income		–	–	–	–	34.1	–	201.2	235.3
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 (net of tax)	8	–	–	–	–	–	–	1.3	1.3
Equity dividends paid	11	–	–	–	–	–	–	(102.9)	(102.9)
At 29 April 2018 (restated)		38.7	262.0	752.0	3.3	(158.1)	(0.5)	1,175.7	2,073.1
Profit for the period		–	–	–	–	–	–	120.4	120.4
Other comprehensive income:									
Actuarial gains on defined benefit pension schemes (net of tax)		–	–	–	–	–	–	14.1	14.1
Net gain on cash flow hedges (net of tax)		–	–	–	–	1.3	–	–	1.3
Total comprehensive income		–	–	–	–	1.3	–	134.5	135.8
Issue of ordinary share capital	25	–	0.2	–	–	–	–	–	0.2
Transfer		–	–	–	–	(4.8)	–	4.8	–
Release of shares	26	–	–	–	–	–	0.5	(0.5)	–
Share-based payments (net of tax)	8	–	–	–	–	–	–	1.7	1.7
Equity dividends paid	11	–	–	–	–	–	–	(102.9)	(102.9)
At 28 April 2019		38.7	262.2	752.0	3.3	(161.6)	–	1,213.3	2,107.9

NOTES TO THE ACCOUNTS

FOR THE 52 WEEKS ENDED 28 APRIL 2019

1 BASIS OF PREPARATION

Corporate information

The consolidated financial statements of Greene King plc for the 52 weeks ended 28 April 2019 were authorised for issue by the board of directors on 26 June 2019. 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 28 April 2019 (prior year 52 weeks ended 29 April 2018).

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.

Prior year adjustment

The group identified a number of errors within its assessment of deferred tax which date back prior to the earliest prior period presented within these financial statements. In line with IAS 8, the group has restated balances as at 30 April 2017, and restated its financial results for the period ending 29 April 2018.

The issues identified as at 30 April 2017 were as follows:

A £10.0m increase in deferred tax asset (2018: £9.5m increase in deferred tax asset) has been recognised in relation to lease premiums. These premiums were paid between Greene King subsidiaries to take on a 15 year lease of new-build property with a restricted amount of the premium paid by the lessee being deductible over the life of the lease.

A £6.6m decrease in deferred tax asset (2018: £9.5m increase in deferred tax asset) in respect of property, plant and equipment is the result of an incorrect allocation between amounts recoverable for tax purposes on a use or sales basis.

A £8.3m decrease in deferred tax asset (2018: £5.9m decrease in deferred tax asset) which relates to the fair value assessment of interest rate swaps acquired through the Spirit acquisition. The initial deferred tax asset recognised, and related goodwill, was overstated by £9.5m, with the adjustment aligning tax and accounting treatment.

A £25.5m decrease in deferred tax asset as at 30 April 2017 (2018: £22.7m increase in deferred tax asset) has been recognised which relates to the fair value assessment of the off market liabilities acquired through the Spirit acquisition. The initial deferred tax recognised, and related goodwill, was overstated by £16.2m with the adjustment ensuring the correct tax base is used to calculate the deferred tax.

The financial impact of the errors identified are as follows:

Balance sheet

	As at 29 April 2018			As at 30 April 2017		
	Reported £m	Adjustment £m	Restated £m	Reported £m	Adjustment £m	Restated £m
Goodwill	1,089.7	25.8	1,115.5	1,108.8	25.8	1,134.6
Deferred tax asset	29.7	(9.6)	20.1	53.3	(30.4)	22.9
Retained earnings	(1,159.5)	(16.2)	(1,175.7)	(1,080.9)	4.6	(1,076.3)

Income statement for the 52 weeks ended 29 April 2018

	Reported £m	Adjustment £m	Restated £m
Profit before tax	197.5	–	197.5
Tax	(35.0)	20.8	(14.2)
Profit after tax	162.5	20.8	183.3

The impact of these adjustments to the prior period basic earnings per share is an increase of 6.7p, with adjusted earnings per share remaining unchanged for the period ending 29 April 2018. There is no cash flow implication arising from these adjustments.

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 94 and in the viability statement included in the strategic report on page 53.

New accounting standards, amendments and interpretations adopted by the group

The following new standards, interpretations and amendments to standards are mandatory for the group for the first time for their annual reporting period commencing 30 April 2018.

Those standards and interpretations include:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

The group has considered the above new standards and has concluded that IFRS 9 and IFRS 15 have an impact on the group's financial statements, but IFRS 2 is immaterial.

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognition and measurement of financial instruments, including impairment, derecognition and general hedge accounting.

This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The group adopted IFRS 9 on 30 April 2018 prospectively hence the information presented for comparative periods has not been restated and is presented, as previously reported, under IAS 39. Additional disclosure requirements have been adopted to year ending 28 April 2019 as shown on note 23.

Classification and measurement

The adoption of IFRS 9 has had no material impact on the measurement of financial assets and financial liabilities. The group's financial assets (trade loans to publicans) and trade and other receivables, both previously classified as loan and receivables carried at amortised cost under IAS 39, continue to be carried at amortised cost under IFRS 9.

The group's business model is to hold these assets for collection of contractual cash flow, and the cash flows represent solely payments of principal and interest on the principal amount.

There are no changes to the classification and measurement for the group's financial liabilities.

Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss (ECL) model. The new impairment model applies to the group's financial assets that are held at amortised cost.

The group has determined that the application of IFRS 9's impairment requirements as at 30 April 2018 has not resulted in an additional allowance for impairment and given the minimal impact on retained earnings no restatement was required.

The group's policy for measuring the expected credit loss is described in the accounting policies, note 2, and additional disclosure in note 23.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

1 BASIS OF PREPARATION CONTINUED

Hedge accounting

The interest rate swaps in place as at 28 April 2019 remain highly effective on transition and therefore meet the criteria for hedge accounting under IFRS 9.

The group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships are therefore treated as continuing hedges.

IFRS 15 Revenue from Contracts with Customers

With effect from 30 April 2018, the group has adopted IFRS 15 Revenue from Contracts with Customers using the modified retrospective approach, without practical expedients.

Under this method of adoption, the comparative period as reported under the previous standard is not restated, with the cumulative effect of initially applying IFRS 15 recognised as an adjustment to the opening balance of retained earnings as at the date of initial application.

The group has undertaken a review of its revenue streams under the new standard and has concluded that a large proportion of the revenue is recognised at the point of sale, when the goods or services are provided in their entirety to the customer in return for cash.

Based on the group's review, it has concluded that IFRS 15 does not have a material impact on the recognition of revenue, consequently not having a material impact on the consolidated results and financial position.

Further details on the group's adoption of IFRS 15 are provided under significant changes in accounting policy, note 2, and disclosure requirements have been adopted in note 3 for the year ending 28 April 2019.

Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the group has not early adopted them in preparing these consolidated financial statements. The group has the following updates to information provided in the last annual financial statements about the standards issued but not yet effective that may have a significant impact on the group's consolidated financial statements.

IFRS 16 Leases

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

Lessor accounting remains similar to the current standard, whereby the lessor continues to classify leases as finance or operating leases.

Transition

As a lessee, the group can either apply the standard using the full retrospective approach, retrospectively to each prior reporting period presented, or the modified retrospective approach, with the cumulative effect of initially applying IFRS 16 recognised as an adjustment to the opening balance of retained earnings at the date of the initial application, with no restatement of the comparative information.

The group has applied IFRS 16 on 29 April 2019, using the modified retrospective approach. The cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings as at 29 April 2019, with no restatement of comparative information. The group will apply the election consistently to all of its leases.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the group can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition.

The group has elected to adopt the following practical expedients on transition to IFRS 16:

- not to reassess contracts to determine if the contract contains a lease and not to separate lease and non-lease elements; – where an onerous lease provision is in existence, to utilise this provision to reduce the right-of-use asset value rather than undertaking an impairment review;
- where an onerous lease provision is in existence, to utilise this provision to reduce the right-of-use asset value rather than undertaking an impairment review;
- to exclude initial direct costs from the measurement of the right-of-use asset;
- to apply the portfolio approach where a group of leases has similar characteristics; and
- to use hindsight in determining the lease term.

Impact of adoption of IFRS 16 Leases

Balance sheet

As at 28 April 2019, as set out in note 29, the group's future minimum lease payments under non-cancellable operating leases amounted to £1,848m, on an undiscounted basis. On 29 April 2019 the group will recognise a right-of-use lease asset of £900m (after adjustments for off market contract liabilities, intangible assets, onerous lease provisions, lease prepayments and accrued lease expenses at 28 April 2019) and a corresponding lease liability of £1,135m (non-current £1,100m; current £35m). A transition adjustment of £85m will be recognised as a debit to retained earnings as a result of applying the asset recalculated asset valuation option under the modified retrospective approach. An estimated deferred tax asset of £15m will be recognised on the transitional retained earnings adjustment.

Operating lease intangibles of £102m, off-market contract liabilities of £237m and lease prepayments and lease incentives of £7m previously recognised in respect of the operating leases will be derecognised and the amount factored into the measurement of the right-of-use asset on transition to IFRS 16.

The provision for onerous lease contracts which was required under IAS 37 of £21m will be derecognised and factored into the measurement of the right-of-use assets.

On transition to IFRS 16, the group has elected to adopt the utilisation of onerous lease provision in existence at transition practical expedient. The group will utilise this provision to reduce the right-of-use asset value rather than undertake an impairment review on transition. The right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets, replacing the previous requirement to recognise a provision for onerous lease contracts in for the 53 weeks ending 3 May 2020.

No significant impact is expected for the group's finance leases.

Income statement

Under IFRS 16 the group will see a different pattern of expense within the income statement, as the IAS 17 operating lease expense is replaced by depreciation and interest charges.

For the 53 weeks ending 3 May 2020, the group's trading profit metric will improve by an estimated £15m under IFRS 16 as the new depreciation expense is expected to be lower than the IAS 17 operating lease charge; however net finance costs are expected to be higher than this, estimated at £31m, such that net profit after tax and the underlying earnings metric are expected to be materially lower compared to the previous IAS 17 reporting basis.

For short-term leases, of 12 months or less, and leases of low-value assets, the group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

The expenses attributable to these leases will continue to be recognised in the income statement as operating lease expenses.

Tax impact on changes to the income statement

The group will follow the accounting treatment and deduct depreciation and interest expense when calculating current tax. The tax deductions are not expected to be materially different compared to the previous IAS 17 reporting basis.

Cash flow statement

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 IFRS 16, the lease payments will be split into a principal and a interest portion which will be presented as financing and operating cash flows respectively. The change in presentation as a result of the adoption of IFRS 16 will see an improvement in 2020 of an estimated £85m in cash flow generated from operating activities, offset by a corresponding decline in cash flow from financing activities.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

1 BASIS OF PREPARATION CONTINUED

Impact on consolidated balance sheet at 29 April 2019 (extract)

The following table shows the estimated effect of adopting IFRS 16 on the consolidated balance sheet at 29 April 2019.

	As reported at 28 April 2019 £m	Impact of IFRS 16 £m	As at 29 April 2019 £m
Non-current assets			
Right-of-use assets	–	900	900
Intangible assets	102	(102)	–
Deferred tax asset	–	15	15
	102	813	915
Current assets			
Trade and other receivables	11	(11)	–
Total assets	113	802	915
Current liabilities			
Lease liabilities	–	(35)	(35)
Trade and other payables	(5)	5	–
Off-market contract liabilities	(18)	18	–
Provisions	(3)	3	–
	(26)	(9)	(35)
Non-current liabilities			
Lease liabilities	–	(1,100)	(1,100)
Off-market contract liabilities	(219)	219	–
Provisions	(18)	18	–
	(237)	(863)	(1,100)
Total liabilities	(263)	(872)	(1,135)
Net assets	(150)	(70)	(220)
Capital and reserves			
Retained earnings	(150)	(70)	(220)
Total equity	(150)	(70)	(220)

The weighted average incremental borrowing rate applied to lease liabilities was 3.9%.

Reconciliation between operating lease commitments and lease liability

The following table explains the difference between the operating lease commitments disclosed applying IAS 17 at 28 April 2019 and the estimated lease liability recognised on adoption of IFRS 16 at 29 April 2019.

	£m
Total minimum lease payments reported at 28 April 2019 under IAS 17 (note 29)	1,848
Change in assessment of lease term under IFRS 16	109
Impact of discounting lease liability under IFRS 16	(822)
Lease liability recognised on transition to IFRS 16 at 29 April 2019	1,135

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.

Significant accounting judgments and estimates

Significant accounting judgments

In the course of preparing the financial statements, the key judgment made in the process of applying the group's accounting policies is detailed below:

Exceptional and non-underlying items

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

Management believes that these alternative performance measures provide useful additional information about the group's performance and are consistent with how the business performance is measured internally by the chief decision maker.

The classification of items excluded from profit before exceptional and non-underlying items requires judgment including consideration of the nature, circumstances, scale and impact of transaction.

The group's definition of items excluded, together with further details of adjustments made, is provided within the accounting policy section, note 2.

Significant accounting estimates

The areas of estimation that have a significant risk of resulting in material adjustments to carrying amounts of assets and liabilities are detailed below:

Impairment of property, plant and equipment and intangible assets

IFRS requires management to perform impairment tests annually for indefinite lived assets (goodwill), and for finite lived assets (property, plant and equipment and other intangible assets), if events or changes in circumstances indicate that their carrying amounts may not be recoverable.

Impairment testing requires management to judge whether the carrying value of assets can be supported by the net present value of future cash flows that they generate. Calculating the net present value of the future cash flows requires estimates to be made in respect of long term growth rates, and the adoption of a suitable discount rate. Management has based the long term growth rates on the performance of the operating segments within the group's latest three year strategic plan.

Changes to the long term growth rate or discount rate used, could significantly affect the group's impairment charge (and reversal) recognised in the income statement and the overall value of assets held at the balance sheet date. Management has provided analysis of the sensitivity to these key assumptions in note 14.

Property, plant and equipment

The depreciation charge for an asset is derived using estimates of its expected residual value and useful economic life.

Residual values of property are determined with reference to current market property trends. If residual values are 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 prior year and increased to reflect recent external valuations.

This increase had no material impact on the group's pre-tax consolidated results or financial position, nor is it 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.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

1 BASIS OF PREPARATION CONTINUED

Taxation

The group's tax charge is the sum of the total current and deferred tax charges. The calculation of the group's tax charge involves estimation and judgment in respect of following items:

Recognition of deferred tax assets

The group has exercised significant accounting estimation and judgment in the recognition of deferred tax assets in respect of property, plant and equipment. Significant accounting estimates and judgments include those used to determine the amount of net book value of property, plant and equipment which is exempt from deferred tax and the unrecognised deferred tax asset on the inherent loss where tax losses are expected to be utilised against future profits and gains.

Uncertain tax position

The group recognises provisions for uncertain tax positions when the group has a present obligation as a result of a past event, and management judge that it is probable that the group will settle the obligation. Uncertain tax positions are assessed on an issue by issue basis, with management estimating the most likely outcome. In some circumstances estimates are required when determining the provision for taxes as the tax treatment cannot be finally determined until a formal resolution has been reached with the tax authorities.

Pension assets and liabilities

Management uses estimates when determining the group's liabilities and expenses arising for defined benefit pension schemes.

The present values of pension liabilities are determined on an actuarial basis and depend on actuarial assumptions. Key assumptions have been identified as the discount rate adopted, implied inflation rate and assumed life expectancy. Any change in these assumptions will impact on the carrying amount of pension liabilities, with further details on assumptions adopted and related sensitivity disclosed in note 9.

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.

2 SIGNIFICANT ACCOUNTING POLICIES

Property, plant and equipment

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

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

Freehold land is not depreciated. Freehold and long leasehold buildings are depreciated to their estimated residual values over periods up to 50 years, and short leasehold improvements are depreciated to their estimated residual values over the shorter of the remaining term of the lease or useful life of the asset.

There is no depreciable amount if residual value is the same as, or exceeds, book value.

Plant and equipment assets are depreciated over their estimated lives which range from three to 20 years.

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

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

Intangible assets

Operating lease intangibles

The fair value attached to operating leasehold interests on acquisition are deemed to represent lease premiums, and are carried as intangible assets.

The operating lease intangible is amortised over the period of the lease.

Brand intangibles

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

Business combinations and goodwill

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

When the group acquires a business, it assesses the financial assets 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.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 – policy applicable from 30 April 2018

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.

Classification, measurement and impairment

Financial assets

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade and other receivables that do not contain a significant financing component are measured at transaction price determined under IFRS 15.

Subsequently, the group classifies its financial assets as measured at:

– amortised cost;

– fair value through other comprehensive income; or

– fair value through profit or loss.

The classification depends on the financial asset's contractual cash flow characteristics and the group's business model for managing them.

The group's financial assets measured at amortised cost include financial assets (trade loans), trade and other receivables and cash and cash equivalents.

Financial assets

Financial assets are trade loans to publicans who purchase the group's beer and liquor. Trade loans that are held for the collection of contractual cash flows and the cash flows received from them are solely payments of principal and interest on the principal amount outstanding is subsequently carried at amortised cost using the effective interest method.

The amortised cost is reduced by impairment losses.

Interest revenue on the trade loans is recognised in the income statement. Any gain or loss on derecognition is recognised in the income statement. There will be derecognition of trade loans when the group has no reasonable expectation of recovering the financial asset in its entirety or a portion thereof.

For financial assets held at amortised cost, an estimate of a 12-month expected credit losses (ECLs) are recognised as an impairment provision upon recognition of a new free trade loan; and at each reporting date, an assessment is made to determine if there has been a significant increase in credit risk since initial recognition. In cases where this is evident, lifetime expected credit losses are used as the basis for the impairment provision, otherwise the group measures the loss allowance for the financial asset at an amount equal to 12-month expected credit loss.

Lifetime expected credit loss represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In turn, 12-month expected credit loss represents the portion of lifetime expected credit losses that is expected to result from default events on a financial instrument that are possible within 12-months after the reporting date.

Trade and other receivables

Trade and other receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The group holds trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

For trade and other receivables, the group adopts a simplified approach in calculating expected credit losses. Therefore, the group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The group utilises a provision matrix that has been designed based on historically observed default rates adjusted by a forward looking estimate that includes the probability of a worsening economic environment within the next year.

The group assesses a financial asset in default when contractual payments are 90 days past due. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Details about the group's calculation of the loss allowance are provided in note 23.

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.

Financial liabilities

The group classifies all financial liabilities as subsequently measured at amortised cost, except for derivatives that are subsequently measured at fair value.

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.

Trade payables

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

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 include 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 through periodic prospective effectiveness to ensure that:

- there is an economic relationship exists between the hedged item and hedging instrument;
- the effect of credit risk does not dominate the value changes that result from the economic relationship; and
- the hedge ratio is the same as that resulting from actual quantities of hedged items and hedging instruments used for risk management.

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.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

Financial assets – policy applicable prior 30 April 2018

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).

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.

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.

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.

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 unwinding of the discount is recognised as a finance cost.

Off-market contract liabilities

Off-market contract liabilities are recognised where contracts are at unfavourable terms relative to current market terms on acquisition. For leases where the current rentals are below market terms, the related asset is considered to be 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.

The group has initially applied IFRS 15 from 30 April 2018, as described in note 1.

The group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the group does not adjust any of the transaction prices for the time value of money.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Pub Company

Food and drink

Revenue is recognised at the point at which food and drinks are provided based on till receipts taken in our licensed estate. Promotional discounts are recorded at point of sale. Revenue is reported on product sales net of VAT and discounts applied.

The performance obligation is satisfied upon the delivery of the food and drink and payment of the transaction price is due immediately when the customer purchases the food and/or drink.

Other services

Accommodation revenue is recognised on a daily basis based on occupancy at the agreed price (net of discount and VAT). Machine income is recognised where net takings are recognised as earned on the group's proportion of machine proceeds in the period of sale.

The performance obligation is satisfied at the point the service is provided and payment is generally due at the end of the guest stay at the accommodation.

Pub Partners

Drink/product sales

The group supplies tenants with a variety of products recognising the sale upon delivery to the pub. At this point the tenant is solely responsible for stock management and no refunds are given for out of stock products, passing all risks and rewards of ownership to the tenant. The tenancy agreement may also include volume incentives in the form of retros, which are deemed to be related transactions and therefore the cost of retro is recognised simultaneously, provided that the cost can be measured reliably. The net of the proceeds from sale and the expected retro is disclosed as revenue.

The accrued value for rebates payable is included within other payables.

Rental income

The group recognises rental income on a straight line basis over the term of the lease based on the contractual terms of the lease agreement.

As the obligation is satisfied over time, no allocation to purchase price is proposed to reflect standalone prices, net of discount.

Machine income

Machine income is recognised where net takings are recognised as earned on the group's proportion of machine proceeds in the period of sale.

Brewing & Brands

Brewing & Brands drink revenue is recognised upon delivery date, net of duty and discounts applied. Export revenue is recognised on export sales based on the invoice date.

Products are shipped on a 'free on board' basis, with risk and rewards of ownership being transferred from the group upon shipment rather than the receipt by the customer.

The export revenue is immaterial to the group therefore no information about geographical regions has been provided as the group's activities are predominantly domestic.

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.

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

A current tax provision is recognised when the group has a present obligation as a result of a past event and it is probable that the group will be required to settle that obligation. 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.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Exceptional and non-underlying items and adjusted profitability measures

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.

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;
- one-off past services charges in relation to guaranteed minimum pension benefits;
- 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:

- employee costs and other legal and professional fees incurred in relation to restructuring cost associated with changes to management, 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.

3 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. The segments include the following businesses:

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.

2019	Pub Company £m	Pub Partners £m	Brewing & Brands £m	Corporate £m	Total operations £m
Revenue	1,799.2	190.1	227.6	–	2,216.9
Analysed as follows:					
Goods					
– Drink	1,000.6	130.5	227.6	–	1,358.7
– Food	720.8	–	–	–	720.8
	1,721.4	130.5	227.6	–	2,079.5
Services					
– Other services[1]	77.8	59.6	–	–	137.4
	77.8	59.6	–	–	137.4
EBITDA[2]	365.8	97.2	33.2	(14.2)	482.0
Segment operating profit	272.9	87.1	27.4	(19.2)	368.2
Exceptional and non–underlying items					(53.5)
Net finance costs					(141.9)
Income tax charge					(52.4)
Net profit for the period					120.4
Balance sheet					
Segment assets	3,643.1	863.9	395.5	53.7	4,956.2
Unallocated assets[3]					227.2
Total assets	3,643.1	863.9	395.5	53.7	5,183.4
Segment liabilities	(382.0)	(44.6)	(94.0)	(156.3)	(676.9)
Unallocated liabilities[3]	–	–	–	–	(2,398.6)
Total liabilities	(382.0)	(44.6)	(94.0)	(156.3)	(3,075.5)
Net assets	3,261.1	819.3	301.5	(102.6)	2,107.9
Other segment information:					
Capital expenditure	123.9	18.9	7.9	5.0	155.7
Depreciation and amortisation	(92.9)	(10.1)	(5.8)	(5.0)	(113.8)

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

3 SEGMENT INFORMATION CONTINUED

2018	Pub Company £m	Pub Partners £m	Brewing & Brands £m	Corporate £m	Total operations (restated[4]) £m
Revenue	1,767.7	193.9	215.1	–	2,176.7
Analysed as follows:					
Goods					
– Drink	954.1	133.3	215.1	–	1,302.5
– Food	730.5	–	–	–	730.5
	1,684.6	133.3	215.1	–	2,033.0
Services					
– Other services[1]	83.1	60.6	–	–	143.7
	83.1	60.6	–	–	143.7
EBITDA[2]	362.9	101.3	36.0	(13.6)	486.6
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[4]					(14.2)
Net profit for the period					183.3
Balance sheet					
Segment assets	3,703.9	884.6	395.1	39.8	5,023.4
Unallocated assets[3]					214.0
Total assets	3,703.9	884.6	395.1	39.8	5,237.4
Segment liabilities	(392.1)	(45.3)	(101.4)	(157.5)	(696.3)
Unallocated liabilities[3]	–	–	–	–	(2,468.0)
Total liabilities	(392.1)	(45.3)	(101.4)	(157.5)	(3,164.3)
Net assets	3,311.8	839.3	293.7	(117.7)	2,073.1
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)

1. Other services include accommodation, rental and machine income.
2. 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 period.
3. Unallocated assets/liabilities comprise cash, borrowings, pensions, net deferred tax, net current tax, derivatives and indirect tax provisions.
4. Exceptional and non-underlying tax has been restated.

Revenue from services includes rent receivable from licensed properties of £53.2m (2018: £53.6m).

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.

4 OPERATING COSTS

Operating profit is stated after charging/(crediting):

	2019			2018		
	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	769.8	–	769.8	743.0	–	743.0
Employment costs (note 6)	581.9	4.0	585.9	584.7	2.5	587.2
Depreciation of property, plant and equipment (note 14)	105.6	–	105.6	103.7	–	103.7
Amortisation (note 13)	8.2	–	8.2	9.8	–	9.8
Operating lease rentals:						
– Minimum lease rentals payable	69.1	–	69.1	70.0	–	70.0
Other operating charges	314.1	66.5	380.6	292.4	86.6	379.0
Net profit on disposal (note 5)	–	(17.0)	(17.0)	–	(33.0)	(33.0)
	1,848.7	53.5	1,902.2	1,803.6	56.1	1,859.7

Fees earned by the auditor during the year consisted of:

	2019 £m	2018 £m
Audit of the consolidated financial statements	0.5	0.4
Audit of subsidiaries	0.1	0.1
Non-audit services – other assurance	0.1	0.1
Included in other operating charges	0.7	0.6

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

5 EXCEPTIONAL AND NON-UNDERLYING ITEMS

	2019			2018		
	Exceptional items £m	Non-underlying items £m	Total £m	Exceptional items £m (restated)	Non-underlying items £m (restated)	Total £m (restated)
Included in operating profit						
Integration costs	–	–	–	(3.7)	–	(3.7)
Employee costs and other legal and professional fees	–	(6.6)	(6.6)	–	(3.5)	(3.5)
Net impairment of property, plant and equipment and intangible assets (notes 13 and 14)	(56.7)	–	(56.7)	(70.4)	–	(70.4)
Insurance proceeds	–	0.6	0.6	–	1.8	1.8
Net increase in property lease provisions (note 24)	–	(4.4)	(4.4)	–	(13.3)	(13.3)
Net profit on disposal of property, plant and equipment and goodwill	–	17.0	17.0	–	33.0	33.0
Defined benefit obligations	(4.9)	1.5	(3.4)	–	–	–
	(61.6)	8.1	(53.5)	(74.1)	18.0	(56.1)
Included in financing costs						
(Loss)/ gain on settlement of financial liabilities	(4.1)	–	(4.1)	3.0	–	3.0
Amounts recycled from hedging reserve in respect of settled interest rate liabilities	–	(10.7)	(10.7)	–	(11.6)	(11.6)
Fair value movements of derivatives held at fair value through profit and loss	(5.4)	–	(5.4)	19.2	–	19.2
Interest in respect of uncertain tax positions	(0.4)	–	(0.4)	–	–	–
	(9.9)	(10.7)	(20.6)	22.2	(11.6)	10.6
Total exceptional and non-underlying items before tax	(71.5)	(2.6)	(74.1)	(51.9)	6.4	(45.5)
Tax impact of exceptional items	3.4	–	3.4	8.2	–	8.2
Tax impact of uncertain tax positions	(4.1)	–	(4.1)	–	–	–
Tax impact of non-underlying items	–	5.5	5.5	–	2.9	2.9
Tax credit in respect of changes in accounting estimate in relation to the licensed estate	–	–	–	14.0	–	14.0
Tax charge in respect of rate change	–	(0.9)	(0.9)	–	–	–
Adjustment in respect of prior periods	(11.5)	2.3	(9.2)	(0.4)	9.7	9.3
Total exceptional and non-underlying tax	(12.2)	6.9	(5.3)	21.8	12.6	34.4
Total exceptional and non-underlying items after tax	(83.7)	4.3	(79.4)	(30.1)	19.0	(11.1)

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 integration of Spirit Pub Company, which was finalised in the prior year.

During the period to 28 April 2019 the group has recognised a net impairment loss of £56.7m (2018: £70.4m). This is comprised of an impairment charge relating to properties of £90.1m (2018: £76.1m) and reversal of previously recognised impairment losses of £35.1m (2018: £12.8m).

In addition an impairment charge of £1.7m (2018: £7.1m) was recognised in relation to intangible assets during the year.

Of the impairment on properties, £33.6m 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 £20.6m 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.

The impairment charge includes £0.2m in respect of properties damaged by fire in the year, and £0.6m for decontamination of a toxic nerve agent at the Salisbury Mill pub.

On 26 October 2018, the High Court issued a judgment in a claim involving Lloyds Banking Group's defined benefit pension schemes. This judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The group has worked with the trustees of the schemes and independent actuaries and estimated the cost of equalising benefits at £4.9m. This cost has been recognised in the consolidated income statement as an exceptional item in the 52 weeks ended 28 April 2019 (2018: n/a).

Further work will be carried out with the trustees to determine the exact impact and any subsequent changes to this amount in future periods will be treated as a change in actuarial assumption, and as such will be recognised in other comprehensive income.

Non-underlying operating costs

During the period to 28 April 2019 the group incurred £6.2m (2018: £1.6m) of non-underlying employee related costs, which includes one off additional defined contribution pensions payments as well as a material restructuring cost associated with changes to management. These costs are associated with a head office and field team restructure to better align the Pub Company support centre and management structures to the simplified brand portfolio and to develop a more efficient organisation. A further £0.4m (2018: £1.9m) of non-underlying legal and professional fees have been incurred in relation to group refinancing activities and defending uncertain tax positions.

A charge of £4.4m (2018: £13.3m) has been incurred to increase the property lease provisions relating to onerous lease contracts.

The net profit on disposal of property, plant and equipment and goodwill of £17.0m (2018: £33.0m) comprises a total profit on disposal of £42.0m (2018: £62.5m) and a total loss on disposal of £25.0m (2018: £29.5m).

The pension and post-employment liabilities settlement gain relates to a past service credit, net of fees of £1.5m (2018: £nil), recognised for the Greene King Pension scheme as a result of a Pension Increase Exchange exercise. Members who chose to take up their offers will receive no future increases to their pre-1997 pension in payment (excluding GMP pensions), in exchange for an immediate one-off increase in their current pension.

In the year the group received insurance compensation of £0.6m (2018: £1.8m) to meet the costs of restoring sites damaged by fire, flood or external contamination in a previous year.

Exceptional finance costs

During the period to 28 April 2019 the group settled financial liabilities in relation to the Spirit secured financing vehicle, recognising a net loss of £4.1m. In June 2018 £62.3m (30%) of the Spirit A4 secured bond was repaid and in September 2018 a further £51.9m (25%) of the Spirit A4 secured bond was repaid. In December 2018 the group, in an open-market transaction, purchased and subsequently cancelled £61.8m (39%) of the Spirit A5 secured bond. Exceptional gains or losses recognised in respect of these transactions amount to the difference between the carrying value of the repaid or cancelled bonds (comprising the nominal value and a fair value premium) and the settlement amount paid (comprising the sum of the nominal value and a prepayment penalty in the case of the A4 bonds, and the clean purchase price paid in the case of the A5 bonds).

During the prior period a net exceptional gain of £3.0m was recognised in respect of the termination of a financial guarantee provided by Ambac, the full repayment of the A1, A3, A6, and A7 Spirit secured bonds at their par value of £216.9m, and the termination of two interest rate swap contracts in connection with the repayment of these bonds.

In a prior year the group acquired as part of a business combination derivatives which have subsequently been accounted for at fair value through profit and loss as they were deemed at acquisition not to qualify for hedge accounting. An exceptional loss of £5.4m (2018: gain of £19.2m) 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.

Non-underlying finance costs

In previous periods, the group settled a number of its swap liabilities that 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 £10.7m (2018: £11.6m) has been recognised in respect of this during the year.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

5 EXCEPTIONAL AND NON-UNDERLYING ITEMS CONTINUED

Exceptional tax

On 29 March 2019 HMRC issued closure notices regarding the single remaining corporation tax enquiry regarding tax deductions claimed on capitalised revenue expenditure. The group has recognised a £4.1m exceptional tax charge and associated interest in the period given the increased likelihood of exposure following receipt of closure notices. This resulted in no cash tax impact for the year ended 28 April 2019.

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

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

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 its 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

	2019			2018		
	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	535.6	2.6	538.2	538.8	2.2	541.0
Other share-based payments (note 8)	2.0	–	2.0	1.8	–	1.8
Total wages and salaries	537.6	2.6	540.2	540.6	2.2	542.8
Social security costs	36.5	0.2	36.7	36.9	0.3	37.2
Other pension costs (note 9)						
– Defined contribution	7.8	1.2	9.0	7.2	–	7.2
	581.9	4.0	585.9	584.7	2.5	587.2

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

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

	2019	2018
Pub Company	37,243	37,417
Pub Partners	63	62
Brewing & Brands	838	862
Corporate	750	827
	38,894	39,168

The figures above include 25,670 (2018: 24,751) part-time employees.

Details of directors' emoluments are shown in the directors' remuneration report on pages 84 to 87.

7 FINANCE (COSTS) / INCOME

	2019			2018		
	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	(12.2)	–	(12.2)	(6.4)	–	(6.4)
Other loans	(97.3)	–	(97.3)	(110.5)	–	(110.5)
Derivatives held at fair value through profit and loss	–	(5.4)	(5.4)	–	19.2	19.2
Settlement of financial liabilities	–	(4.1)	(4.1)	–	3.0	3.0
Amounts recycled from hedging reserve in respect of settled interest rate liabilities	–	(10.7)	(10.7)	–	(11.6)	(11.6)
Interest in respect of tax positions and adjustments	(0.9)	(0.4)	(1.3)	(0.9)	–	(0.9)
Unwinding of discount element of provisions and off-market contract liabilities	(12.0)	–	(12.0)	(13.0)	–	(13.0)
Net finance cost from pensions	–	–	–	(0.3)	–	(0.3)
Total finance costs	(122.4)	(20.6)	(143.0)	(131.1)	10.6	(120.5)
Bank interest receivable	0.7	–	0.7	1.0	–	1.0
Net finance income from pensions	0.4	–	0.4	–	–	–
Total finance income	1.1	–	1.1	1.0	–	1.0
Net finance costs	(121.3)	(20.6)	(141.9)	(130.1)	10.6	(119.5)

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 75 to 91. All are equity settled.

The total charge recognised for the period arising from share-based payment transactions including National Insurance contributions is £2.0m (2018: £1.8m). A corresponding credit of £2.0m (2018: £1.3m) 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 2019 the fair value was between 492p and 538p (2018: 558p and 573p) 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:

	2019 SAYE	**2018 SAYE**
Weighted average share price	610p	524p
Exercise price	436p	463p
Expected dividend yield	4.7%	6.1%
Risk-free rate of return	0.8%	0.8%
Expected volatility	28.2%	25.0%
Expected life (years)	3.3	3.3
Weighted average fair value of grants in the year	152p	68p

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

8 SHARE-BASED PAYMENT PLANS CONTINUED

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

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

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

	Number of options		Weighted average exercise price	
SAYE	**2019 m**	**2018 m**	**2019 p**	**2018 p**
Outstanding at the beginning of the year	3.0	2.8	529	610
Granted	1.2	1.7	436	463
Forfeited	(1.3)	(1.4)	542	608
Exercised	–	(0.1)	519	583
Outstanding at the end of the year	2.9	3.0	484	529
Exercisable at the end of the year	0.2	0.5	694	588

	Number of shares	
LTIP	**2019 m**	**2018 m**
Outstanding at the beginning of the year	2.3	2.3
Granted	1.2	1.2
Forfeited	(1.0)	(1.2)
Outstanding at the end of the year	2.5	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 (2018: £nil).

SAYE and LTIP

Options were exercised on a range of dates. The weighted average share price through the period was 556p in 2019 and 580p in 2018.

The rights outstanding at 28 April 2019 under the LTIP had an exercise price of £nil (2018: £nil) and a weighted average remaining contractual life of 1.6 years (2018: 1.6 years).

The outstanding options for the SAYE scheme had an exercise price of between 436p and 726p (2018: 463p and 726p) and the weighted average remaining contractual life was 3.3 years (2018: 3.3 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 £9.0m (2018: £7.2m).

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. The triennial reviews for both the Greene King and Spirit pension schemes have now been finalised.

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 schemes are exposed to inflation, interest rate risks and changes in the life expectancy for pensioners. As the schemes' 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.

Net interest on net defined liability:

	Pension schemes					
	2019			2018		
	Greene King £m	Spirit £m	Total £m	Greene King £m	Spirit £m	Total £m
Interest on pension scheme assets	10.0	13.5	23.5	9.6	14.3	23.9
Interest on scheme liabilities	(9.9)	(13.2)	(23.1)	(10.3)	(13.9)	(24.2)
Net interest on net defined benefit asset/(liability)	0.1	0.3	0.4	(0.7)	0.4	(0.3)

The values of the schemes' liabilities have been determined by a qualified actuary based on the results of the last actuarial valuation, updated to 28 April 2019 using the following principal actuarial assumptions:

	2019		2018	
	Greene King	Spirit	Greene King	Spirit
Discount rate	2.5%	2.5%	2.8%	2.8%
Expected pension payment increases	3.1%	3.1%	3.0%	3.0%
Rate of inflation (RPI)	3.3%	3.3%	3.1%	3.1%
Rate of inflation (CPI)	2.2%	2.2%	2.0%	2.0%

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

	2019 Greene King	2019 Spirit	2018 Greene King	2018 Spirit
Man currently aged 40	23.2	23.2	23.7	23.7
Woman currently aged 40	25.3	25.3	25.8	25.8
Man currently aged 65	21.5	21.5	21.9	21.9
Woman currently aged 65	23.4	23.4	23.8	23.8

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

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

9 PENSIONS CONTINUED

The table below shows the investment allocation of pension assets against the related liabilities of the pension schemes:

	2019			2018		
	Greene King £m	Spirit £m	Total £m	Greene King £m	Spirit £m	Total £m
Investment quoted in active markets						
Equities	217.2	114.0	331.2	298.5	103.5	402.0
Bonds	129.8	310.2	440.0	65.5	287.6	353.1
Property	–	37.1	37.1	–	53.4	53.4
Annuities	–	–	–	1.3	–	1.3
Unquoted investments						
Annuities insurance contracts	4.1	41.1	45.2	–	45.5	45.5
Cash	10.7	1.2	11.9	2.0	1.9	3.9
Total fair value of assets	361.8	503.6	865.4	367.3	491.9	859.2
Present value of scheme liabilities:						
Funded plans	(363.1)	(471.2)	(834.3)	(365.8)	(479.8)	(845.6)
Non-current (liability)/asset recognised	(1.3)	32.4	31.1	1.5	12.1	13.6

£217.5m (2018: £139.3m) of the bonds shown in the table above are liability-driven investments designed to match the change in value of the schemes' liabilities.

During the prior 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.

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

	Pension assets		Pension liabilities		Net pension (liability)/ asset
	Greene King £m	Spirit £m	Greene King £m	Spirit £m	£m
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
Experience adjustments	–	–	–	–	–
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
Pension interest income/(costs) recognised in the income statement	10.0	13.5	(9.9)	(13.2)	0.4
Benefits paid	(26.4)	(22.0)	26.4	22.0	–
Past service cost	–	–	(0.4)	(2.8)	(3.2)
Remeasurement gains/(losses) in other comprehensive income:					
Return on plan assets (excluding amounts included in net interest expenses)	7.6	20.2	–	–	27.8
Actuarial changes arising from changes in demographic assumptions	–	–	8.5	3.6	12.1
Actuarial changes arising from changes in financial assumptions	–	–	(25.5)	(22.5)	(48.0)
Experience adjustments	–	–	3.6	21.5	25.1
Contributions paid – employers	3.3	–	–	–	3.3
Post-employment assets/(liabilities) at 28 April 2019	361.8	503.6	(363.1)	(471.2)	31.1

Presented in the balance sheet as follows:

	2019 £m	2018 £m
Post-employment assets	32.4	13.6
Post-employment liabilities	(1.3)	–
	31.1	13.6

The past service cost for the Greene King scheme comprises a cost of £2.1m for GMP equalisation following the High Court judgment on this issue in relation to the Lloyds Banking Group's defined benefit pension schemes, and an offsetting credit of £1.7m relating to a Pension Increase Exchange exercise performed over the year. The past service cost for the Spirit scheme is in relation to GMP equalisation.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

9 PENSIONS CONTINUED

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	
	2019 £m	2018 £m
0.25% points increase in discount rate	34.0	38.1
0.25% points increase in inflation assumption	(27.8)	(29.9)
Additional one-year increase to life expectancy	(35.2)	(34.4)

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

	2019 £m	2018 £m
Within 1 year	3.3	3.3
Between 2 and 5 years	13.3	13.1
Between 5 and 10 years	3.0	6.4
	19.6	22.8

The average duration of the defined benefit scheme's obligations at the end of the reporting year is 16–17 years (2018: 17–18 years).

10 TAXATION

	2019			2018		
Consolidated income statement	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
Income tax						
Corporation tax before exceptional and non-underlying items	41.9	–	41.9	38.7	–	38.7
Recoverable on exceptional and non-underlying items	–	(5.0)	(5.0)	–	(9.9)	(9.9)
Current income tax	41.9	(5.0)	36.9	38.7	(9.9)	28.8
Adjustment in respect of prior periods	–	7.5	7.5	–	(6.5)	(6.5)
	41.9	2.5	44.4	38.7	(16.4)	22.3
Deferred tax						
Origination and reversal of temporary differences	5.2	0.2	5.4	9.9	(15.2)	(5.3)
Adjustment in respect of prior periods	–	1.7	1.7	–	(2.8)	(2.8)
Tax credit in respect of rate change	–	0.9	0.9	–	–	–
	5.2	2.8	8.0	9.9	(18.0)	(8.1)
Tax charge/(credit) in the income statement	47.1	5.3	52.4	48.6	(34.4)	14.2

Group statement of comprehensive income	2019 £m	2018 £m
Deferred tax		
Remeasurement gains on defined benefit pension schemes	2.9	3.6
Net (loss)/gain on revaluation on cash flow hedges	(0.6)	7.0
Total tax	2.3	10.6

Group statement of changes in equity	2019 £m	2018 £m
Deferred tax		
Share-based payment – future taxable benefit	0.3	0.3
Deferred tax reported in equity	0.3	0.3
Income tax		
Share-based payments – current taxable benefit	–	(0.3)
Total tax reported in equity	0.3	–

Reconciliation of income tax expense for the year	2019 £m	2018 £m
The effective rate of taxation is higher (2018: lower) than the full rate of corporation tax. The differences are explained below:		
Profit before tax	172.8	197.5
Profit before tax multiplied by standard rate corporation tax of 19.0% (2018: 19.0%)	32.8	37.5
Adjusted for the effects of:		
Recurring items:		
Expenditure not allowable for tax purposes	2.4	(3.8)
Current tax – uncertain tax provision	4.1	–
Impact of deferred tax in respect of licensed estate	3.0	4.6
Impact of deferred tax being at different rate to income tax	(0.6)	(0.8)
Impact of change in tax rate on deferred tax balances	1.5	–
Adjustment in respect of prior years – income tax	7.5	(6.5)
Adjustment in respect of prior years – deferred tax	1.7	(2.8)
Non-recurring items:		
Impact of deferred tax in respect of changes in accounting estimate in relation to the licensed estate	–	(14.0)
Income tax expense reported in the income statement	52.4	14.2

Income tax payable

The group's current tax position of £13.2m (2018: £10.2m receivable) reflects the amount of tax payable on open tax computations, and expected liabilities in respect of uncertain tax positions of £4.1m (2018: £nil) which has been recognised in the income statement in the period in respect of tax deductions claimed on capitalised revenue expenditure.

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

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

10 TAXATION CONTINUED

Deferred tax

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

Deferred tax assets	Post-employment liabilities £m	Derivatives (restated) £m	Share-based payments £m	Off-market contract liabilities (restated) £m	Other temporary differences (restated) £m	Trading losses carried forward £m	Total (restated) £m
At 30 April 2017	2.0	67.4	0.1	22.9	10.0	1.0	103.4
Reclass from other temporary differences				(15.3)			(15.3)
Credit to equity/comprehensive income	(3.6)	(7.0)	(0.3)	–	–	–	(10.9)
Charge to the income statement	(0.6)	(11.8)	0.3	(3.7)	(0.5)	–	(16.3)
Transfer from deferred tax liabilities	2.2	–	–	–	3.4	–	5.6
At 29 April 2018	–	48.6	0.1	3.9	12.9	1.0	66.5
Charge to equity/comprehensive income	–	0.6	(0.3)	–	–	–	0.3
Charge/(credit) to the income statement	–	(5.1)	0.3	(1.7)	(7.1)	(0.7)	(14.3)
At 28 April 2019	–	44.1	0.1	2.2	5.8	0.3	52.5

Deferred tax liabilities	Post-employment assets £m	Accelerated capital allowances (restated) £m	Operating lease intangibles £m	Other temporary differences £m	Total (restated) £m
At 30 April 2017	–	(40.6)	(25.4)	(14.5)	(80.5)
Reclass to off-market contract liabilities				15.3	15.3
Charge to the income statement	–	15.7	6.1	2.6	24.4
Transfer to deferred tax assets	(2.2)	–	–	(3.4)	(5.6)
At 29 April 2018	(2.2)	(24.9)	(19.3)	–	(46.4)
Charge/(credit) to the income statement	(0.1)	4.4	2.0	–	6.3
Credit to equity/comprehensive income	(2.9)	–	–	–	(2.9)
At 28 April 2019	(5.2)	(20.5)	(17.3)	–	(43.0)

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:

	28 April 2019 £m	29 April 2018 (restated) £m
Deferred tax liability	–	–
Deferred tax asset	9.5	20.1
Net deferred tax asset	9.5	20.1

At 28 April 2019, the group had unused trading losses of £1.5m (2018 : £5.3m) and unused capital losses of £827.6m (2018: £805.9m). A deferred tax asset of £0.3m (2018: £1.0m) has been recognised in respect of trading losses and no deferred tax asset (2018: £nil) 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 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 effect of these rate reductions is to reduce the deferred tax asset by a net £1.5m comprising a debit to the income statement of £1.5m. There is no impact in the statement of comprehensive income or to the group statement of changes in equity.

11 DIVIDENDS PAID AND PROPOSED

	2019 £m	2018 £m
Declared and paid in the period		
Interim dividend for 2019: 8.8p (2018: 8.8p)	27.3	27.3
Final dividend for 2018: 24.4p (2017: 24.4p)	75.6	75.6
	102.9	102.9
Proposed for approval at AGM		
Final dividend for 2019: 24.4p (2018: 24.4p)	75.6	75.6
Total paid and proposed dividend for 2019: 33.2p (2018: 33.2p)	102.9	102.9

Dividends on own shares have been waived.

12 EARNINGS PER SHARE

Basic earnings per share has been calculated by dividing the profit attributable to equity holders of £120.4m (2018: £183.3m) by the weighted average number of shares in issue during the period of 309.9m (2018: 309.9m).

Diluted earnings per share has been calculated on a similar basis taking account of 0.6m (2018: 0.5m) dilutive potential shares under option, giving a weighted average number of ordinary shares adjusted for the effect of dilution of 310.5m (2018: 310.4m). There were nil (2018: nil) anti-dilutive share options excluded from the diluted earnings per share calculation.

The performance conditions for share options granted over 2.7m (2018: 2.7m) shares have not been met in the current financial period and therefore the dilutive effect of the number of shares which would have been issued at the 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	2019 £m	2018 (restated) £m	2019 p	2018 (restated) p	2019 p	2018 (restated) p
Profit attributable to equity holders	120.4	183.3	38.9	59.1	38.7	58.9
Exceptional and non-underlying items	79.4	11.1	25.6	3.6	25.6	3.7
Profit attributable to equity holders before exceptional and non-underlying items	199.8	194.4	64.5	62.7	64.3	62.6

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

13 GOODWILL AND OTHER INTANGIBLE ASSETS

	Brand intangibles £m	Operating lease intangibles £m	Total other intangibles £m	Goodwill (restated) £m
Cost				
At 30 April 2017 (restated)	16.1	167.0	183.1	1,134.6
Disposal	–	(26.5)	(26.5)	(19.1)
At 29 April 2018	16.1	140.5	156.6	1,115.5
Disposal	–	(3.1)	(3.1)	(10.8)
At 28 April 2019	16.1	137.4	153.5	1,104.7
Impairment and amortisation				
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)	–
Amortisation	(0.9)	(7.3)	(8.2)	–
Impairment (note 5)	–	(1.7)	(1.7)	–
Disposal	–	0.5	0.5	–
At 28 April 2019	(5.7)	(35.6)	(41.3)	–
Net book value				
At 28 April 2019	10.4	101.8	112.2	1,104.7
At 29 April 2018	11.3	113.4	124.7	1,115.5
At 30 April 2017	14.1	149.6	163.7	1,134.6

Due to a restatement of deferred tax, goodwill recognised as at 30 April 2017 has been increased by £25.8m to £1,134.6m.

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 11 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 (£1.4m) and Pub Partners (£0.3m).

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:

	2019 £m	2018 £m
Pub Company	687.9	692.3
Pub Partners	181.9	188.3
Brewing & Brands	234.9	234.9
	1,104.7	1,115.5

Goodwill disposed of in the year

	2019 £m	2018 £m
Pub Company	4.4	14.5
Pub Partners	6.4	4.6
	10.8	19.1

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 1.04% in Pub Company (2018: 1.15%), 1.40% in Pub Partners (2018: 1.09%) and nil% in Brewing & Brands (2018: 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% (2018: 7.50%) 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, a 1% increase in discount rate would reduce the estimated recoverable amount by £39.4m, resulting in a £6.2m (2018: £nil) impairment to the goodwill allocated to Brewing & Brands, with a carrying value equalling the recoverable amount at a discount rate of 8.3%. An impairment charge would have also resulted based on a reduction in growth rate of 1% point or a 10% reduction in budgeted cash flow of £3.4m (2018: £nil), and £4.0m (2018: £nil) respectively. 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 allocated to Pub Company and Pub Partners in the year.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

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 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
Additions during year	42.5	84.6	14.2	14.4	155.7
Transfer to property, plant and equipment held for sale	(11.5)	(2.0)	–	–	(13.5)
Disposals during year	(45.4)	(12.8)	(2.6)	(0.1)	(60.9)
At 28 April 2019	3,301.8	1,042.5	83.0	155.8	4,583.1
Depreciation and impairment					
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
Provided during the year	13.8	80.9	2.7	8.2	105.6
Written back on disposals	(11.7)	(8.0)	(0.3)	–	(20.0)
Impairment (see below)	75.5	13.2	1.4	–	90.1
Impairment reversal (see below)	(30.2)	(4.2)	(0.6)	(0.1)	(35.1)
Transfer to property, plant and equipment held for sale	(5.5)	(1.6)	–	–	(7.1)
At 28 April 2019	268.8	647.1	20.8	109.4	1,046.1
Net book value					
At 28 April 2019	3,033.0	395.4	62.2	46.4	3,537.0
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

The licensed estate relates to properties, and assets held within those properties which are licensed to sell alcohol (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:

	2019 £m	2018 £m
Freehold properties	2,933.7	2,978.5
Leasehold properties >50 years unexpired term	106.0	109.0
Leasehold properties <50 years unexpired term	55.5	55.6
	3,095.2	3,143.1

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 £2,023.3m (2018: £1,334.1m) and £786.6m (2018: £1,008.3m) over which there are first charges in favour of the securitised debt holders of the Greene King secured financing vehicle and the Spirit secured financing vehicle respectively. The increase in the former amount during the year is driven by the securitisation of an additional 177 pubs in conjunction with the issuance of an additional £250m of secured loan notes as explained in note 22. The reduction in the latter amount during the year is driven by the internal transfer of properties in conjunction with the group's strategy of migrating assets and debt out of the Spirit secured financing vehicle.

Assets held under finance leases

The group leases various licensed properties, offices and other commercial properties and other assets under finance leases. The leases have various terms, escalation clauses and renewal rights. Included in property, plant and equipment above are properties held under finance leases with a net book value of £22.2m (2018: £21.7m).

Future capital expenditure

	2019 £m	2018 £m
Contracted for	10.0	13.6

Impairment of property, plant and equipment

During the period to 28 April 2019 the group has recognised a net impairment loss of £55.0m (2018: £63.3m).

This is comprised of an impairment charge of £90.1m (2018: £76.1m) and reversal of previously recognised impairment losses of £35.1m (2018: £12.8m). The recoverable amounts for assets impaired were based on a combination of value in use or fair value less cost of disposal.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

14 PROPERTY, PLANT AND EQUIPMENT CONTINUED

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

	2019			2018		
	Impairment £m	Reversal of impairment £m	Net impairment £m	Impairment £m	Reversal of impairment £m	Net impairment £m
Pub Company	73.6	(27.0)	46.6	61.9	(10.8)	51.1
Pub Partners	14.9	(8.1)	6.8	13.9	(2.0)	11.9
Corporate	1.6	–	1.6	0.3	–	0.3
	90.1	(35.1)	55.0	76.1	(12.8)	63.3

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% (2018: 7.50%) and the projected cash flows extrapolated using an average growth rate of 1.04% in Pub Company (2018: 1.15%) and 1.40% in Pub Partners (2018: 1.09%) 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 April 2019. 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.

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:	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Increased net impairment resulting from:						
Pub Company	12.2	6.2	22.0	23.1	22.0	23.1
Pub Partners	2.1	2.0	3.2	3.1	3.2	3.1
	14.3	8.2	25.2	26.2	25.2	26.2

15 FINANCIAL ASSETS

	2019 £m	2018 £m
Trade loans (net of provision)	9.0	10.5
Total current	9.0	10.5
Trade loans (net of provision)	13.1	12.9
Other financial assets	0.3	0.3
Total non-current	13.4	13.2

Trade loans are net of provisions of £2.1m (2018: £5.1m). During the year £3.3m (2018: £0.2m) of the provision was utilised and £0.3m (2018: £0.2m) of new provision was created. All trade loans that are neither past due nor impaired are expected to be fully recoverable. All significant overdue balances are fully provided for.

Trade loans are advanced to customers on terms linked to supply terms such that returns are greater than interest income. The fixed rate trade loans amounted to £13.2m (2018: £17.2m) and variable rate trade loans amounted to £10.9m (2018: £11.3m). Included in fixed rate loans are £12.5m of loans with settlement related to purchase levels (2018: £16.2m). The write-down of these loans has been taken on a straight-line basis over the remaining term of the loan as an approximation of the settlement.

The fixed rate trade loans had a weighted average interest rate of 0.1% (2018: 0.2%) and a weighted average period of 2.7 years (2018: 2.92 years).

Interest rates on variable rate trade loans are linked to base rate.

	2019 £m	2018 £m
Trade loans (net of provision)		
Balance at beginning of year	23.4	25.9
Advances	5.5	3.4
Repayments	(6.5)	(5.9)
Provisions	(0.3)	–
Balance at end of year	22.1	23.4

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 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[2]	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%

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

16 SUBSIDIARY UNDERTAKINGS CONTINUED

Subsidiary undertakings	Principal activity	Country of incorporation	Held by	Holding	Proportion of voting rights and ownership
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[3]	Financing	Scotland	Subsidiary	Ordinary shares	100%
Belhaven Finance Limited[3]	Financing	Scotland	Subsidiary	Ordinary shares	100%
Belhaven Pubs Limited[3]	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[3]	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%
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[3]	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%

Subsidiary undertakings	Principal activity	Country of incorporation	Held by	Holding	Proportion of voting rights and ownership
Indirectly held by Greene King plc continued					
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[1,5]	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[4]	Non-trading	Cayman Islands	Subsidiary	Ordinary shares	100%
Spirit Funding Limited[4]	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%
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%

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

16 SUBSIDIARY UNDERTAKINGS CONTINUED

Subsidiary undertakings	Principal activity	Country of incorporation	Held by	Holding	Proportion of voting rights and ownership
Indirectly held by Greene King plc continued					
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.
2. Registered office: Hambro House, St Julian's Avenue, St Peter Port, Guernsey, GY1 3AE.
3. Registered office: Belhaven Brewery, Brewery Lane, Dunbar, East Lothian, EH42 1PE.
4. Registered office: PO Box 309, Ugland House, Grand Cayman, KY1-1004.
5. Company is limited by guarantee.

17 INVENTORIES

	2019 £m	2018 £m
Raw materials and work in progress	4.7	4.4
Finished goods and goods for resale	42.0	39.5
Consumable stores	4.4	3.8
	51.1	47.7

18 TRADE AND OTHER RECEIVABLES

	2019 £m	2018 £m
Other receivables	–	0.1
Total non-current	–	0.1
Trade receivables	68.3	69.9
Other receivables	21.4	17.6
Total current	89.7	87.5

Trade and other receivables are non-interest bearing.

Trade receivables are shown net of a loss allowance of £4.0m (2018: £4.9m). Information about the group's exposure to credit and market risks, and impairment losses for trade receivables is included in note 23.

The effect of initially applying IFRS 15 and IFRS 9 is described in note 1.

19 CASH AND CASH EQUIVALENTS

	2019 £m	2018 £m
Cash at bank and in hand	126.5	115.9
Short-term deposits	58.8	52.6
Cash and cash equivalents for balance sheet	185.3	168.5
Bank overdrafts (note 22)	(1.3)	–
Cash and cash equivalents for cash flow	184.0	168.5

Included in cash at bank and in hand and short term deposits is £67.3m (2018: £74.6m) and £134.5m (2018: £90.4m) 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 one of its subsidiaries and the Spirit secured financing vehicle comprises Spirit Pubs Debenture Holdings Limited and certain of its subsidiaries.

Interest receivable on cash and short term deposits is linked to prevailing interest rates and is received either monthly or quarterly.

20 PROPERTY, PLANT AND EQUIPMENT HELD FOR SALE

	2019 £m	2018 £m
Property, plant and equipment held for sale	6.4	8.6

At the year end, property, plant and equipment held for sale of £6.4m (2018: £8.6m) represents pubs that are being actively marketed for sale with expected completion dates within one year. The value of property, plant and equipment held for sale represents the expected net disposal proceeds; further details on the valuation of fair value less costs of disposal are held in note 14. The impairment charge on reclassification to assets held for sale for these sites was £nil (2018: £0.5m).

21 TRADE AND OTHER PAYABLES

	2019 £m	2018 £m
Trade payables	110.2	120.5
Other payables		
– Other taxation and social security costs	89.7	108.7
– Accruals and deferred income	194.7	175.8
– Interest payable	14.3	15.0
Total current	408.9	420.0
Other payables	1.7	1.8
Total non current	1.7	1.8

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 both 2019 and 2018 also includes interest on uncertain tax positions.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

22 BORROWINGS

		2019			2018		
	Repayment date	Current £m	Non-current £m	Total £m	Current £m	Non-current £m	Total £m
Bank overdrafts	On demand	1.3	–	1.3	–	–	–
Unsecured bank loans – floating rate:							
– Facility A	2021	–	24.3	24.3	–	88.8	88.8
– Facility B	2020	–	165.6	165.6	–	184.3	184.3
Secured debt:							
– Issued by Greene King Finance plc	2005 to 2036	53.6	1,483.9	1,537.5	51.3	1,292.2	1,343.5
– Issued by Spirit Issuer plc	2015 to 2036	10.1	369.4	379.5	2.1	561.5	563.6
Obligations under finance leases	2015 to 2084	1.2	19.2	20.4	1.2	19.4	20.6
		66.2	2,062.4	2,128.6	54.6	2,146.2	2,200.8

Bank overdrafts

Overdrafts are utilised for the day to day management of cash. The group has facilities of £25.0m (2018: £25.0m) available with interest linked to base rate.

Bank loans – unsecured

The group has available revolving credit facilities totalling £750.0m, comprising a £400.0m facility (Facility A) available to fund the working capital requirements of the group and other general corporate purposes and a £350.0m facility (Facility B) available to fund the internal transfer of pubs from the Spirit secured financing vehicle.

Of the £400.0m (2018: £400.0m) available under Facility A, £25.0m (2018: £90.0m) was drawn down at the year end with a carrying value of £24.3m (2018: £88.8m) which included £0.7m (2018: £1.2m) of fees.

Of the £350.0m (2018: £350.0m) available under Facility B, £167.3m (2018: £187.0m) was drawn down at the year end with a carrying value of £165.6m (2018: £184.3m) which included £1.7m (2018: £2.7m) 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.

In February 2019 the group issued an additional £250m of secured loan notes with a fixed coupon of 3.593% (tranche A7) in connection with the securitisation of an additional 177 of the group's pubs.

The net issuance proceeds were applied to the repayment of revolving credit facility loans advanced under Facility B.

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

Tranche	Nominal value (£m)	Carrying value (£m)[1] 2019	Carrying value (£m)[1] 2018	Interest	Interest rate(%)[2]	Last repayment period	Weighted average life[3]
A1	85.0	84.2	93.8	Floating	6.11%	2031	4.8 years
A2	219.3	217.5	224.4	Fixed	5.32%	2031	7.6 years
A3	35.4	34.7	48.0	Floating	6.09%	2021	1.3 years
A4	258.9	257.9	257.8	Fixed	5.11%	2034	9.3 years
A5	218.0	218.0	226.8	Floating	3.93%	2033	8.5 years
A6	264.2	260.3	273.2	Fixed	4.06%	2035	8.8 years
A7	250.0	245.3	–	Fixed	3.59%	2035	9.6 years
B1	120.9	120.1	120.1	Fixed/floating	5.70%[4]	2034	14.1 years
B2	99.9	99.5	99.4	Floating	6.92%	2036	16.2 years
	1,551.6	1,537.5	1,343.5				

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. Assumes notes are held until final maturity.
4. The B1 tranche switches to a floating rate L+1.80% in March 2020 with a swap rate of 5.16%-L.

The interest payable on each of the floating rate 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 the floating 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, A6 and A7 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.

The group has available various liquidity facilities which 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. There were no draw-downs under these facilities during the year and the drawn down amount at the year end was £nil (2018: £nil).

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

22 BORROWINGS CONTINUED

Spirit secured financing vehicle

Following the acquisition of Spirit Pub Company in 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]		Interest	Interest rate(%)[2]		Last repayment period	Weighted average life[3]
		2019	2018		2019	2018		
A2	186.6	182.7	182.2	Floating	9.49%[4]	9.38%	2029	8.7 years
A4	93.5	96.4	216.4	Fixed/floating[5]	7.31%[5]	6.58%	2025	3.3 years
A5	96.7	100.4	165.0	Fixed/floating	5.47%[6]	5.47%	2032	11.9 years
	376.8	379.5	563.6					

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.
3. Assumes notes are held until final maturity.
4. In September 2018 the rate on the A2 swap increased from 6.68%-L to 6.79%-L.
5. In December 2018 the A4 tranche switched from a fixed rate of 6.58% to a floating rate of L+2.78% with a swap rate of 4.53%-L.
6. The A5 tranche switches to a floating rate of L+0.75% in December 2028 with a swap rate of 4.53%-L.

The interest payable on the floating rate tranches is as follows:

Tranche	Interest rate payable[1]	Interest rate swap	Total interest rate
A2	L+2.70%	6.79%-L	9.49%
A4	L+2.78%	4.53%-L	7.31%

1. For the floating rate notes the 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, 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.

The group has available a liquidity facility which can only be used for the purpose of meeting the debenture's debt service obligations should there ever be insufficient funds available from operations to meet such payments. There were no draw-downs under this facility during the year and the drawn down amount at the year end was £nil (2018: £nil).

In June 2018 the group repaid £62.3m (30%) of the outstanding Class A4 secured loan note issued by Spirit Issuer plc and in September 2018 the group repaid a further £51.9m (25%) of the Class A4 secured loan note.

In conjunction with each of these transactions the group also partially terminated the corresponding interest rate swap contract.

In December 2018 the group, in an open-market transaction, purchased and subsequently cancelled £61.8m (39%) of the Class A5 secured loan note issued by Spirit Issuer plc. In conjunction with this transaction the group also partially terminated the corresponding interest rate swap contract.

Obligations under finance leases

Upon acquisition of Spirit Pub Company in 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:

	2019		2018	
	Minimum lease payments £m	Present value of future obligations £m	Minimum lease payments £m	Present value of future obligations £m
Within one year	1.2	1.2	1.2	1.2
Between one and five years	4.6	3.9	4.6	3.9
Over five years	48.5	15.3	49.7	15.5
	54.3	20.4	55.5	20.6

23 FINANCIAL INSTRUMENTS

The effect of initially applying IFRS 9 on the group's financial instruments is described in note 1.

Due to the transition method chosen, comparative information has not been restated to reflect the new requirements.

The group holds the following financial instruments:

		2019			2018		
	Note	Current £m	Non-current £m	Total £m	Current £m	Non-current £m	Total £m
Financial assets							
Financial assets at amortised cost							
Trade receivables	18	68.3	–	68.3	69.9	–	69.9
Financial assets	15	9.0	13.4	22.4	10.5	13.2	23.7
Cash and cash equivalents	19	185.3	–	185.3	168.5	–	168.5
Derivative financial instruments							
Designated as hedging instruments	23	–	–	–	–	1.5	1.5
		262.6	13.4	276.0	248.9	14.7	263.6
Financial liabilities							
Liabilities at amortised cost							
Trade payables and accruals	21	315.1	–	315.1	308.1	–	308.1
Borrowings	22	66.2	2,062.4	2,128.6	54.6	2,146.2	2,200.8
Derivative financial instruments							
Designated as hedging instruments	23	8.6	118.6	127.2	8.5	110.1	118.6
Not designated as hedging instruments	23	13.1	89.7	102.8	12.1	111.9	124.0
		403.0	2,270.7	2,673.7	383.3	2,368.2	2,751.5

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

23 FINANCIAL INSTRUMENTS CONTINUED

Financial risk management

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.

Derivatives

The group has the following derivative financial instruments:

Financial instruments qualifying for hedge accounting

At 28 April 2019 the group held four (2018: four) interest rate swap contracts for a nominal value of £438.3m (2018: £470.1m), which are designated cash flow hedges against £438.3m (2018: £470.1m) 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 3.2% (2018: 3.3%).

In addition, the group holds one (2018: 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 £123.8m (2018: £118.6m). The interest rate swap hedging the A5 tranche is held on the balance sheet as a fair value liability of £3.3m (2018: fair value asset of £1.4m). The contract maturity dates range from September 2021 to March 2036.

Prospective 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 (2018: £nil).

During the year a loss of £10.7m (2018: £11.6m) 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 28 April 2019 the group held two (2018: one) interest rate swap contracts for a nominal value of £280.0m (2018: £189.4m). These swaps, which do not qualify for hedge accounting, are in respect of the A2 and A4 secured loan notes issued by Spirit Issuer plc, receiving a variable rate of interest based on LIBOR and paying a fixed rate of 6.791% on the A2 tranche and 4.529% on the A4 tranche.

In addition, the group holds one (2018: two) forward starting swap commencing when the A5 notes issued by Spirit Issuer plc switch from fixed rate interest to floating rate in December 2028. The swap will receive a variable rate of interest based on LIBOR and pay a fixed rate of 4.529%.

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 £102.8m (2018: £124.0m). The contract maturity dates range from March 2025 to December 2032.

Scheduled cash payments of £12.1m (2018: £18.5m) made in respect of the swaps have been recognised in pre-exceptional finance costs net of amortisation of fair value on acquisition of £7.9m (2018: £11.3m). 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 £5.4m loss (2018: £19.2m gain) 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.

During the year the group partially terminated two interest rate swap contracts in connection with the partial repayment of the A4 and A5 Spirit secured loan notes, resulting in cash payments totalling £16.6m.

Where the nominal value of a derivative exceeds that of the related secured note (for example, due to early repayment of floating rate notes) the group seeks to eliminate the over-hedging where this is financially practicable. During the year the group made a payment of £2.0m to eliminate the remaining over-hedges on three interest rate swap contracts. At 28 April 2019, the nominal value of interest rate swaps outstanding on cancelled floating rate notes which relate to the Spirit secured debt was £nil (2018: £2.9m).

On 11 June 2019 the group gave notice to repay the remaining outstanding Class A4 secured loan notes issued by Spirit Issuer plc at par on 28 June 2019. See note 31 for further details on the post balance sheet event.

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 the date of contract included within the accounts, and tested for effectiveness every six months.

In accordance with IFRS 7, the group has undertaken sensitivity analysis on its financial instruments which are affected by changes in interest rates.

This analysis has been prepared on the basis of a constant amount of net debt, a constant ratio of fixed to floating interest rates, and on the basis of the hedging instruments in place at 28 April 2019 and 29 April 2018. 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 £23.8m (2018: £31.2m) and the group's OCI by £55.9m (2018: £58.4m). An increase in interest rates would increase the group's profit and OCI.

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 99.6% (2018: 94.4%), in line with the group's target of fixing 95% of all net debt.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

23 FINANCIAL INSTRUMENTS CONTINUED

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 (2018: 60 days following month end).

Excess cash used in managing liquidity is placed on interest-bearing deposit using instant-access money market deposit accounts. 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 28 April 2019 and 29 April 2018 based on contractual undiscounted payments including interest.

Year ended 28 April 2019	Within 1 year £m	1–2 years £m	2–5 years £m	>5 years £m	Total £m
Interest bearing loans and borrowings:					
– Capital	65.6	245.9	294.5	1,516.0	2,122.0
– Interest	95.4	88.1	224.3	386.3	794.1
	161.0	334.0	518.8	1,902.3	2,916.1
Interest rate swaps settled net	29.7	30.6	75.1	132.3	267.7
	190.7	364.6	593.9	2,034.6	3,183.8
Trade payables and accruals	315.1	–	–	–	315.1
Finance lease obligations	1.2	1.2	3.4	48.5	54.3
	507.0	365.8	597.3	2,083.1	3,553.2

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
	478.8	194.4	873.1	2,097.1	3,643.4

Credit risk

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

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

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

Impairment of financial assets

The group has two types of financial assets that are subject to the expected credit loss model:

– trade and other receivables

– financial assets (trade loans with publicans) held at amortised cost

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Impairment losses on financial assets and trade and other receivables recognised in profit or loss were as follows:

	2019 £m
Impairment loss on trade and other receivables	1.0
Impairment loss on financial assets (trade loans with publicans)	0.3
	1.3

Trade receivables

An impairment analysis is performed at each reporting date using a provision matrix to measure the expected credit losses for trade receivables. The provision rates are based on days past due. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The group writes off a trade receivable when there is objective evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery.

Set out below is the information about the credit risk exposure on the group's trade receivables using a provision matrix:

	2019			**2018**
	Gross £m	**Provision £m**	**Net £m**	**Net £m**
Not past due	60.0	(1.9)	58.1	61.4
Past due				
– Less than 30 days	6.6	(0.9)	5.7	4.5
– 30-60 days	1.5	(0.3)	1.2	0.2
– Greater than 60 days	4.2	(0.9)	3.3	3.8
	72.3	(4.0)	68.3	69.9

Financial assets

The group measures expected credit losses for financial assets held at amortised cost by keeping a system that identifies debts that are at a high risk of non-recovery. Once the debts are moved into this system, the risk related to the debt is considered to have significantly increased. The criteria taken into account by the system are: customers who have both sales and debt unpaid, and customers that have stopped trading with the group but have an outstanding balance. For the loans considered to be at high risk of non-recovery a lifetime expected loss is calculated.

The remainder of the portfolio will be assessed under a 12-month expected credit loss model.

Set out below is the movement in the allowance for expected credit losses of trade receivables and financial assets held at amortised cost:

	Trade receivables 2019 £m	**Financial assets 2019 £m**
As at 30 April 2018	(4.9)	(5.1)
Provision for expected credit losses recognised in profit or loss during the year	(0.1)	(0.3)
Receivables written off during the year as uncollectible	1.0	3.3
At 28 April 2019	(4.0)	(2.1)

Further detail on expected credit loss methodology refer to note 2.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

23 FINANCIAL INSTRUMENTS CONTINUED

Fair values

Set out in the table below is a comparison of carrying amounts and fair values of certain of the group's financial instruments in accordance with the requirements of IFRS 7 and IFRS 13.

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:

Financial assets – these are carried at amortised cost using the effective interest method and fair value is deemed to be the same as this.

Interest-bearing loans and borrowings – 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.

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.

Finance lease obligations – estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

	Hierarchical classification	Fair value 2019 £m	Carrying value 2019 £m	Fair value 2018 £m	Carrying value 2018 £m
Financial liabilities					
Interest-bearing loans and borrowings					
– Secured debt:					
Issued by Greene King Finance plc	Level 1	1,596.2	1,537.5	1,423.7	1,343.5
Issued by Spirit Issuer plc	Level 1	373.6	379.5	561.1	563.6
– Floating rate bank loans	Level 2	189.9	189.9	273.1	273.1
Interest rate swaps	Level 2	230.0	230.0	242.6	242.6
Finance lease obligations	Level 2	20.4	20.4	20.6	20.6
Financial assets					
Interest rate swaps	Level 2	–	–	(1.5)	(1.5)
Financial assets	Level 3	(22.4)	(22.4)	(23.7)	(23.7)

Carrying values of the secured debt issued by Greene King Finance plc are stated net of any deferred finance fees which amounted to £14.1m (2018: £10.2m).

Carrying values of the secured debt issued by Spirit Issuer plc include premiums arising from fair value adjustments of £2.7m (2018: £10.9m).

Floating rate bank loan notes are stated net of deferred finance fees of £2.4m (2018: £4.0m).

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 28 April 2019 and 29 April 2018 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 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
Unwinding of discount element of provisions	11.4	0.6	–	12.0
Provided for during the year	–	17.5	0.7	18.2
Released during the year	(4.1)	(13.1)	–	(17.2)
Utilised during the year	(16.8)	(3.5)	–	(20.3)
At 28 April 2019	237.0	29.4	25.4	291.8

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

	28 April 2019				29 April 2018			
	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	17.8	5.9	25.4	49.1	17.9	4.8	24.7	47.4
Non-current	219.2	23.5	–	242.7	228.6	23.1	–	251.7
	237.0	29.4	25.4	291.8	246.5	27.9	24.7	299.1

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 16 years (2018: 17 years).

The off-market contract liabilities balance as at 29 April 2019 will transfer to the right-of-use asset, following the adoption of IFRS 16. See basis of preparation – IFRS 16 Leases.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

24 OFF-MARKET CONTRACT LIABILITIES AND PROVISIONS CONTINUED

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 24 years (2018: 23 years).

The onerous lease provision balance as at 29 April 2019 will transfer to the right-of-use asset, following the adoption of IFRS 16. See basis of preparation – IFRS 16 Leases.

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 £7.5m 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.

25 SHARE CAPITAL

	2019		2018	
	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	310.0	38.7	309.9	38.7
Issue of share capital – share options exercised	–	–	0.1	–
At end of year	310.0	38.7	310.0	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 28 April 2019 nil shares (2018: nil) were held in treasury, less than 0.1m shares (2018: 0.1m) were held by the employee benefit trust and nil (2018: nil) were held to fulfil awards under the deferred share bonus scheme. The market value at 28 April 2019 of the treasury shares was nil (2018: £nil), of the shares held by the employee benefit trust was £0.2m (2018: £0.7m) and of the shares held for the deferred share bonus scheme was nil (2018: £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 (2018: nil) treasury shares and nil (2018: nil) shares in the employee benefit trust were allocated to meet awards under the long term incentive plan.

A transfer of £0.5m (2018: £0.2m) from own shares to retained earnings has been made to reflect transfers to satisfy awards under the long term incentive plan and options exercised under the executive share option plan and reflects the weighted average cost of own shares.

During the period nil (2018: nil) shares were repurchased at a cost of nil (2018: £nil) to fulfil awards made under the deferred share bonus scheme with nil (2018: nil) shares transferred to individuals to satisfy awards. The employee benefit trust purchased nil shares (2018: 0.1m) at a cost of nil (2018: £0.5m) and nil (2018: 0.07m) 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

	2019 £m	2018 £m
Increase in inventories	(3.4)	(2.7)
(Increase)/decrease in trade and other receivables	(8.3)	7.1
Decrease in trade and other payables	(2.5)	(3.6)
Decrease in off-market contract liabilities	(16.8)	(19.6)
Decrease in provisions	(3.5)	(1.8)
Other non-cash movement	0.3	–
Share-based payment expense	2.0	1.3
Defined benefit pension contributions paid	(3.3)	(3.6)
Operating exceptional and non-underlying items	(5.9)	(23.9)
Working capital and other movements	(41.4)	(46.8)

28 ANALYSIS AND MOVEMENTS IN NET DEBT

	As at 29 April 2018 £m	Financing cash flows £m	Changes in fair value £m	Other non-cash changes £m	As at 28 April 2019 £m
Cash and cash equivalents					
Cash at bank and in hand[1]	168.5	16.8	–	–	185.3
Cash and cash equivalents for balance sheet	168.5	16.8	–	–	185.3
Overdrafts	–	(1.3)	–	–	(1.3)
Cash and cash equivalents for cash flow	168.5	15.5	–	–	184.0
Liabilities from financing activities					
Included in net debt:					
– Finance leases	(20.6)	0.2	–	–	(20.4)
– Unsecured bank loans – floating rate:					
– Bank loans – Facility A	(88.8)	65.0	–	(0.5)	(24.3)
– Bank loans – Facility B	(184.3)	19.8	–	(1.1)	(165.6)
– Securitised borrowing	(1,907.1)	(6.1)	–	(3.8)	(1,917.0)
	(2,200.8)	78.9	–	(5.4)	(2,127.3)
Not included in net debt:					
– Derivative financial instruments[2]	(241.1)	18.6	(7.5)	–	(230.0)
Liabilities from financing activities	(2,441.9)	97.5	(7.5)	(5.4)	(2,357.3)
Net debt	(2,032.3)	94.4	–	(5.4)	(1,943.3)

1. Includes short-term deposits.
2. Includes derivative asset balances.

NOTES TO THE ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

28 ANALYSIS AND MOVEMENTS IN NET DEBT CONTINUED

	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 loan facility	(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.

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:

	2019 £m	2018 £m
Within one year	83.7	80.2
Between one and five years	318.9	309.5
After five years	1,444.9	1,437.4
	1,847.5	1,827.1

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:

	2019 £m	2018 £m
Within one year	43.9	45.1
Between one and five years	118.8	122.9
After five years	135.6	119.5
	298.3	287.5

Future minimum lease rentals include £6.8m (2018: £6.1m) 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

	2019 £m	2018 £m
Short-term employee benefits (including National Insurance contributions)	5.6	5.2
Post-employment pension and medical benefits	0.5	0.6
Share-based payments	0.5	0.1
	6.6	5.9

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.

31 POST BALANCE SHEET EVENTS

Final dividend

A final dividend of 24.4p per share (2018: 24.4p) amounting to a dividend of £75.6m (2018: £75.6m) was proposed by the directors at their meeting on 26 June 2019. These financial statements do not reflect the dividend payable.

Borrowings and financial instruments

On 11 June 2019 the group gave notice to repay the remaining £93.5m outstanding Class A4 secured loan notes issued by Spirit Issuer plc at par on 28 June 2019. The notes have a carrying value of £96.4m as at 28 April 2019, of which £10.3m is classified as a current liability and £86.1m is classified as a non-current liability. The group has also agreed to make a payment of £11.4m on 28 June 2019 to fully terminate the corresponding interest rate swap contract.

COMPANY BALANCE SHEET

AS AT 28 APRIL 2019

Registered number: 24511

	Note	As at 28 April 2019 £m	As at 29 April 2018 £m
Fixed assets			
Investments	36	3,890.6	3,474.8
Current assets			
Amounts due from subsidiaries		99.3	98.2
Cash		–	6.9
Creditors: amounts falling due within one year			
Creditors	37	(2,436.2)	(1,922.1)
Net current liabilities		(2,336.9)	(1,817.0)
Total assets less current liabilities		1,553.7	1,657.8
Creditors: amounts falling due after more than one year			
Borrowings	38	(191.5)	(273.1)
Net assets		1,362.2	1,384.7
Capital and reserves			
Called up share capital	40	38.7	38.7
Share premium account	41	262.2	262.0
Merger reserve	41	752.0	752.0
Revaluation reserve		2.5	2.5
Other reserve	41	93.9	93.9
Own shares	41	–	(0.5)
Retained earnings[1]		212.9	236.1
Equity attributable to owners of the parent		1,362.2	1,384.7

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 £79.6m (2018: £111.9m).

Signed on behalf of the board on 26 June 2019

Richard Smothers
Director

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE 52 WEEKS ENDED 28 APRIL 2019

	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 30 April 2017	38.7	261.7	752.0	2.5	93.9	(0.2)	226.0	1,374.6
Profit for the year	–	–	–	–	–	–	111.9	111.9
Total comprehensive income	–	–	–	–	–	–	111.9	111.9
Issue of ordinary share capital	–	0.3	–	–	–	–	–	0.3
Purchase of shares	–	–	–	–	–	0.2	(0.2)	–
Release of shares	–	–	–	–	–	(0.5)	–	(0.5)
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
Change in accounting policy	–	–	–	–	–	–	(1.4)	(1.4)
Restated as at 30 April 2018	38.7	262.0	752.0	2.5	93.9	(0.5)	234.7	1,383.3
Profit for the period	–	–	–	–	–	–	79.6	79.6
Total comprehensive income	–	–	–	–	–	–	79.6	79.6
Issue of ordinary share capital	–	0.2	–	–	–	–	–	0.2
Transfer	–	–	–	–	–	0.5	(0.5)	–
Share-based payments	–	–	–	–	–	–	2.0	2.0
Equity dividends paid	–	–	–	–	–	–	(102.9)	(102.9)
At 28 April 2019	38.7	262.2	752.0	2.5	93.9	–	212.9	1,362.2

NOTES TO THE COMPANY ACCOUNTS

FOR THE 52 WEEKS ENDED 28 APRIL 2019

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 (paragraphs 45(b) and 46 to 52);

– 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.

Financial assets

The company classifies its amounts due from subsidiaries at amortised cost where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs, and are subsequently carried at amortised cost using the effective interest rate method less provision for impairment.

The company recognises a loss allowance for expected credit losses on amounts due from subsidiaries. The methodology used to determine the amount of the expected credit loss is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset.

For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those where the credit risk has increased significantly or determined to be credit impaired, lifetime expected credit losses along with the gross interest income or net interest income, respectively, are recognised.

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, 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.

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.

Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 on the company's financial statements.

As a result of the changes in the company's accounting policies, the adjustment arising from the new impairment rules are recognised in the opening retained earnings as at 30 April 2018. IFRS 9 has been adopted without restating comparative information.

The new accounting policy is set out above in this note.

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

NOTES TO THE COMPANY ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

32 ACCOUNTING POLICIES CONTINUED

Company balance sheet (extract)

	As at 29 April 2018		
	As previously reported £m	Impact of IFRS 9 £m	Restated £m
Fixed assets			
Investments (loans to subsidiaries)	1,130.2	(1.3)	1,128.9
Current assets			
Amounts due from subsidiaries	98.2	(0.1)	98.1
Capital and reserves			
Retained earnings	236.1	(1.4)	234.7

Classification and measurement

The company's loan to subsidiaries and amounts due from subsidiaries were classified under loans and receivables under IAS 39 and now are held at amortised cost. There is no impact from the change in classification in the company financial statements and no tax impact from the adoption of IFRS 9.

Impairment of financial assets

The loan to subsidiary undertaking is subject to IFRS 9's new expected credit loss model. The loans are not considered to have had an increase in significant risk and therefore a 12-month expected credit loss has been determined. Applying the expected credit risk model resulted in the recognition of a loss allowance of £1.4m on 30 April 2018 (previous allowance was £nil) and a further increase in the allowance by £0.2m in the current reporting period.

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 £79.6m (2018: £111.9m).

34 AUDITOR'S REMUNERATION

Auditor's remuneration in respect of the company audit was £16,500 (2018: £16,500). The figures for auditor's remuneration for the company required by regulation 5(1)(b) of the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) 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 75 to 91. 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 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
Additions	222.0	–	222.0
Share-based payment awards to employees of subsidiaries	2.0	–	2.0
Advances	–	193.3	193.3
Cost at 28 April 2019	2,591.8	1,323.5	3,915.3
Impairment at 30 April 2017 and 29 April 2018	(23.2)	–	(23.2)
Impairment of non-trading subsidiaries	–	(1.5)	(1.5)
Impairment at 28 April 2019	(23.2)	(1.5)	(24.7)
NBV at 28 April 2019	2,568.6	1,322.0	3,890.6
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

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.

The current year impairment on loans to subsidiaries is constituted of £1.4m expected credit loss on transition to IFRS 9 and £0.2m of in year expected credit loss as discussed in note 32.

37 CREDITORS

	2019 £m	2018 £m
Accruals	2.7	3.4
Corporation tax payable	5.1	–
Amounts owed to subsidiaries	2,428.4	1,918.7
	2,436.2	1,922.1

Interest on amounts owed to and from group undertakings accrues at a rate of LIBOR + 1.0% and is payable on demand.

NOTES TO THE COMPANY ACCOUNTS CONTINUED

FOR THE 52 WEEKS ENDED 28 APRIL 2019

38 BORROWINGS

	2019			2018		
	Within one year £m	After one year £m	Total £m	Within one year £m	After one year £m	Total £m
Bank overdraft	1.6	–	1.6	–	–	–
Unsecured bank loans – floating rate:						
– Facility A	–	24.3	24.3	–	88.8	88.8
– Facility B	–	165.6	165.6	–	184.3	184.3
	1.6	189.9	191.5	–	273.1	273.1

As explained in note 22 the company has available revolving credit facilities totalling £750.0m.

Bank loans due after one year are repayable as follows:

	2019 £m	2018 £m
Due between one and two years	165.6	–
Due between two and five years	24.3	273.1
	189.9	273.1

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 (2018: October 2021) and under Facility B until November 2020 (2018: November 2020).

39 FINANCIAL INSTRUMENTS

Financial assets at amortised cost

Financial assets at amortised cost include the following:

	2019			2018		
	Current £m	Non-current £m	Total £m	Current £m	Non-current £m	Total £m
Loans to subsidiaries	–	1,323.5	1,323.5	–	1,130.2	1,130.2
Less: expected credit loss	–	(1.5)	(1.5)	–	–	–
	–	1,322.0	1,322.0	–	1,130.2	1,130.2
Amounts due from subsidiaries	99.4	–	99.4	98.2	–	98.2
Less: expected credit loss	(0.1)	–	(0.1)	–	–	–
	99.3	–	99.3	98.2	–	98.2

See note 32 for the impact on the change in accounting policy following the adoption of IFRS 9 on the classification and impairment of financial assets.

Impairment

The company has assessed the credit risk on the intercompany loans and have concluded that there has not been an increase in credit risk since initial recognition, therefore a 12-month expected credit loss has been calculated.

The loss allowance for the loans to subsidiaries and amounts due from subsidiaries reconciles to the opening loss allowance on 30 April 2018 and to the closing loss allowance as at 28 April 2019 as follows:

	Loans to subsidiaries £m	Amounts due from subsidiaries £m
Closing expected credit loss as at 29 April 2018	–	–
Amounts restated through opening retained earnings	1.3	0.1
Opening expected credit loss as at 30 April 2018 (calculated under IFRS 9)	1.3	0.1
Increase in the allowance recognised in profit or loss during the period	0.2	–
Closing expected credit loss as at 28 April 2019	1.5	0.1

40 ALLOTTED AND ISSUED SHARE CAPITAL

Allotted, called-up and fully paid	2019 £m	2018 £m
Ordinary shares of 12.5p each		
310.0m shares (2018: 310.0m)	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.

41 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 (2018: £3.3m) capital redemption reserve arising from the purchase of own share capital and £90.6m (2018: £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.

42 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.

43 POST BALANCE SHEET EVENTS

Final dividend

A final dividend of 24.4p per share (2018: 24.4p) amounting to a dividend of £75.6m (2018: £75.6m) was proposed by the directors at their meeting on 26 June 2019. These financial statements do not reflect the dividend payable.

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 management believe this provides 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 forecasts but also against the group's longer-term strategic plans. The definition of each APM presented in this report and where 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
EBITDA	Earnings before interest, tax, depreciation, amortisation and 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.	
Profit before tax and exceptional and non-underlying items (PBTE)	Group profit before tax excluding exceptional and non-underlying items.	Group income statement
Adjusted basic earnings per share	Earnings per share excluding the impact of exceptional and non-underlying items.	Note 13 to the accounts
Return on investment (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 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
Return on capital employed (ROCE) %	Return on capital employed is calculated by dividing operating profit before exceptional and non-underlying items 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	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 core sites that were trading for the entirety of both 52-week periods.	Note G below
Pub Company operating profit before exceptional and non-underlying items	Pub Company operating profit excluding exceptional and non-underlying items.	Note 3 to the accounts
Pub Company EBITDA	Pub Company earnings before interest, tax, depreciation, amortisation and exceptional and non-underlying items.	Note 3 to the accounts
Pub Company EBITDA per pub	Calculated by dividing Pub Company EBITDA by the average number of pubs trading in a financial period.	
Pub Partners LFL net profit growth	Pub Partners' LFL net profit includes pub operating profit but excludes exceptional and non-underlying items (LFL net income), and allocation of central overheads. LFL profit performance is calculated against a comparable 52-week period in the prior year for core pubs that were trading for the entirety of both 52-week periods.	Note H below
Pub Partners EBITDA	Pub Partners earnings before interest, tax, depreciation, amortisation and exceptional and non-underlying items.	Note 3 to the accounts
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 3 to the accounts
Brewing & Brands operating profit before exceptional items	Brewing & Brands operating profit excluding exceptional and non-underlying items.	Note 3 to the accounts
Brewing & Brands EBITDA	Brewing & Brands earnings before interest, tax, depreciation, amortisation and exceptional and non-underlying items.	Note 3 to the accounts

In addition the group uses the following non-financial KPIs to assess performance against its strategic objectives:

Measure	**Definition**
Employee engagement score (%)	The proportion of respondents who agreed with the following statement: 'I feel engaged and committed at present' as the statement that most accurately reflects their current career intentions.
Pub Company net promoter score (NPS) (%)	The percentage of responses where we score nine or ten (out of ten) less the percentage of responses where we score zero to six (out of ten) to the statement "I am likely to recommend this pub to a friend and/ or relative."
Pub Partners Licensee Survey	The licensee survey is independent research conducted with leased/tenanted pubs across all the major pub companies operating in the L&T sector.
Brewing & Brands OBV growth (%)	Year-on-year growth in the volume of sales of beer brewed at our Greene King and Belhaven breweries.
Brewing & Brands Service score (%)	B&B service score is a measure on percentage of deliveries that are made on time and in full across all delivery networks.

ALTERNATIVE PERFORMANCE MEASURES CONTINUED

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	2019 £m	2018 £m
Incremental annualised EBITDA	Non-GAAP	13.7	15.5
Total core capital investment in completed schemes	Non-GAAP	38.3	50.0
Return on investment		35.8%	31.0%

B NET DEBT: EBITDA

	Source	2019 £m	2018 £m
Net debt	Group balance sheet	1,943.3	2,032.3
EBITDA	Cash flow statement	482.0	486.6
Net debt : EBITDA		4.0	4.2

C FREE CASH FLOW

	Source	2019 £m	2018 £m
EBITDA	Cash flow statement	482.0	486.6
Working capital and other movements	Note 9	(41.4)	(46.8)
Add back: exceptional items	Note 9	5.9	23.9
		446.5	463.7
Tax payments	Cash flow statement	(21.0)	(44.8)
Add back: exceptional tax payments	Non-GAAP	–	9.4
Add back: impact of changes to payment regimes	Non-GAAP	–	26.0
		(21.0)	(9.4)
Interest received	Cash flow statement	0.7	1.0
Interest paid	Cash flow statement	(117.6)	(130.2)
Add back: exceptional interest paid	Non-GAAP	–	2.1
		(116.9)	(127.1)
Core capex	Note F below	(119.1)	(132.2)
Net repayment /(advance) of trade loans	Cash flow statement	0.6	2.5
Equity dividends paid	Note 6	(102.9)	(102.9)
Other non-cash movements	Non-GAAP	(1.1)	(4.7)
Free cash flow		86.1	89.9

D FIXED CHARGE COVER

	Source	2019 £m	2018 £m
EBITDA	Cash flow statement	482.0	486.6
Operating lease rentals	Non-GAAP	90.1	90.2
Add back: off-market lease liability and other property provisions utilised in the period	Non-GAAP	(21.1)	(20.2)
Non-returning capex	Note F below	(72.6)	(79.6)
		478.5	477.0
Net interest paid	Cash flow statement	116.9	129.2
Add back: exceptional interest paid	Non-GAAP	–	(2.1)
Operating lease rentals	Non-GAAP	90.1	90.2
		207.0	217.3
Fixed charge cover		2.3	2.2

E RETURN ON CAPITAL EMPLOYED

	Source	2019 £m	2018 (restated[1]) £m	2017 (restated[1]) £m
Operating profit before exceptional and non-underlying items	Income statement	368.2	373.1	411.5
Average capital employed:				
Net assets[1]	Group balance sheet	2,107.9	2,073.1	1,939.6
Add back:				
Deferred tax assets[1]	Group balance sheet	(9.5)	(20.1)	(22.9)
Post-employment (assets)/liabilities	Group balance sheet	(31.1)	(13.6)	11.2
Derivatives	Group balance sheet	230.0	241.1	344.8
Net debt	Group balance sheet	1,943.3	2,032.3	2,074.5
Capital employed	Non-GAAP	4,240.6	4,312.8	4,347.2
Timing adjustment	Non-GAAP	104.3	108.3	75.2
Average capital employed	Non-GAAP	4,344.9	4,421.1	4,422.4
ROCE		8.5%	8.4%	9.3%

1. Deferred tax, goodwill and retained earnings have been restated. See note 1 for further details.

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.

F CAPITAL INVESTMENT

	Source	2019 £m	2018 £m
Non-returning capex[1]	Non-GAAP	72.6	79.6
Development capex	Non-GAAP	46.5	52.6
Core capex	Non-GAAP	119.1	132.2
Brand swap and new site investment	Non-GAAP	44.3	61.0
Purchase of property, plant and equipment	Cash flow statement	163.4	193.2

1. non-returning capex also referred to as 'maintenance capex'.

ALTERNATIVE PERFORMANCE MEASURES CONTINUED

APM RECONCILIATIONS CONTINUED

G PUB COMPANY LFL SALES

2019 CALCULATIONS	Source	2019 £m	2018 £m	YoY%
Reported revenue	Note 2	1,799.2	1,767.7	+1.8%
Less: non-LFL revenue	Non-GAAP	(65.1)	(82.8)	
LFL sales	Non-GAAP	1,734.1	1,684.9	+2.9%

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%

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 these amounts include all sales prior to disposal; for new pubs acquired or opened during the two-year period these amounts include all post-acquisition sales.

H PUB PARTNERS LFL NET PROFIT AND LFL NET INCOME

2019 CALCULATIONS	Source	2019 £m	2018 £m	YoY%
Reported operating profit	Note 2	87.1	91.4	-4.7%
Less: other non-LFL adjustments	Non-GAAP	(7.0)	(11.0)	
LFL net profit	Non-GAAP	80.1	80.4	-0.3%
Add back: Central cost allocation on LFL sites	Non-GAAP	20.3	18.6	
Add back: Depreciation on LFL sites	Non-GAAP	10.0	9.8	
LFL net income		110.4	108.8	1.5%

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%
Add back: Central cost allocation on LFL sites	Non-GAAP	19.0	20.0	
Add back: Depreciation on LFL sites	Non-GAAP	9.6	9.5	
LFL net income		114.3	114.9	-0.5%

Non-LFL profit adjustments are in respect of pre-disposal net profit from pubs that were disposed of in the current or prior year.

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

Ex-dividend date	8 August 2019
Record date for final dividend	9 August 2019
Annual general meeting	6 September 2019
Payment of final dividend	13 September 2019
Announcement of interim results	28 November 2019
Payment of interim dividend	January 2020
Preliminary announcement of the 2019/20 results	June 2020

REGISTRARS

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1. 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 e-mail address you will receive e-mails with a web link to information posted on the company's website, including the report and accounts, notice of meetings and other information communicated to shareholders.

INDIRECT INVESTORS' INFORMATION RIGHTS

Beneficial owners of shares held on their behalf by a different registered holder now have certain information rights regarding Greene King. They have the right to ask their registered holder to nominate them to receive all non-personalised information distributed to shareholders, in accordance with the provisions of section 146 of the Companies Act 2006.

Should you wish to be nominated to receive information from Greene King directly, please contact your registered holder, who will need to notify our registrars, 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 INFORMATION CONTINUED

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.

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JOINT STOCKBROKERS

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120 London Wall
EC2Y 5ET

Citigroup Global Markets Limited
Citigroup Centre
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Canary Wharf
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AUDITOR

Ernst & Young LLP
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London, SE1 2AF

SOLICITORS

Linklaters
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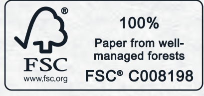

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