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GREENE KING
BURY ST EDMUNDS

TIME WELL SPENT

Annual report 2017

THE LEADING PUB COMPANY AND BREWER

Greene King is the country's leading integrated pub retailer and brewer. At our year end we operated 2,924 managed, tenanted, leased and franchised pubs, restaurants and hotels, including well known brands such as our Greene King locals estate, Hungry Horse, Flaming Grill, Farmhouse Inns and Chef & Brewer. We have a proud history of brewing award-winning ales for more than 200 years and our leading ale brand portfolio includes Old Speckled Hen, Greene King IPA, Abbot Ale and Belhaven Best.

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

SHAREHOLDER INFORMATION

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OVER 60'S
Starters
Desserts
Mains
Teas & Coffees

Investment case

Our overall vision is

TO BE THE BEST PUB COMPANY IN BRITAIN

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

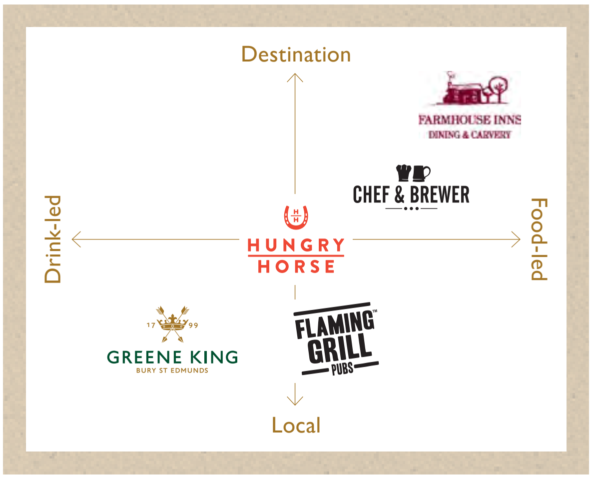
Through our proven business model and our focus on results, we aim to continue delivering long-term growth and returns to our shareholders.

1

BUSINESS MODEL

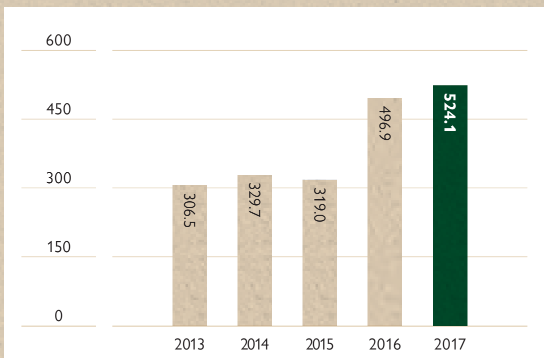
- Greene King is the leading UK pub company and brewer in a growing market
- We have a portfolio of large, category-leading brands, including our five focus brands, Greene King Locals, Hungry Horse, Flaming Grill, Farmhouse Inns and Chef & Brewer
- Our estate is the best invested in the industry and we proactively manage our pub portfolio to continue to drive our estate quality upwards
- Our strong management team offers deep experience across the retail sector
- We have a successful acquisition track record and have completed the integration of our largest ever acquisition a year ahead of schedule

Our business model page 16



2

EBITDA[1]
(£m)



PERFORMANCE

- We have a long-term track record of earnings growth and reached over £500m EBITDA in the 2016/17 financial year
- Our disciplined capital management ensures that our return on capital employed is well above our weighted average cost of capital
- We are a highly cash generative business, giving us both flexibility in capital investment and resilience during tougher market conditions

Financial review page 30

1. EBITDA represents earnings before interest, tax, depreciation, amortisation and exceptional items and is calculated as operating profit before exceptional and non-underlying items adjusted for the depreciation and amortisation charge for the period.

3

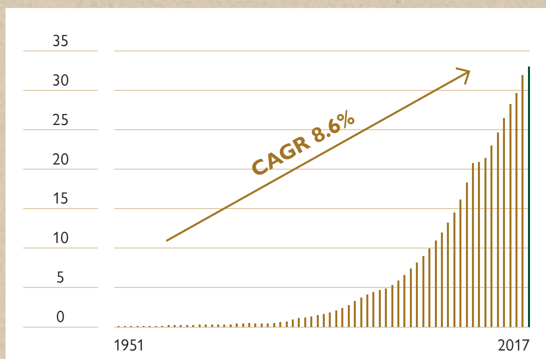
SHAREHOLDER BENEFITS

- The strong business model at the core of our business and the results we achieve make us the leading player in a growing market
- We have a strong balance sheet and continue to cover our debt service obligation, our core capital expenditure and our dividend through internally generated cash flow
- We have a progressive dividend policy, with a long-term track record of returns to shareholders

DIVIDEND PER SHARE

33.2p +3.6%

DIVIDEND PER SHARE
(p)

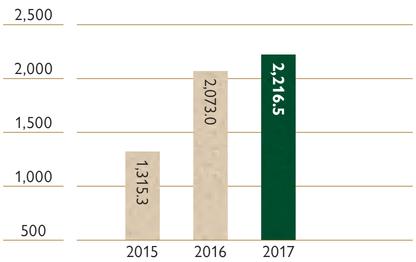


Performance highlights

RECORD RESULTS

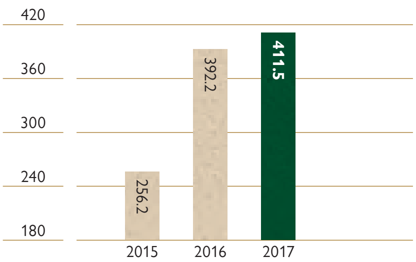
REVENUE
(£m)

£2,216.5m +6.9%



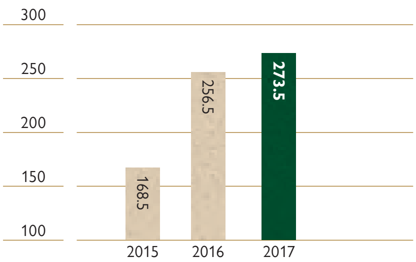
OPERATING PROFIT BEFORE EXCEPTIONAL AND NON-UNDERLYING ITEMS[1] (£m)

£411.5m +4.9%



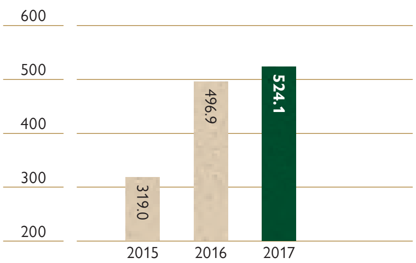
PROFIT BEFORE TAX AND EXCEPTIONAL AND NON-UNDERLYING ITEMS[1] (£m)

£273.5m +6.6%



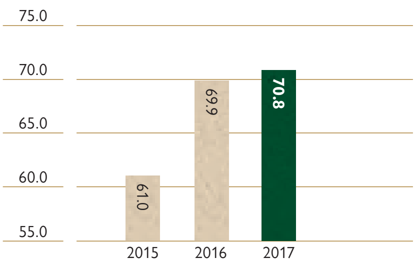
EBITDA[1,2]
(£m)

£524.1m +5.5%



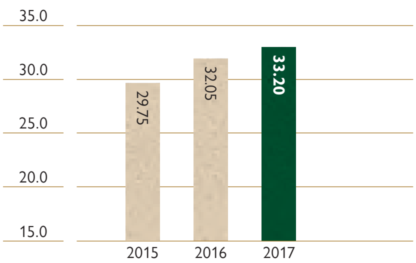
ADJUSTED BASIC EARNINGS PER SHARE[1] (p)

70.8p +1.3%



DIVIDEND PER SHARE
(p)

33.20p +3.6%



Continued market outperformance

- Pub Company like-for-like (LFL)[1] sales up 1.5%, ahead of the market[3], driven by a good Christmas, a stronger fourth quarter and a strong performance from Greene King Locals
- Record performance from Pub Partners; LFL net profit[1] up 5.0%
- Brewing & Brands revenue up 1.7%; own-brewed volume (OBV) down 2.8%, beating the UK cask ale market[4]

Strong financial metrics supporting growth and shareholder returns

- Record revenue up 6.9% to £2,216.5m, and operating profit before exceptional and non-underlying items up 4.9% to £411.5m
- Strong free cash flow generation; £119.6m post core capex[1] and dividends, covers scheduled debt repayments
- 4.0x net debt to EBITDA[1,2]; long-term debt financing
- Return on capital employed[1] (ROCE) maintained at 9.4%
- Dividend per share up 3.6%; continued long-term dividend progression

Spirit integration completed a year ahead of schedule

- £35m targeted annual synergies delivered
- Pub Company IT system rolled out across over 1,700 pubs
- Integrated supply chain in place
- Organisational restructure completed
- Year one brand conversions achieved sales uplifts of over 30%

1. An explanation of the group's use of alternative performance measures (APMs), including definitions and reconciliations, is included on page 127.
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. Source: Coffer Peach Tracker, 52 weeks to end of April 2017.
4. Source: BBPA Beer Market data to April 2017.

SUCCESSFUL INTEGRATION

In my first statement a year ago, I stated that Greene King was a strong business with an excellent track record which, following the Spirit acquisition, was at an exciting time in its development. A year on, this remains the case. The team has worked extremely hard over the last two years on the integration, which has completed one year ahead of schedule. This means we can now give all our focus to pursuing opportunities to grow and take share, prioritising long-term value creation, while delivering continued strong cash generation and maintaining a robust balance sheet. Ours is a strategically strong and well managed business which is positioned to address the tougher trading environment forecast for the next few years.

Overview

We achieved another year of record results and market outperformance, driven by a good performance from the underlying business and an additional seven-week contribution from Spirit. Group revenue grew 6.9% to over £2.2bn, while operating profit before exceptional and non-underlying items[1,2] increased by 4.9% to £411.5m. Profit before tax, exceptional and non-underlying items[1,2] grew 6.6% to £273.5m, leading to a 1.3% increase in adjusted earnings per share[1,2] to 70.8p.

> **"THE TEAM HAS WORKED EXTREMELY HARD OVER THE LAST TWO YEARS ON THE INTEGRATION.**

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 understanding of the group's performance. Key measures are explained on page 127.

Dividend

Reflecting this performance and confidence in our long-term prospects, the board has recommended a final dividend of 24.4p, giving a total dividend for the year of 33.2p. This represents growth of 3.6% compared to last year and continues the long-term track record of progressive dividends. The board continues to target minimum dividend cover of around two times earnings.

People

We have 44,000 talented and hard-working team members. The continued success of the business during the Spirit integration demonstrates the effort they have put in over the last 12 months. I would like to take this opportunity to thank everyone who has worked so hard during the last year helping us to deliver these results at the same time as completing the integration of Spirit ahead of schedule.

Board changes

At the AGM in September 2016, Ian Durant retired from the board after nine years, latterly as chairman of the audit committee. Rob Rowley took over as audit chair at the same time. In December 2016, Gordon Fryett joined the board bringing a wealth of experience of both retail and property through his career at Tesco. I should like to record the board's thanks to Ian for his contribution to Greene King over such a critical period.

Looking ahead

We are excited about the opportunities we see in our core pub retailing brands, where the results from our brand conversions are showing very positive sales uplifts. We will continue with the programme over the coming years, ensuring our pubs remain attractive and relevant to our customers as they face into the challenges that the economic uncertainties will undoubtedly bring.

Within the pub sector, Greene King's combination of brands, teams and assets leaves us well placed to deliver long-term growth and returns to shareholders. Uncertainty affecting both business and consumer confidence is likely to continue following the recent election and the unknown length and outcome of the Brexit negotiations. Alongside the rest of the industry, we are experiencing significant cost pressures but Greene King's scale and the consequent cost efficiencies, not least from the Spirit integration, should enable us to mitigate much of the cost increases. Our aim is to ensure that Greene King emerges from the near-term period of uncertainty stronger than ever and I look forward to reporting on our progress towards this goal in a year's time.

Philip Yea
Chairman
28 June 2017

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Board of directors page 44
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BEST FOR CUSTOMERS

“WE AIM TO BE THE BEST IN THE EYES OF THE CUSTOMER, WHICH MEANS OFFERING THEM INDUSTRY-LEADING VALUE, SERVICE AND QUALITY.

Our offering is delivered by the best people and in high quality, appealing pubs with clear and exciting brands and formats.

With the dual challenges of weakening consumer confidence and growing competition, exceeding our customers’ expectations is more important than ever. This year we have invested more in improving value, service and quality (VSQ) in order to provide an even better offer for our customers, in line with our overarching aim of becoming the best pub company in the UK.

Our food development team is responsible for developing and delivering new menus and dishes across Pub Company. Its objective is to create best-in-class menus, making Greene King recognised for quality and choice, and offering customers experiences that they will value, remember and want to share.

We have been focusing particularly on improving the quality and consistency of the most ordered dishes across Pub Company, targeting increased consumer loyalty. The team has reformulated how we serve these pub classics, including fish and chips and hunter’s chicken, with better ingredients and presentation across our retail brands. The investment in improving these dishes has been reflected in the results of our mystery guest programme, in which we benchmark our pubs against more than 20 other brands on VSQ measures.

Recent results

- Greene King’s top four dishes outperform the non-Greene King brands surveyed in our mystery guest programme, averaging over 8/10 versus non-Greene King brands, which averaged 7.81/10
- Chef & Brewer’s burger scored the highest of all pubs surveyed
- Chef & Brewer also scored highest for its chicken tikka masala and its chips
- Flaming Grill scored highest for its hunter’s chicken
- Greene King Locals (Mainstream) scored highest for its fish and chips
- Our food development team was recently recognised at the Menu Innovation and Development Awards

Pictured are two members of our food development team.


Mark Teed
Food Development
Manager
GREENE KING
BURY ST EDMUNDS

BEST FOR TEAMS

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

The greatest asset we have at Greene King is our people. We employ around 44,000 team members across the group and so being an attractive place to work, retaining the best people and developing and investing in them are keys to our continued success. Greene King is uniquely positioned to offer careers across a number of roles, disciplines, environments and locations and we work hard to ensure that every member of our team gets the opportunity to learn and progress.

We have developed an industry-leading apprenticeship programme, with over 3,000 apprentices joining Greene King over the last year, gaining valuable skills which will help them build their career with us. Our programme offers bespoke qualifications that cover a range of jobs, including front of house, kitchen and management, which are tailored to each of our brands.

This year we launched Craft Academy, a brewing venture led by apprentices and based at Greene King's brewery in Bury St Edmunds. The Craft Academy helps craft new talent by giving young people the chance to earn while they learn about brewing, design, marketing and sales. With the help of experienced mentors, the 18-month course teaches participants industry-specific skills as they work towards a bespoke apprenticeship qualification, all the while creating beers under the Craft Academy brand and bringing them to market.

Award winning

Our overall apprenticeship programme has been recognised by winning a number of recent awards, including:

- Top 100 National Apprenticeship Employer 2016 (National Apprenticeship Service)
- Best Apprenticeship Strategy 2016 (Springboard Awards of Excellence)
- Top 70 School Leaver Employers Table 2017 (Rate My Apprenticeship)
- National Apprenticeship Service (East of England) Highly Commended 2016
- Top 100 Employers for School and College Leavers 2016 (All About School leavers)

Pictured is one of our team members, Adam Walch.
Turn to page 39 to read more about him.


GREENE KING
Abbot
ALE
IPA

BEST FOR COMMUNITIES

"WE STRIVE TO BE THE BEST FOR THE COMMUNITIES IN WHICH WE SERVE.

Our pubs support their communities in a number of ways, but charity is one of the key areas of focus.

Locally, we support important charities close to our pubs', team members' and customers' hearts, but as a business we have come together to establish a partnership with Macmillan Cancer Support.

Greene King and Macmillan both share the privileged position of being at the heart of the community. We think this is one of the reasons our partnership is so successful. We began working with Macmillan in 2012 and are proud to have just reached the incredible milestone of having raised £3m for the cancer charity.

This year, we launched our first company-wide fundraiser, Miles for Macmillan, in which our team members and customers are invited to walk, run, cycle and swim enough miles to reach the moon. The impressive challenge will see us cover a combined quarter of a million miles, taking part in local fun runs and bike rides, the London to Paris cycle ride and climbing Mount Kilimanjaro.

As the partnership grows from strength to strength, we are now looking at how we can develop our support further. By 2020, one in two people will be affected by cancer during their lifetime and we believe that, by being so close to our communities, we have an opportunity to support people living with cancer. Therefore, during the next year, we are hoping to launch an employee volunteering programme with Macmillan where they can offer 'light touch' emotional support and raise awareness of national and local cancer support services to team members and customers.

We are also developing Macmillan's work and cancer training programme, which will enable our HR and management teams to support our own team members who are affected by cancer.

We achieved a huge amount last year and are looking forward to continuing to make a difference to the lives of those who are living with cancer.

Headlines

- New milestone – £3m raised for Macmillan
- Record-breaking World's Biggest Coffee Morning – raised £234,000
- Record-breaking year – raised £885,000 in one year
- Won the award for Fundraising Excellence at Macmillan's annual corporate partnership event

Raising money for Macmillan Cancer Support.

WE ARE
MACMILLAN
CANCER SUPPORT
WE ARE
MACMILLAN.
CANCER SUPPORT
macmillan.org.uk

Chief executive's review

ANOTHER YEAR OF GOOD PERFORMANCE

GROUP REVENUE WAS:

£2,216.5m

OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS AND NON-UNDERLYING ITEMS WAS UP:

4.9%

ADJUSTED BASIC EARNINGS PER SHARE GREW:

1.3%

Performance summary

Total revenue grew 6.9% to a record high of £2,216.5m, driven by another good performance from the underlying business and by the additional seven weeks of Spirit trading in comparison with last year.

EBITDA[1,2] surpassed £500m for the first time in the company's history, reaching £524.1m, up 5.5% on last year.

Operating profit before exceptional and non-underlying items[1,2] was up 4.9% at £411.5m while the operating margin[1,2] decreased 0.3%pts to 18.6%. This comprised a positive contribution from Spirit synergies, offset by brand conversion costs and the more challenging cost environment.

Pub Company delivered LFL sales growth[1,2] of 1.5%, outperforming the market by 0.4%pts[3]. Total sales growth in Pub Company was 7.7%, while operating profit grew 3.0% to £308.1m. 11 new pubs were opened during the year while 65 disposals were completed.

Pub Partners revenue was up 5.8% to £198.8m and LFL net profit growth[2] was up 5.0%. Average EBITDA[1,2] per pub increased 7.9%, reflecting further improvements in estate quality as a result of the Spirit acquisition, the disposal of 54 pubs from the combined estate and synergy contribution. Operating profit grew 8.8% to £92.8m.

Brewing & Brands achieved revenue of £200.3m in the year, up 1.7%. OBV was down 2.8%, in line with the total ale market and beating the cask ale market. Our share of the UK cask ale market was 10.3%. Operating profit was down 5.2% to £31.0m and operating profit margin was down 1.1%pts to 15.5%. Factors impacting profit conversion included increased cost of goods sold and investment in marketing and price, mainly in the second half of the year.

The integration of Spirit was completed a year early with annual cost synergy realisation of £35m.

The group delivered strong free cash flow[2] from operations of £119.6m and we again covered our debt service obligation, core capital expenditure and dividend from internally generated cash. Net debt to EBITDA[1,2] was 4.0x.

Adjusted earnings per share grew 1.3% to 70.8p and we have recommended a 3.6% increase in the dividend per share, maintaining our long-term progressive dividend policy.

The business achieved another year of strong returns, generating a ROCE[2] of 9.4%, which remains comfortably above our weighted average cost of capital (WACC).

1. Adjusted measures exclude the impact of exceptional and non-underlying items as detailed in note 3 of this statement.
2. The directors use a number of alternative performance measures (APMs) that are considered critical to aid understanding of the group's performance. Key measures are explained on page 127 of this report.
3. Source: Coffer Peach Tracker, 52 weeks to end of April 2017.

Trading environment

Consumer confidence in the UK has softened over the last 12 months with nominal wage growth starting to fall behind rising levels of cost inflation leading to a squeeze on disposable household income. While spending on essentials has held up, discretionary spending has started to fall. Within this, we believe that affordable treats such as visits to the pub will continue to play an important role in consumer discretionary spending. We anticipate that this challenging environment will intensify over the next few years, partly due to the ongoing political and economic uncertainty in the UK. If this is the case, we think our business model is well placed to outperform the market: Pub Company has good national coverage with a bias towards London and the South East; we operate pubs in the value, mainstream and premium sectors; and we have a good mix of sales between drink, food and rooms. In addition, 30% of our profits come from our cash-generative non-retail businesses, Pub Partners and Brewing & Brands.

> **“ OUR BUSINESS MODEL IS WELL PLACED TO OUTPERFORM THE MARKET.**

As well as the macro themes evident over the last year, we have also seen a number of developing consumer trends within the eating and drinking out sectors. Consumers are raising their expectations for their eating and drinking out experiences, particularly in the value, quality, service and environment of the offer, while they are also increasingly seeking out healthier options in their food and drink options. The digitalisation of leisure continues to develop at pace, with digital channels becoming increasingly important in getting closer to the consumer and in growing market share. We are active in using our scale, following the Spirit integration, to continue to invest in areas to ensure we meet consumer expectations going forward.

At the same time that the consumer is becoming more demanding, the cost environment has become more challenging. Regulatory pressures including the National Living Wage, the Apprenticeship Levy and business rates, compounded by inflation and foreign exchange costs, are impacting margins across the hospitality industry. We are at an advantage in that we have the benefits of the Spirit acquisition and integration to help offset these cost pressures but we shall also seek out opportunities for further cost savings.

Due in some degree to the cost pressures described above, competition for market share is intensifying and broadening. We are the leading pub company in an eating and drinking out market that is expected to grow 7.2%, or £6.2bn, over the next few years[1]. At the same time, it is expected that the local, wet-led pub sector will see an ongoing decline in the number of pubs, following falls of 12.5%, 8.2% and 12.5% in England, Scotland and Wales since 2011[2]. Competition for wet-led pubs comes predominantly from the off-trade, where we are seeing continued discounting being used to drive volume. Competition for our food-led destination pubs comes from the increasing supply of food-led outlets, expected to increase 1.9% between 2017 and 2020[1], but also from the night in, supported by better home comforts, value offers from grocers and growth in delivery and takeaway aggregator sites.

1. Source: MCA Allegra.
2. Source: Alix Partners.

Chief executive's review continued

> "THE INTEGRATION OF SPIRIT HAS CREATED A BETTER PLATFORM FOR LONG-TERM GROWTH AND OUTPERFORMANCE.

Integration

Following the acquisition of Spirit in June 2015, we have managed to complete its integration in just two years, one year ahead of the original schedule. This integration has created a much stronger business and a better platform for long-term growth and outperformance. There have been four key elements to the physical integration of Greene King and Spirit:

1. Cost synergies – having originally targeted annual cost synergies of £30m within three years, we subsequently upgraded the target to £35m and we have managed to meet that target within two years. The main elements of the cost synergies included savings through overheads, purchasing and distribution. We may be able to generate additional synergies from the acquisition and these could be used to both invest in key areas of our business, such as people, systems and brands, and to offset some of the cost increases we are experiencing.

2. IT systems – we have seamlessly rolled out the Pub Company IT system into over 1,700 pubs. We have also developed a single database for the combined business which is now in use and which is increasing customer insight while significantly improving efficiencies.

3. Distribution – the Spirit and Greene King food supply chains have been consolidated. Over 1,000 pubs have successfully changed their supply model with no impact on availability to menu items. We have also finished consolidating our non-food supply chain and our integrated drinks supply chain is in place. The integration of supply chains will enable us to optimise our network and improve group efficiency.

4. Organisation structures – we have completed an organisational restructure of the wider group, including reorganising the functions and teams within Pub Company to better align to our focus brands and combining the leadership of Pub Partners and Brewing & Brands. We believe this will enable further development of our focus brands, as well as delivering cost efficiencies and further synergies from the combined management of the non-retail divisions. We have also appointed a new chief commercial officer, who joined from Reckitt Benckiser and is responsible for all Greene King's retail commercial activities across both the marketing and trading functions, and a new group HR director who joins us from Brakes in October.

With the integration complete, we can increase focus on our brand optimisation strategy. This strategy is targeted at creating efficiencies through having a smaller number of larger pub retail brands including the five focus brands of Greene King Locals, Hungry Horse, Flaming Grill, Farmhouse Inns and Chef & Brewer. In the year, we spent £30.2m on brand conversions with 63 pubs successfully converted to more suitable brands within the combined Greene King portfolio. The average sales uplift for these pubs is over 30%. Looking ahead, we expect to make annual investments of £30m to £40m in brand conversions between FY18 and FY20.

Community

We raised over £800,000 for Macmillan Cancer Support over the year and, in May, the company reached a new fundraising milestone, having raised over £3m for the charity over our five-year partnership. Greene King will now embark on its 'Miles for Macmillan' campaign, in which the company's 44,000 team members and its guests are invited to walk, run, bike or swim enough miles to reach the moon. The impressive feat will see them cover a combined quarter of a million miles, taking part in marathons, a London to Paris bike ride in July and a climb of Mount Kilimanjaro in October.

Last year, we announced our partnership with The Prince's Trust, launching a new scheme giving unemployed young people an opportunity to develop skills in the hospitality sector, achieve accredited hospitality qualifications and apply for an internship at the group. Nine programmes were completed this year, with 103 young people taking part and 49 offers of permanent employment made.

We also made a donation of £15,000 to Pub is The Hub's Community Services Fund in order to help support rural pubs that want to diversify their services for the benefit of their communities. This is the fourth year we have given to the fund, bringing the total donated to £60,000.

Current trading

In the first eight weeks of the year, Pub Company trading has been in line with our expectations, bearing in mind the tough comparatives from last year. Pub Partners has seen a slower start to the year but this was anticipated as we start to annualise the benefits from the Spirit integration. Brewing & Brands has returned to OBV growth with a strong start to the year in the take home, free trade and export channels.

Rooney Anand
Chief executive
28 June 2017

Our business model

DELIVERING LONG-TERM GROWTH AND RETURNS

Our business model

Leading UK pub company and brewer | **Large, category-leading brands** | **Well invested estate** | **Experienced management team** | **Strong acquisition track record**

PUB COMPANY

Pub Company consists of both more food-focused destination pubs and restaurants and more community-focused local pubs. The principal revenue streams are food and drink available for consumption on our premises. We gain further revenue from our accommodation offer on some sites, and a number of our sites have gaming machines. The success of Pub Company is driven by our customers' desire to eat and drink outside of their homes and is specifically determined by the number of customers we attract and the amount that they spend with us. Pub Company (1,769 pubs) is the key growth driver for the group and in this division we typically own and operate the pubs. This division is a key focus area for growth and we will continue to invest the cash generated from the group in our people and our pubs to ensure that Pub Company continues to gain share in the UK eating and drinking out market.

Operational review page 24

PUB PARTNERS

Pub Partners is responsible for operating our tenanted, leased and franchised pubs and aims to ensure that each pub has the right licensee to operate it, on the right agreement and with the right offer. Revenue in our Pub Partners business of 1,155 pubs is principally achieved through the supply of beer and other drinks to our licensees and the rent that they pay us for the pub and our support. We also derive a small portion of revenue from gaming machines. We both invest in this business, to ensure that we can offer prospective lessees the best pubs, and divert cash generated to invest in Pub Company.

Operational review page 26

BREWING & BRANDS

Brewing & Brands operates two breweries, one in Bury St Edmunds and the other in Dunbar, that brew our core portfolio of ales, which are complemented by an innovative range of craft ales. We generate revenue in this division from the sale and distribution of ales produced by us in our own breweries, and from the sale and distribution of drinks (both alcoholic and non-alcoholic) produced by third parties. As well as to our internal customers in the other divisions, we also sell our ales to other pub companies and to individual free trade customers. A further important revenue stream is the sale of our own-brewed ales to supermarkets and other retail outlets and, increasingly, in the export market.

Operational review page 28

An integrated business model

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

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

Value created

GROUP RETURN ON INVESTMENT

24.5%

GROUP RETURN ON CAPITAL EMPLOYED

9.4%

FREE CASH FLOW

£119.6m

ADJUSTED BASIC EARNINGS PER SHARE

70.8p

EMPLOYEE ENGAGEMENT

85%

TOTAL DIVERSION OF WASTE FROM LANDFILL

95%

Value shared with

CUSTOMERS

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

3,000

PUBS, RESTAURANTS AND HOTELS

EMPLOYEES

We employ around 44,000 people and work hard to make sure that every member of our team gets the opportunity to learn and progress. We maintain high employee engagement scores and were pleased to receive the award for Best Apprenticeship Strategy at the Springboard Awards in 2017.

44,000

EMPLOYEES

SHAREHOLDERS

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

33.2p

DIVIDEND PER SHARE

COMMUNITIES

Our communities support includes: our partnership with Macmillan Cancer Support, for which we have raised over £3m; our sponsorship of Pub is the Hub; and our scheme with The Prince's Trust offering unemployed young people an opportunity to work and gain skills in the leisure sector.

£3m

RAISED FOR MACMILLAN CANCER SUPPORT

ENVIRONMENT

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

Zero

WASTE TO LANDFILL BY 2020 PLEDGE

OUR CORE MARKETS

Overview

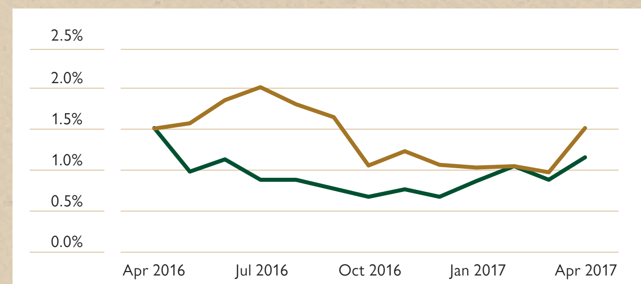
Our core markets are the UK eating out and UK drinking out markets. We also compete in the UK ale market through our brewing of our industry-leading ale portfolio and have a foothold in the UK staying out market.

The last 12 months have been characterised by a period of increased consumer uncertainty driven by a number of political and economic factors. Despite this uncertainty, consumer spending on eating out and drinking out is estimated to have grown 1.7% in the last 12 months[1]. Our core market, UK pubs and restaurants, is estimated to have grown 1.5%[1] with LFL growth of 1.1% over the last 12 months[2].

Alongside this, our core markets have become increasingly dynamic and competitive, with more choice for consumers than ever before. We have continued to develop our offer to address this challenge and Pub Company successfully outperformed the market in the 12 months to April 2017, growing total sales by 7.7% and LFL sales by 1.5%.

Our core market, pubs and restaurants, continued to see positive LFL growth

UK MARKET LFL GROWTH (% ROLLING MAT)



Greene King — Market

Source: Coffer Peach Tracker (total index).

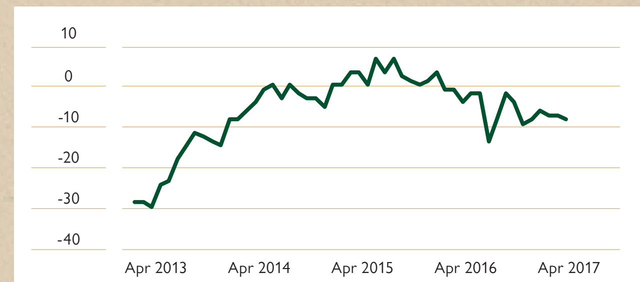
> “OUR CORE MARKETS HAVE BECOME INCREASINGLY DYNAMIC AND COMPETITIVE.

Economic environment

Consumer confidence has weakened since the outcome of the EU referendum with consumers uncertain about the future outlook for both the economy and their personal finances. Despite this, UK real household spending grew by 2.8% in 2016. We remain cautious about the future economic environment as we have seen nominal wage growth start to fall behind rising inflation, creating a squeeze on the household disposable income available for discretionary spend.

Consumer confidence weakened following the outcome of the EU referendum

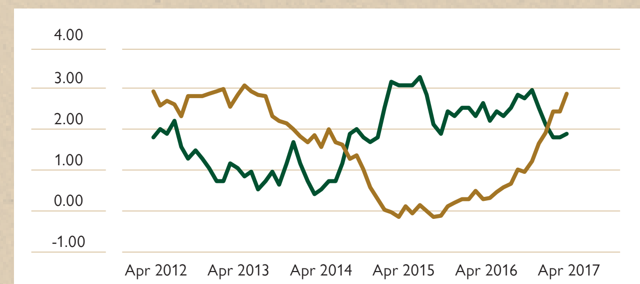
UK CONSUMER CONFIDENCE COMPOSITE INDEX



Source: GfK.

We remain cautious about the future economic outlook and expect rising inflation to create a squeeze on real disposable income

UK AVERAGE EARNINGS VS CPI INFLATION (%)



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

Source: Thomson Datastream, Capital Economics.

1. Source: MCA Allegra.
2. Source: Coffer Peach Tracker.

Political environment

The current political environment is adding further challenges to the industry through the National Living Wage, the National Minimum Wage, the Apprenticeship Levy and the recent proposed increases in business rates and alcohol duties. All these policy initiatives will impact on costs and margins within the hospitality industry going forward. We continue to work closely with trade organisations to encourage the government to offset some of the industry impact from these initiatives while, at the same time, being proactive in dealing with these external headwinds.

Following the removal of the beer duty escalator in 2013, beer duty has either been cut or frozen in successive budgets until March 2017 when it was increased by 3.9%, along with similar increases for wines, spirits and ciders. This is expected to cost the UK pub industry £125m and could cost up to 4,000 jobs[1].

The statutory Pubs Code went live in July 2016 and before the launch we trained over 100 team members to ensure we were as fully compliant with the statutory code as we were with the voluntary code. The main impact on Pub Partners will come from the ability of licensees to take a market rent only (MRO) option or, essentially, a commercial free-of-tie agreement. We have 27 MRO applications currently going through the adjudication process and at the year end we had no MRO agreements taken. We remain of the view that MRO will have no material impact on the group.

UK eating and drinking out

We offer a variety of eating and drinking out options and experiences across both our destination pubs and local community pubs. We compete in a broad UK eating and drinking out market made up of 327,000 outlets and annual total spend of more than £88bn[2]. Within this market, the pubs and bars segment consists of 47,000 outlets and total spend of more than £22bn, or 25% of overall eating and drinking out spend.

The market is increasingly dynamic and competitive with the supply of new branded eating out sites improving the convenience and choice for consumers. At the same time, eating at home has become more attractive due to the twin drivers of grocery food deflation and the growth of branded takeaway and delivery businesses. There are also demand challenges with higher consumer expectations for value, service and quality, which are mainly impacting the value food sector, the ongoing digitalisation of leisure and the demand for healthier options.

Through our pubs and our portfolio of award-winning ales we offer choice for all types of drinkers and occasions. Drink is a key driver of overall spend in the pubs sector with 40% of all meals involving an alcoholic drink and 52% of consumers saying that alcohol is an important choice driver for where to eat[3]. A strong drinks range is therefore a crucial factor in achieving overall customer satisfaction and we aim to capture share of spend by providing a drinks range that offers value, quality and an experience for our guests.

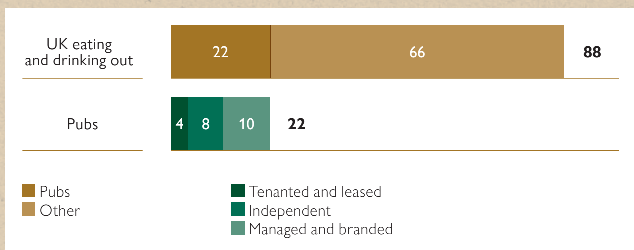
Although we have seen a decline in UK alcohol consumption, drinking out habits continue to evolve with an increasing shift towards quality vs quantity – presenting opportunities arriving in areas including premium ale and craft. We have also seen a reduction in capacity in the wet-led pubs market. These two factors have resulted in strong market performance in the wet-led pubs segment, which outperformed the overall market in the 12 months to April 2017 (market segment LFL sales growth of 2.9%). We remain optimistic about the future growth opportunities in wet-led pubs, which will be underpinned by premiumisation, events and new occasions (e.g. breakfast and coffee).

The overall UK eating and drinking out market is expected to grow by 2.3% over the next three years[2], supported by supply growth in the market, increases in the proportion of adults eating out of home and the frequency with which they do so, and rising population and employment levels. Segments of the market such as fast food and 'retail grab and go' will be among the fastest growing parts of the market.

The pubs and bars segment is forecast to grow from £22bn today to £23bn by 2020 (1.5% CAGR)[2]. Our largest division, Pub Company, sits within the managed and branded pubs segment which will be the key driver of the evolution of the pub sector (4.1% CAGR)[2] as consumers are drawn to brands that stand out and have defined, consistent propositions that signal reassuring brand familiarity, excitement and the opportunity to try something new. In contrast, overall spend in the tenanted and leased sector will continue to decline primarily as a result of falling supply. We see an opportunity here to buck the inherent market decline by strengthening the quality of our estate to win share from (less well invested) competitors.

Pubs are a core segment within the overall UK eating and drinking out market

UK EATING OUT MARKET STRUCTURE 2017E (£BN)



Source: MCA Allegra.

UK ale market

The overall UK ale market declined by 2.7% in volume for the year to April 2017, driven largely by standard ale in keg and can. Changing promotional dynamics in the grocery sector in response to inflationary pressures have resulted in an eight-year low in promotional levels. The volume-driven standard ale sector has been particularly affected. The premium ale category, however, continues to grow, being up 3.5% in volume terms.

With continued interest from consumers for beers with heritage and provenance, as well as new drinkers looking for new styles of beer, we feel, as the UK brewer with the leading premium ale brand Old Speckled Hen and the leading premium cask ale brand Abbot Ale, coupled with an exciting range of seasonal and 'craft' beers, we are well placed to capitalise on these trends.

We expect the UK ale market to continue to evolve and improve but the focus will move away from volume and towards value as the trend towards premiumisation continues. We remain confident in our ability to continue to grow share with our enviable portfolio of brands that can meet the needs of consumers across all drinking occasions.

UK staying out market

We compete in the UK provincial staying out market and offer great value and convenience to guests on both business and leisure visits. We see the combination of a pub restaurant and adjacent rooms to be an attractive guest proposition in the context of increasing business and leisure travel, and therefore one which offers plenty of opportunity for pubs to take share from the more traditional branded hotel chains. In 2016, we have therefore added a further 36 bedrooms to our estate, taking our year-end total to 3,433.

The staying out market enjoyed a strong year in 2016 benefiting from continued GDP growth. RevPAR in the provincial staying out market is expected to grow 3% in 2017 and 1.7% in 2018, driven by moderate increases in occupancy and average daily rate (ADR)[4]. We expect to see further upside from the increased popularity of the 'staycation', due to the increased cost of overseas holidays, and increases in inbound tourism due to the weaker pound.

1. Source: BBPA.
2. Source: MCA Allegra.
3. Source: CGA Peach.
4. Source: PwC.

TO BE THE BEST PUB COMPANY IN BRITAIN

Overview

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

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

1 BUILD ATTRACTIVE AND STRONG BRANDS

2 INDUSTRY-LEADING VALUE, SERVICE AND QUALITY

3 WORK WITH THE BEST PEOPLE

4 OWN THE UK'S BEST INVESTED PUB ESTATE

5 MAINTAIN A STRONG BALANCE SHEET AND FLEXIBLE CAPITAL STRUCTURE

Delivering attractive shareholder returns, earnings and dividend growth

1 BUILD ATTRACTIVE AND STRONG BRANDS

We have a strong portfolio of category-leading brands and ensuring that our portfolio remains attractive and relevant to the increasingly demanding consumer will be critical in driving our long-term growth. We will continue our brand optimisation programme, converting pubs to the most suitable brand within our portfolio and we will maintain flexibility in this programme to ensure that we develop our brands in line with the changing economic environment. For Green King Locals, Pub Partners and Brewing & Brands, the Greene King brand is key to superior performance and we will continue to invest in communicating the brand's benefits in order to maintain our brand marketing leadership. A strong digital presence is vital to sustain and grow successful brands and we will continue to expand our already extensive digital programmes to further build customer engagement and loyalty.

Key progress in the last 12 months:

- 63 brand conversions completed and strong sales uplifts averaging over 30%
- Greene King brand rolled out across over 100 Taylor Walker pubs in London
- 24% increase in combined total Facebook fan base to 2.9m followers

2 INDUSTRY-LEADING VALUE, SERVICE AND QUALITY

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

Key progress in the last 12 months:

- Extended EDLP/KVI pricing into ex-Spirit brands
- Rollout of Greene King service measurement/culture into Spirit
- Further improvement in third party food quality benchmarking
- Invested in grill quality and 4K screens in Flaming Grill

3 WORK WITH THE BEST PEOPLE

We employ around 44,000 people at Greene King and being an attractive place to work means offering a sociable and engaging environment while creating opportunities to develop and grow careers. Greene King is uniquely positioned to offer careers across a number of roles, disciplines, environments and locations and we work hard to ensure that every member of our team gets the opportunity to learn and progress. We put apprenticeships at the core of our talent strategy to help us develop skilled and committed individuals and our industry-leading position has been recognised at the Springboard Awards for having the Best Apprenticeship Strategy. We also want to attract, recruit, retain and develop the best operators in our Pub Partners business and this means extending our focus on training and development to both existing and future licensees. Working with, and investing in, the best people will help us to deliver the very best service to our customers across our managed and tenanted pubs, our breweries and our depots.

Key progress in the last 12 months:

- Around 44,000 people working for the company
- Maintained a strong employee engagement score of 85%
- 3,076 apprentices joined the company during the year
- Won Best Apprenticeship Strategy at the Springboard Awards and was the only pub company to appear in the Ratemyapprenticeship.co.uk Top 70 School Leaver Employers Table 2017

4 OWN THE UK'S BEST INVESTED PUB ESTATE

Our aim is to own and run the best pubs in Britain, which we will achieve through proactive management of our pub portfolio and continued industry-leading investment in our estate. We will continue to drive the quality of our estate upwards within both Pub Company and Pub Partners by acquiring properties at the top end of our portfolio while divesting of those at the bottom. We will also look for investment opportunities to put more premium offers into our assets to better protect the long-term cash generation from our pubs. Annual core capital investment is expected to be £130m to £145m over the next three years. We will retain an element of flexibility in both brand conversion capex and core capex to ensure we invest in the most suitable way in response to the changing economic environment.

Key progress in the last 12 months:

- Average 5–6 year investment cycle
- Invested over £120m in core capex across the estate in the year
- Continued returns > WACC
- 65 tail disposals in our managed estate and 54 disposals in Pub Partners

5 MAINTAIN A STRONG BALANCE SHEET AND FLEXIBLE CAPITAL STRUCTURE

Underpinning our company strategy is a financial strategy designed to maximise the strength and flexibility of our balance sheet. Through a relentless focus on cash generated from operations, we will continue to cover our debt service obligation, our core capital expenditure and our dividend through internally generated cash flow. Our long-term financing provides us with funding for general business operations, including increasing our optionality to invest in the business.

Key progress in the last 12 months:

- Free cash flow continues to cover scheduled debt repayments after core capex and dividends
- 4.0x net debt to EBITDA ratio
- Dividend up 3.6%

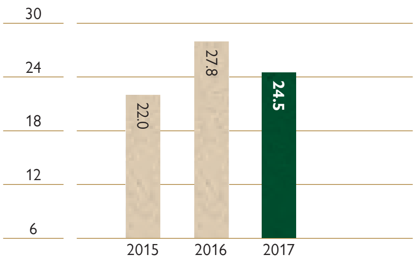
Key performance indicators

For the fifty-two weeks ended 30 April 2017

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] (%)

24.5%



SUMMARY

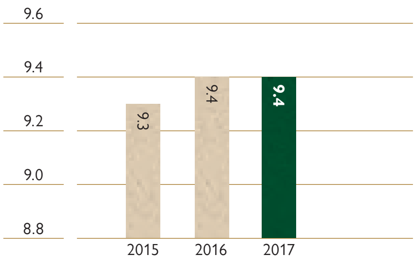
We assess projected and actual investment returns to ensure that we continue to focus capital expenditure on areas that generate the highest possible sustainable returns. In the year we achieved a return on investment of 24.5%.

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.

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

9.4%



SUMMARY

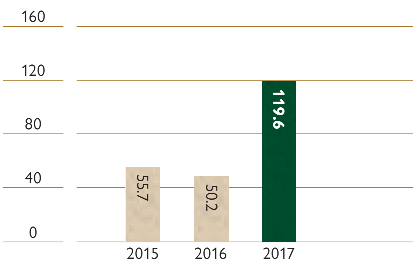
We monitor return on capital employed in comparison to our overall weighted average costs of capital. ROCE for the financial year of 9.4% remains comfortably ahead of our cost of capital.

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.

GROUP: FREE CASH FLOW[1] (£m)

£119.6m



SUMMARY

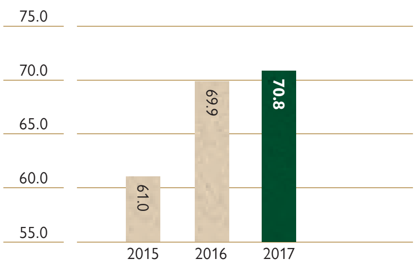
The group has a strong record of organic cash generation and we use free cash flow as a measure of this. During the financial period the group's free cash flow was £119.6m, an increase of £69.4m on the prior year.

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.

GROUP: ADJUSTED BASIC EARNINGS PER SHARE[1] (p)

70.8p



SUMMARY

Adjusted basic earnings per share was 70.8p, an increase of 1.3% compared to the prior year.

DEFINITION

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

NON-FINANCIAL KPIs

SUMMARY

Following a year of considerable change we have seen team turnover increase compared to the previous year though employee engagement scores have remained strong at 85%. The underlying net promoter score (NPS), which we use as a measure of service standards, increased by 0.5%pts to 58.4%.

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

DEFINITIONS

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

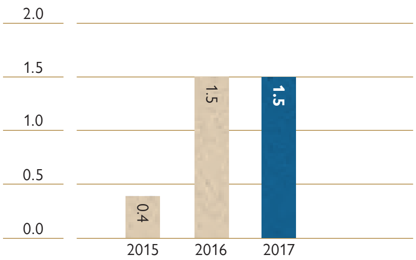
Team engagement – The proportion of respondents who agreed with the following statement: 'I would recommend Greene King as a great place to work to others'.

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

1. An explanation of the group's use of alternative performance measures (APMs), including definitions and reconciliations, is included on page 127.

PUB COMPANY: LIKE-FOR-LIKE SALES[1] (%)

+1.5%



SUMMARY

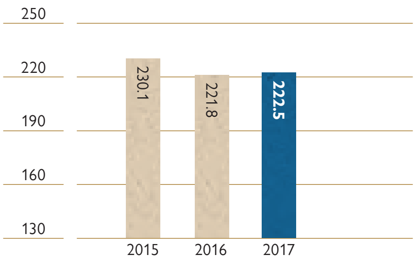
We monitor LFL sales in order to understand the performance of our estate excluding the impact of new sites and disposals. LFL sales grew by 1.5%, +0.4%pts ahead of market growth of 1.1%[2].

DEFINITION

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

PUB COMPANY: EBITDA PER PUB[1] (£k)

£222.5k



SUMMARY

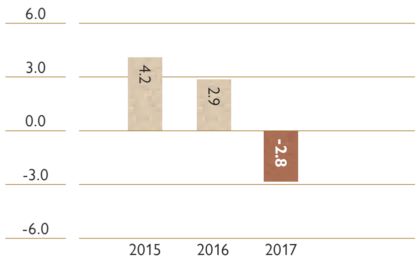
Average EBITDA per pub for our managed pub business grew by 0.3% compared to the prior year. We monitor EBITDA per pub to assess the overall quality of the pubs in our estate.

DEFINITION

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

BREWING & BRANDS: OBV GROWTH (%)

-2.8%



SUMMARY

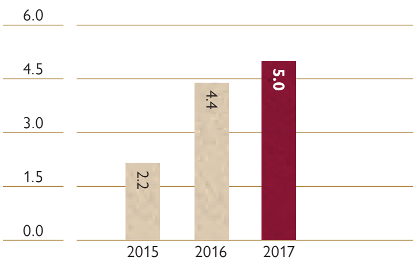
We monitor OBV growth to assess relative performance of our beer brands. OBV volumes declined by 2.8% compared to a cask ale market down 3.8%[3] and total ale market down 2.7%[3] over the same period.

DEFINITION

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

PUB PARTNERS: LIKE-FOR-LIKE NET PROFIT[1] (%)

+5.0%



SUMMARY

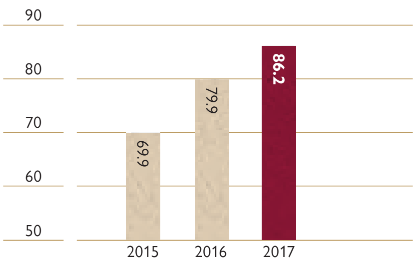
We monitor LFL profit in order to understand the performance of our tenanted estate excluding the impact of disposals. LFL net profit grew by 5.0% compared to the prior year.

DEFINITION

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

PUB PARTNERS: EBITDA PER PUB[1] (£k)

£86.2k



SUMMARY

Average EBITDA per pub for our tenanted pub business grew by 7.9% compared to the prior year. We monitor EBITDA per pub to assess the overall quality of the pubs in our estate.

DEFINITION

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

1. An explanation of the group's use of alternative performance measures (APMs), including definitions and reconciliations, is included on page 127.
2. Source: Coffer Peach Business Tracker.
3. Source: BBPA May 2016 – April 2017.

Serving food outside at the Golf Hotel, Ipswich.

PUB COMPANY

At the year end our Pub Company division comprised 1,769 pubs and restaurants open across Britain, appealing to a broad range of the population.

OUR FOCUS BRANDS

GREENE KING · HUNGRY HORSE · FLAMING GRILL PUBS · FARMHOUSE INNS DINING & CARVERY · CHEF & BREWER

AVERAGE NUMBER OF PUBS TRADING
1,812 +4.1%

REVENUE
£1,817.4m +7.7%

EBITDA[1]
£403.2m +4.5%

OPERATING PROFIT[1]
£308.1m +3.0%

OPERATING PROFIT MARGIN[1]
17.0% -0.7%pts

AVERAGE EBITDA PER PUB[1]
£222.5k +0.3%

1. Before exceptional and non-underlying items.

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

Pub Company is the core driver of growth within our business and it grew 0.4%pts faster than the market[1] over the year with LFL sales growth of 1.5%.

Revenue was up 7.7% to £1,817.4m, driven by a good Christmas, a stronger fourth quarter, an impressive performance from our wet-led local pubs and a 4.1% increase in the average number of pubs trading. Sales figures were also boosted by average uplifts of over 30% from the brand conversions completed over the year. Drink sales growth was notably strong in the year.

Operating profit grew 3.0% to £308.1m while the operating profit margin was down 0.7%pts to 17.0% following investment in food quality, customer service and price, as well as the difficult cost environment.

We also had a notably strong year from Local Pubs and we have recently invested in the ex-Spirit Taylor Walker estate in London, converting over 100 pubs to the Greene King brand. The performance of Local Pubs has been supported by marketing campaigns such as the 'To the Pub' digital campaign and the 'Best of British' campaign and we will continue to target growth in Greene King Locals through campaigns this year such as 'Summer of Sound', Greene King's own music competition, run in conjunction with Radio X.

On an underlying basis, our net promoter score grew 0.5%pts to 58.4%. We continue to target improved service and expect increased investment in labour and training to lift guest satisfaction scores across the business in the new financial year.

“ PUB COMPANY IS THE CORE DRIVER OF GROWTH WITHIN OUR BUSINESS.

1. Source: Coffer Peach Tracker, 52 weeks to end of April 2017.

“ WE HAD A NOTABLY STRONG YEAR FROM LOCAL PUBS.

The most important element of our business is the people we employ, with around 44,000 people working at Greene King, of which more than 95% work in Pub Company. Following a year of considerable change, we saw a small increase in team turnover compared to the previous year, although employee engagement scores remained strong at 85%. Our leading apprenticeship programme saw another 3,076 starters in the year and we were pleased to receive the Best Apprenticeship Strategy award at the Springboard Awards as well as being the only pub company to appear in the Rate My Apprenticeship Top 70 School Leaver Employers Table 2017. Our increased investment in the recruitment, retention and development of our people will lead to a better trained and more motivated team across our business, which will be reflected in ongoing improvements in team retention and customer service.

Consistent investment in our estate is one of the key differentiators of Greene King and a significant driver of our growth. We invested £93.3m in core capex over the year, we opened eleven new pubs at the top end of our estate and we successfully completed the disposal of 65 pubs at the bottom end as we continue to improve the overall quality of our estate.

Digital is becoming ever more important in the eating and drinking out sectors. We now have one combined database platform across the group, improving the effectiveness of our customer digital communications. Our social media audience continues to expand with a 42% increase in followers of the Greene King Twitter feed, a 19% increase in LinkedIn followers and an increase of 24% in our Facebook fan base to 2.9m. Our new corporate website was launched in July 2016 and we have since seen a 148% increase in users to 80,000 per month. The website has had over 4m page views in total this year. Now that we have completed the integration of the two businesses, we can look toward further investment in digital innovation in order to increase engagement with, and insight into, our customers.

PUB PARTNERS

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

OUR AGREEMENTS

- Standard tenancy agreement
- Standard lease agreement
- Franchise tenancy
- Local Hero franchise-style agreement
- Turnover tenancy
- Turnover lease
- Retail Ready agreement
- MRO agreement
- Joint venture agreement

Discussing the Michelin Star recently awarded to the Crown in Burchetts Green, Maidenhead, with tenant Simon Bonwick.

AVERAGE NUMBER OF PUBS TRADING
1,196 +0.3%

REVENUE
£198.8m +5.8%

EBITDA[1]
£103.1m +8.2%

OPERATING PROFIT[1]
£92.8m +8.8%

OPERATING PROFIT MARGIN[1]
46.7% +1.3%pts

AVERAGE EBITDA PER PUB[1]
£86.2k +7.9%

1. Before exceptional and non-underlying items.

In Pub Partners, our strategy is to be the preferred partner for the best operators in the industry. We will achieve this through the offer of the best retail partnerships in flexible formats and in the best pubs.

Pub Partners has had another impressive year of growth, recording sector-leading LFL EBITDA growth and receiving a series of well deserved industry awards.

The division operated 0.3% more pubs on average during the year, while revenue was up 5.8% to £198.8m. Revenue growth was driven by the increased number of turnover agreements in our estate, food supply agreements with licensees and the inclusion of the Spirit acquisition for a full year. EBITDA was up 8.2% to £103.1m and average EBITDA per pub was up 7.9% to £86.2k. LFL net profit was up 5.0% against a 4.4% comparative in FY16.

We will continue to target growth and profitability within the division through increasing the number of turnover agreements, expanding the number of pubs ordering food directly through our supply chain and developing the offer available to those already benefiting from our supply chain, alongside a strong investment programme.

“ REVENUE GROWTH WAS HELPED BY THE INCREASED NUMBER OF FOOD SUPPLY AGREEMENTS.

“ WE RECEIVED THE PUBLICAN AWARD FOR LEASED AND TENANTED PUB COMPANY OF THE YEAR.

Investment in our partners, including leadership, multi-site training and apprenticeship support, led to 12-month retention of new licensees of 96%. Over 2,000 delegates benefited from training over the year and we recently launched a 12-month Management Development Programme, designed to help licensees develop and retain their key team members.

We continue to dispose of non-core pubs which we do not believe will deliver good returns in the long term and to help us invest in those pubs with a long-term future. Over the course of the year, we sold 54 non-core pubs in line with this strategy. Most of our investment is targeted at repositioning pubs from value to mainstream or mainstream to premium, increasing the food mix within our pubs and improving the trading potential of outdoor spaces. This has driven improved financial performance in Pub Partners' ROI and ROCE.

The statutory Pubs Code went live in July 2016 and before the launch we trained over 100 team members to ensure we were as fully compliant with the statutory code as we were with the voluntary code. The main impact on Pub Partners will come from the ability of licensees to take a market rent only (MRO) option or, essentially, a commercial free-of-tie agreement. We have 27 MRO applications currently going through the adjudication process and at the year end we had no MRO agreements taken. We remain of the view that MRO will have no material impact on the group.

Our success in being the preferred partner for the best independent operators was recognised when we received the Publican award for Leased and Tenanted Pub Company of the Year, the NITA training prize for our licensee development programme and the ALMR BDM of the year.

BREWING & BRANDS

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

OUR CORE BRANDS

We launched gluten-free varieties of Greene King IPA and Old Speckled Hen.

REVENUE

£200.3m +1.7%

EBITDA[1]

£36.2m -4.2%

OPERATING PROFIT[1]

£31.0m -5.2%

OPERATING PROFIT MARGIN[1]

15.5% -1.1%pts

1. Before exceptional and non-underlying items.

In Brewing & Brands, our long-term strategy is to win market share and increase cash generation through building consumer loyalty to our core ale brands and our innovative range of seasonal and 'craft' ales. This strategy has led to us being the UK's leading premium cask ale brewer.

OBV fell 2.8% in a cask ale market down 3.8%[1] and a total ale market down 2.7%[1]. Performance over the full year was held back by the weaker ale market combined with the reduction in our exposure to lower margin accounts in the on- and off-trade channels. The second half saw improved trading leading to record full year revenue of £200.3m, up 1.7%. Margins were impacted, however, by the increased cost of goods sold and investment in marketing and price.

Greene King's core brands maintained their UK market-leading positions: Greene King IPA continues to be the fastest selling cask ale brand in the on-trade; Old Speckled Hen is still the number one premium ale brand with the highest prompted awareness amongst beer drinkers of 75%; Abbot Ale continues to be the number one premium cask ale brand and delivered a particularly strong year of growth; and Belhaven Best, Scotland's number one draught ale, became the number four keg ale in the UK.

“ GREENE KING'S CORE BRANDS MAINTAINED THEIR LEADING MARKET POSITIONS.

“ GREENE KING'S CRAFT ACADEMY WAS LAUNCHED IN FEBRUARY WITH FIVE NEW BEERS.

This continued success was helped by maintaining our industry-leading brand investment: our sponsorship of the England and Wales Cricket Board included a new television advert starring Alastair Cook, Ben Stokes and Michael Vaughan; we won additional sporting sponsorships across rugby, football and cricket; we became the official beer supplier to the Royal Albert Hall; and we have been trialling a new lager brand for the Scottish market called Saltire. Most recently, Greene King partnered with Radio X to make a Radio X beer, available exclusively in Greene King pubs, called Amplified Ale.

Brewing & Brands had a particularly innovative year, launching its Craft Academy in February and debuting five new beer brands developed by our team of apprentice brewers. The beers are Over Easy (3.8% session IPA), Big Bang IPA (5.6% bold and citrusy IPA), Bitter Sweet (6% black IPA), Desert Ryeder (4.8% rye beer) and High & Dry (5% dry hop lager). In addition, we successfully launched new gluten-free variants of Greene King IPA and Old Speckled Hen in January.

Our beers won multiple awards this year. Our flagship iconic brand, Greene King IPA, achieved the sought-after Best Advertising Campaign at the Beer Marketing Awards and Best Packaging Redesign at the International Beer Challenge; Belhaven was named Exporter of the Year at the Scottish Beer Awards and scooped Best TV/Cinema advert in the Scottish Creative Awards; and six prestigious gold medals were awarded in the internationally recognised Monde Selection to Old Crafty Hen, Mighty Moose IPA, Twisted Grapefruit IPA, Twisted Thistle IPA, Intergalactic Dry Hop Lager and Bitter Sweet IPA.

Our brewery tours were also awarded a fifth consecutive Certificate of Excellence by TripAdvisor and the Westgate brewery brought home a President's Award from ROSPA for achieving its eleventh consecutive gold safety award.

At the end of the year, we decided to combine the leadership of Brewing & Brands and Pub Partners, which we believe will foster greater collaboration between the two divisions as well as bringing increased cost efficiencies. We remain fully committed to investment in our market-leading brands and to driving further innovation within the Brewing & Brands business.

1. Source: BBPA Beer Market data to April 2017.

Financial review

REVENUES REACHED A RECORD HIGH

GROUP REVENUE INCREASED:

6.9%

FREE CASH FLOW:

£119.6m

ROCE:

9.4%

DIVIDEND:

33.2p

Income statement

Revenue was £2,216.5m, an increase of 6.9% compared to the prior year reflecting the benefit from LFL sales growth and a full year contribution from Spirit. Pub Company was the biggest driver of the increase, with revenue up 7.7% and average revenue per pub rising 3.4%. The combined Pub Company business now accounts for over 82% of group revenue. Total revenue in Pub Partners was £198.8m. Average tenanted and leased revenue per pub increased 5.5% and average EBITDA per pub grew 7.9% due to the improved quality of the pub estate and also benefiting from fair value accounting and the inclusion of synergies. Brewing & Brands grew revenue 1.7% to £200.3m.

Operating profit before exceptional and non-underlying items was £411.5m, which was an increase of 4.9% on the prior year. Group operating profit margin before exceptional and non-underlying items was down 30 basis points to 18.6%, reflecting a higher contribution from the managed estate and, within this, a reduction in Pub Company margin from 17.7% to 17.0%. The reduction of the Pub Company margin reflected our ongoing investment in value, service and quality, alongside significant inflationary increases in the cost of goods sold and labour.

Net interest costs before exceptional and non-underlying items were £138.0m, 1.7% higher than last year due to the full year impact of Spirit debt costs partially offset by refinancing activities in the year.

Profit before tax and exceptional and non-underlying items was £273.5m, an increase of 6.6% on last year. The tax charge before exceptional and non-underlying items equated to an effective tax rate of 19.9% (2016: 19.3%).

Basic earnings per share before exceptional and non-underlying items of 70.8p was up 1.3%. Statutory profit before tax was £184.9m, down 2.6% on last year.

Cash flow and capital structure

Operating cash flows remained very strong. We generated free cash flow of £119.6m, ahead of our scheduled debt repayments of £55.0m and after our core capital expenditure and dividend payments. Free cash flow benefited from favourable working capital timing, a small reduction in core capex as we focused on brand conversions and the utilisation of non-recurring Spirit tax losses. Overall, EBITDA before exceptional and non-underlying items was £524.1m.

In October, we agreed an amendment and extension to our revolving credit facility. The revised £400m facility runs to 31 October 2021 and provides shorter-term financing at more favourable pricing than the previous facility.

Group net debt at the year end was £2,074.5m, an increase of £26.1m from last year.

In line with our strategic priorities, our objective is to maximise the strength of our balance sheet, and the group has a capital structure aimed at meeting the short, medium and longer-term funding requirements of the business. The principal elements of the group's capital structure are our revolving credit facility, that was £170m drawn at the year end, and two long-term asset-backed financing vehicles. At the year end, the Greene King securitisation had secured bonds with a carrying value of £1,392.5m and an average life of eleven years, secured against 1,464 pubs with a carrying value of £1.7bn and valuation at the time of issuance of £2.2bn. The Spirit debenture had secured bonds with a carrying value of £777.6m and an average life of eleven years, secured against 1,010 pubs with a market value and carrying value of £1.5bn.

Our credit metrics remain strong with 96% of our interest costs at a fixed rate and an average cash cost of debt of 6.3%. Fixed charge cover was maintained at 2.3x and net debt to EBITDA increased slightly to 4.0x from 3.9x last year. The Greene King secured vehicle had a free cash flow debt service cover ratio of 1.7x at the year end, giving 35% headroom. The Spirit debenture vehicle had a free cash flow debt service cover ratio of 1.9x giving headroom of 32%.

Capital expenditure and disposals

During the year, we invested in both maintaining and developing our existing estate. Total capital expenditure during the year was £194.9m with a further £39.1m of expenditure relating to pub repairs and maintenance recorded in the income statement. Core estate capital expenditure was £126.0m with a further £35.9m invested in acquiring pubs and developing previously acquired pubs. There were eleven new pub openings during the year. We also invested £33.0m in our brand conversion and IT integration programme.

We disposed of 65 pubs in Pub Company, 54 pubs in Pub Partners and three closed pubs, which led to a profit on disposal of £3.4m and raised proceeds of £88.6m.

Return on capital employed (ROCE)

The group is focused on delivering the best possible returns on our assets and on the investments we make. We are focused on capital discipline, through targeted investment in new build pubs, single site acquisitions and in developing our existing estate to drive organic growth with disposals of non-core pubs. This has contributed to maintaining ROCE at 9.4%. ROCE remains comfortably ahead of the group's cost of capital.

Dividend

The board has recommended a final dividend of 24.4p per share, up 3.4%, subject to shareholder approval. This will be paid on 15 September 2017 to shareholders on the register at the close of business on 11 August 2017.

The proposed final dividend brings the total dividend for the year to 33.2p per share, up 3.6%. This maintains our long-term track record of annual dividend growth and is in line with the board's policy of maintaining a minimum dividend cover of around two times underlying earnings, while continuing to invest for future growth.

Tax

The effective rate of corporation tax (before exceptional and non-underlying items) was 19.9%, which is in line with the standard UK corporation tax rate, compared to 19.3% in the previous year. This resulted in a charge to operating profits (before exceptional and non-underlying items) of £54.3m (2016: £49.4m). The exceptional and non-underlying tax credit of £21.1m (2016: £50.5m) is discussed under exceptional and non-underlying items.

The group generates revenue, profits and employment, all of which deliver substantial tax revenues for the UK government in the form of duties, VAT, income tax and corporation tax. In the year, total tax revenues paid and collected by the group were £580m (2016: £570m). The group's tax policy, which has been approved by the board, aligns with this strategy and ensures that the group fulfils its obligations as a responsible UK taxpayer.

> “THE TOTAL DIVIDEND FOR THE YEAR IS 33.2P PER SHARE.

On 6 June 2016, a formal agreement was reached with HMRC on a number of historical tax positions and on 22 July 2016 the Court of Appeal published its final decision on the Sussex case. As a result, the group settled tax of £20.7m and interest of £12.2m during the year.

We have one remaining open historical position with HMRC, which is an internal property arrangement implemented in 2012. The group is at a relatively early stage in discussions with HMRC and will continue to defend its position robustly.

The provisions for uncertain tax positions and related interest accrued at the balance sheet date were £8.0m (2016: £31.6m) and £1.9m (2016: £13.8m) respectively.

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 30 April 2017, there was an IAS 19 pension deficit of £11.2m representing a reduction of £41.1m since the previous year end. The closing assets of the group's two pension schemes totalled £888.0m and closing liabilities were £899.2m compared to £801.2m and £853.5m respectively at the previous year end.

The deficit reduced due to strong asset returns and contributions made by the group during the year, combined with the impact of changes to market-based discount rates and inflation assumptions.

Total cash contributions in the year were £3.9m for past service.

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

Exceptional and non-underlying items

We recorded an exceptional and non-underlying items charge of £67.5m, consisting of a £65.0m charge to operating profit before tax, a £23.6m charge to finance costs and a net exceptional and non-underlying tax credit of £21.1m. Items recognised in the year included the following:

1. A £10.8m charge for legal, professional, integration and reorganisation costs following the Spirit acquisition.

2. A net impairment charge of £58.6m (2016: £32.2m) was made against the carrying value of our pubs and other assets. This comprises an impairment charge of £77.7m offset by reversals of previously recognised impairment losses of £19.1m. A £23.7m impairment charge has been recognised in relation to a small number of pubs due to changes in the local trading environment and a further £34.9m of impairment has been recognised following the planned exit of certain sites during the current financial year.

3. A net surplus on disposal of property, plant and equipment of £3.4m (2016: £23.8m).

Financial review continued

Exceptional and non-underlying items continued

4. £23.6m of exceptional and non-underlying finance costs, which includes £23.6m of costs in respect of the mark-to-market movements in the fair value of interest rate swaps not qualifying for hedge accounting, £11.8m of costs recycled from the hedging reserve in respect of settled interest rate swap liabilities and a £12.2m gain on settlement of interest rate swap liabilities.

5. The exceptional and non-underlying tax credit of £21.1m consists of a £5.0m tax credit on exceptional items, a £2.8m tax credit on non-underlying items, a deferred tax credit of £9.5m in respect of the licensed estate, a £0.5m tax charge in respect of prior periods and a £4.3m tax credit in respect of rate changes.

Of the £67.5m total exceptional and non-underlying items charge, cash expenditure was £47.3m relating primarily to integration costs of £14.4m and settling £32.9m of historical tax positions with HMRC.

Guidance for financial year 2017/18

We expect total gross cost inflation of around £60m and, after our cost mitigation plans of £40–45m, we expect net cost inflation of £15–20m.

In Pub Company, we anticipate opening c.10 pubs and disposing of 50–60 pubs.

In Pub Partners, we expect to dispose of 40–50 pubs. These disposals will continue to improve the quality of the estate while generating cash for other uses across the business.

We anticipate spending £130–145m, excluding brand optimisation capex, on maintaining and developing our pubs, in order to ensure they remain attractive places for customers to spend their time.

Spend on the brand optimisation programme is expected to total £30–40m – out of a total spend over four years of £120–150m – and we are targeting EBITDA returns significantly ahead of our cost of capital.

New build development capex is expected to be £30–40m.

We expect the interest charge to be in the region of £135–140m when taking into account the charge relating to our debt facilities, pensions and provisions.

The pre-exceptional tax rate is expected to be c.19%.

Kirk Davis
Chief financial officer
28 June 2017

MANAGING RISK

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 company in the UK and to maximise shareholder returns.

BOARD

Overall responsibility for risk management

Sets the group's risk appetite

AUDIT COMMITTEE

Delegated responsibility for monitoring risk profile and mitigation

Regularly reviews risk management process for each division and functional area

GROUP RISK COMMITTEE

Reviews individual risk registers and mitigation plans

Ensures consistency of risk profiling across the group

Aggregates risk registers to create group risk register

BUSINESS UNIT AND FUNCTIONAL AREA SENIOR MANAGEMENT

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

Approach to risk management

Board

Overall responsibility for the group's risk management framework lies with the board. It reviews the group's principal risks on an annual basis, together with the actions taken to mitigate them. The board has continued to focus on its risk tolerance by defining group-level risk tolerance statements to set out the board's desired risk-taking approach to the achievement of our strategic objectives, in the context of managing our principal risks. Our risk 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 to within acceptable risk levels.

Details of our broad risk tolerance in relation to each of our key risks is set out in the table on pages 34 to 37.

Audit committee

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

Management

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

Risk management process

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

Once the key economic, operational, financial, people and strategic risks have been identified, each business unit and functional area is then responsible for evaluating current controls 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.

In addition, a group-wide risk committee reviews the individual risk registers in detail, monitors the risk mitigation plans and assists in the production of the group risk register, whereby risk registers are aggregated and considered on a top-down basis in the context of delivering our strategy for the group.

Given that some risks are external and not fully within our control, the risk management processes are designed to manage risks which may have a material impact on our business, rather than to fully mitigate all risks.

Risks and uncertainties continued

Principal risks and uncertainties

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

STRATEGIC RISKS

CHANGE SINCE LAST YEAR	SPECIFICS AND POTENTIAL IMPACT	MITIGATION	RISK TOLERANCE	LINK TO STRATEGIC PRIORITIES
Business strategy				
↑	Failure to adopt the right strategy for the group or poor execution of the group's strategy could lead to reduced revenue, profitability and lower growth rates than our strategic objectives.	Our strategy is focused on building strong and attractive brands, delivering industry-leading service and quality, working with the best people, owning the UK's best invested pub estate and maintaining a strong balance sheet and flexible capital structure. 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.	1 2 3 4
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 and profitability and lower market share and growth rates than anticipated.	We have identified a range of consumer trends and developed plans to respond to them, including the piloting of new brands or variations of existing brands and the sale of non-core sites. We use guest satisfaction tools and net promoter scores to collect customer feedback and measure performance of our pubs. Each brand has its own pricing strategy and discounting and promotions are carefully targeted. Competitor activity is monitored at both a strategic and tactical level, and we provide training, support and a range of innovative agreements for our tenants, so that they are also able to compete in their markets. We support and train our employees to ensure service standards meet guest expectations and continue to improve, and we are increasing our use of social media to enhance our communications with our guests and other consumers.	With our vision to be the best pub company in the UK we expect to be able to react swiftly and appropriately to changing consumer trends to maintain earnings and the achievement of our strategic objectives.	1 2 3 4 5

STRATEGIC PRIORITIES

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

ECONOMIC AND MARKET RISKS

CHANGE SINCE LAST YEAR	SPECIFICS AND POTENTIAL IMPACT	MITIGATION	RISK TOLERANCE	LINK TO STRATEGIC PRIORITIES
Economic uncertainty and cost pressures				
↑	We are at risk of a weakening economy and softer consumer confidence in the UK, particularly given the recent UK general election and as Brexit negotiations unfold. We also face significant cost headwinds, including wage cost inflation as a result of the introduction of the National Living Wage, higher business rates and increased costs of goods, which could all lead to reduced revenue, profitability and lower growth rates.	We have a relentless focus on value, service and quality and are continuing to invest in our pubs, as well as piloting new brands and variations of existing brands, to ensure that our pubs appeal to a broad range of consumers. Plans have been developed to mitigate much of the anticipated cost increases facing the business, including better procurement and labour scheduling and otherwise reducing our cost base. We have a broad geographic spread of pubs across the country, including in London and the South East.	We acknowledge and recognise that in the normal course of business, the group is exposed to risks in this area. We are willing to accept a level of risk in order to achieve our strategic priorities and will manage the business accordingly.	1 2 3 4

OPERATIONAL AND PEOPLE RISKS

CHANGE SINCE LAST YEAR	SPECIFICS AND POTENTIAL IMPACT	MITIGATION	RISK TOLERANCE	LINK TO STRATEGIC PRIORITIES
Data security				
↑	A significant cyber security breach or other loss of data could impact our ability to do business, impacting both revenue and profitability. In addition we could suffer reputational damage and financial damage from fines or compensation. Deliberate acts of cyber crime are on the increase, targeting all markets and heightening risk exposure.	A data governance group oversees improvements in systems and processes, including information security, designed to maintain securely employee, customer and other data held by the group, and also seeks to raise awareness of issues among employees and ensure their compliance with our IT policies. A range of enhanced controls have been introduced across the business by the group's information security team to improve the security of our networks and systems, including encryption, enhanced access and information handling controls. Our networks are protected by firewalls and anti-virus protection systems, and threats to our data security, by viruses, hacking or breach of access controls, are constantly monitored.	We have a low tolerance level for significant breaches within our IT operations.	1 3 5
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. For our Pub Partners division we face similar issues with regard to licensees.	We have both a branded recruitment plan to ensure that we attract suitable candidates and operate a range of apprenticeship programmes. Career development plans are in place to retain key employees, whilst remuneration packages are benchmarked to ensure that they remain competitive. We have recently launched our new values programme, Winning Ways, to improve engagement across the business. Where appropriate exit interviews are conducted to enable action plans to be developed to deal with key leaver reasons, and our annual employee engagement survey is used to obtain direct feedback from employees on a range of issues. Managers are tasked with developing action plans to deal with the feedback received. For our tenanted pub business we have a range of tenancy agreements, training programmes and support available to attract and retain the best quality licensees.	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.	1 2 3

OPERATIONAL AND PEOPLE RISKS CONTINUED

CHANGE SINCE LAST YEAR	SPECIFICS AND POTENTIAL IMPACT	MITIGATION	RISK TOLERANCE	LINK TO STRATEGIC PRIORITIES
Suppliers, distributors and our own production facilities				
↔	We are reliant on a number of key suppliers and third party distributors and on our own ability to produce, package and distribute our own beers. Supply disruption could impact customer satisfaction and lead to loss of revenue whilst the long-term failure or withdrawal of a key supplier or distributor could also lead to increased costs. If we were unable to brew, package and distribute our own beers for long periods we could suffer loss of revenue and profitability.	We maintain back-up plans in case of the failure by or loss of a key supplier, and we expect our key suppliers to maintain disaster recovery plans which we review on a regular basis. Regular monitoring is undertaken of KPIs applicable to both third party suppliers and distributors, with issues flagged for resolution. In the event of a failure in our own production and distribution activities a range of alternative solutions exist to enable us to continue to brew, package and distribute our own beers.	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.	1 2
Health and safety and food safety				
↔	If we fail to comply with major health and safety legislation and cause serious injury or loss of life to one of our customers, employees or tenants, this could have a significant impact on our reputation, leading to financial loss. If there is an issue in our food supply chain, including the provision of incorrect allergen information, that leads to serious illness or loss of life to one of our customers this could lead to restrictions in supply, potential increases in the cost of goods and reduced sales.	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 EHO 'Scores on the Doors' and remuneration incentives for relevant employees. In our tenanted estate we have a detailed compliance programme to ensure that pubs are safely handed over to new tenants. 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 no tolerance for health and safety or food safety breaches within our operations.	1 2 3 4

STRATEGIC PRIORITIES

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

FINANCIAL RISKS

CHANGE SINCE LAST YEAR	SPECIFICS AND POTENTIAL IMPACT	MITIGATION	RISK TOLERANCE	LINK TO STRATEGIC PRIORITIES
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.	The group's debt structures and financing requirements are kept under regular review. The group has a £400m bank facility to support activities outside the securitisation and debenture vehicles, which is available until 2021, and we completed a tap of the Greene King securitisation vehicle in May 2016. The Spirit debenture has secured bonds with a carrying value of £770m and an average life of eleven years. A group treasurer has been appointed to manage the group's funding requirements going forward.	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.	1 4 5
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.	Long-term strategy and business plans are formulated to ensure that financial covenants can be met and monitored on a regular basis. Working capital is carefully forecast, regularly reviewed and closely managed by the finance teams. The refinancing model closely tracks future covenant headroom across all debt platforms through all transactions considered.	We expect to be able to meet our payment obligations and covenant levels under a range of cautious but plausible liquidity scenarios.	1 4 5
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.	All schemes are closed to future accrual to reduce volatility. We are proposing to extend a liability management programme in the Spirit scheme to the Greene King scheme, whilst there is regular monitoring of the schemes' investments and an ongoing dialogue with the trustees regarding funding requirements.	We expect to maintain funding levels for our pension schemes at manageable levels.	5

Viability statement

In accordance with provision C.2.2 of the 2014 UK Corporate Governance Code, the board is required to assess the prospects of the company over an appropriate period of time selected by it.

The board concluded that for these purposes a three-year period was appropriate as it is aligned to the group's strategic planning process. The latest three-year plan was approved by the board in February 2017 and covers the three-year period to the end of the 2019/20 financial year.

Long-term financing is provided by the group's securitisation and debenture vehicles both of which have a weighted average life of eleven years remaining. The group also utilises a £400m revolving credit facility, which expires in October 2021, to provide liquidity and to manage its seasonal cash flows.

The group's three-year plan is prepared by consolidating each business segment's own plan and overlaying group assumptions in respect of estate optimisation and capital structure. Key assumptions underpinning the three-year plan and the associated cash flow forecasts are the economic outlook, revenue growth expectations, impact of expected inflationary cost pressures and estate development and disposal opportunities.

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

As detailed on pages 34 to 37 the board has conducted a robust assessment of the principal risks facing the company. This includes consideration of strategic risks, economic and market risks, operational and people risks and financial risks. The resilience of the group to the impact of these risks has been assessed by applying significant but plausible sensitivities to the cash flow projections based on past experience. This includes modelling the effect of reduced consumer confidence and therefore spending, the failure of our business to maintain and develop compelling customer offers, food safety issues, lower than anticipated acquisition synergies and the impact of increased regulation across the business.

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

MAKING A POSITIVE CONTRIBUTION

MAKING A DIFFERENCE TO THE LOCAL COMMUNITIES WE SERVE

We recently reached £3m of funds raised for Macmillan Cancer Support since the launch of our corporate partnership with them in 2012. This is testament to the thousands of our people and customers who back our partnership and who have raised £1m in the past year alone.

The money we raise directly funds patient care, with Macmillan's nurses supporting hundreds of thousands of people diagnosed with cancer every year.

We were delighted to be recognised by Macmillan this year by winning a Fundraising Excellence Award at Macmillan's corporate partnership event. We were also shortlisted at the Better Society Awards for the Best Scheme to Encourage Staff Fundraising.

In the coming year, we are looking to grow our partnership beyond fundraising with a volunteering programme for our people and by introducing Macmillan's work and cancer training to support our team members who may be affected by cancer.

Keeping it local

For the fourth year in a row, we donated £15,000 to not-for-profit group Pub is The Hub's community services fund, which helps rural pubs diversify their services for community benefit.

Our team members based in Burton upon Trent have supported the local St Giles Hospice, donating £1,000 from money raised at the office's Christmas party, plus 50 chairs to the hospice's outlet store after a refurbishment.

At our head office in Bury St Edmunds, the Finance Shared Services department has been supporting East Anglia's Children's Hospices (EACH). This year they have proudly presented a cheque for £27,000, which has been raised for the charity during the past five years.

> “ WE ARE PROUD TO HAVE RAISED £3M FOR MACMILLAN CANCER SUPPORT.

Miles for Macmillan

In 2016, we launched our first company-wide fundraiser, Miles for Macmillan. The campaign aims to achieve enough miles to get to the moon (250,000) during the next three years, with team members and customers choosing to run, bike, hike and swim in return for sponsorship. From local fun runs to the London to Paris cycle ride and Mount Kilimanjaro climb taking place in the coming months, our team members are getting fit while raising money.

We are particularly proud of one of our team members, Julie English, who is taking on the enormous task of climbing Mount Kilimanjaro later this year. Julie works in our property team and has been given the all clear following breast cancer in 2015 so is ready to take on the challenge. Julie has always been fit and got straight back into running during and after her treatment and is training hard for the climb. Julie said: "I decided I wanted to do something new and take on a big challenge, so I've signed up to do Mount Kilimanjaro as part of our Miles for Macmillan campaign. I am terrified but I want to raise as much money as I can."

At Greene King, we understand the importance of making a positive contribution to the communities we serve. We are privileged to run 3,000 pubs and two breweries. We employ 44,000 people and we strive to operate in a responsible, sustainable way.

Our developing corporate responsibility strategy is a core part of our commitment to society and the key areas of focus that we have chosen are to:

- Make a difference to the **local communities** we serve
- Support **young people** into work
- Drive the **responsible retailing** agenda
- Operate in a more **sustainable** way

We are already working hard to achieve these aims, for example with our flagship partnership with Macmillan Cancer Support and our Get into Hospitality programme with The Prince's Trust.

SUPPORTING YOUNG PEOPLE INTO WORK

Apprenticeships

Our award-winning apprenticeship programme has now seen over 9,000 team members work towards an apprenticeship qualification since it began in 2011. This year we have also focused on introducing apprenticeships to other areas of our business outside of Pub Company. We have also been planning for the introduction of the Apprenticeship Levy and have all the necessary processes in place for this new method of funding apprenticeships in the UK.

We are delighted to have been recognised this year by featuring in the government-supported Top 100 Apprenticeship Employers List. Greene King was also the only pub company to appear in the RateMyApprenticeship Top 70 School Leaver Employers Table 2017 and won Best Apprenticeship Strategy at the Springboard Awards for Excellence.

5 AWARDS WON THIS YEAR

OVER 9,000

TEAM MEMBERS HAVE WORKED TOWARDS AN APPRENTICESHIP SINCE 2011...

... AND WE ARE ON COURSE TO REACH OUR 10,000 APPRENTICESHIPS PLEDGE

76%

OF LAST YEAR'S ACHIEVERS ARE STILL WITH US

A year with The Prince's Trust

We continue to support disadvantaged young people at the start of their careers through our partnership with The Prince's Trust. We are now in the second year of our 'Get into Hospitality' programme and are pleased with its success.

8

PROGRAMMES COMPLETED IN 2016/17

103

YOUNG PEOPLE HAVE TAKEN PART SO FAR

49

RECRUITED

The Prince's Trust: Adam Walch

Adam Walch felt uninspired at 18, after two years working in jobs where he did not feel a sense of passion or enjoyment. Then he discovered The Prince's Trust's 'Get into Hospitality' programme at his local job centre.

He says the three weeks' training helped shape his understanding of hospitality and after completing the programme he was offered a front-of-house role at the Caernarvon Castle in Prenton. Adam has now been there for a year and said: "I love what I do and work alongside a fantastic and supportive team. I'd highly recommend the programme to anyone looking into a career in the hospitality industry – it's given me opportunities I never thought I'd be able to pursue."

DRIVING THE RESPONSIBLE RETAILING AGENDA

Eating Inn's seabass and scallop risotto.

> "WE AIM TO CHAMPION HEALTHY EATING AND RESPONSIBLE DRINKING.

With more than 200 years of trading history behind us, we are committed to providing customers with the best experiences. As part of our ongoing goal to be the best in our industry, we also have a responsibility to champion healthy eating and responsible drinking.

Nutritional improvement – focusing on choice

We continue to review the nutritional content of our menus and are working towards full compliance with the government's 2017 salt targets.

In line with the publication of the Childhood Obesity – Plan for Action report in 2016, we are reviewing the sugar and salt content of a number of our product ranges, as well as working closely with our suppliers, in order to nutritionally improve the dishes on our menus, particularly those designed for children.

Furthermore, we continue to provide a range of lower-calorie menu options for customers looking for a lighter option, such as within Flaming Grill and Greene King Locals. As a key part of the menu development process, we regularly review our menus to provide healthier options for customers.

Allergens – bringing together one process across the business

Following our acquisition of Spirit in 2015, we have taken the opportunity to review our allergen policies in order to ensure we have a clear set of guidelines across the business. The full allergen information of all of our meals is now available, which our customers can request when they visit one of our pubs or restaurants, as well viewing it beforehand on our branded websites.

Gluten

We continue to respond to the growing demand to provide a range of dishes for customers wishing to avoid gluten. Our spring/summer 2017 menu launch contained a separate menu containing no gluten ingredients to highlight further dish choices for our customers. Our Eating Inn brand now has a range of dishes containing no gluten ingredients to choose from, such as our seabass and scallop risotto or halloumi niçoise salad.

We have also recently launched gluten-free versions of two of our most popular beers, Old Speckled Hen and Greene King IPA, as we look to make beer more accessible to customers who have reduced their gluten intake for health or lifestyle reasons.

Vegan dishes

A rising demand for vegan dishes means this is something a number of our menus now take into account, including Old English Inns, which offers a roasted vegetable bowl with cherry tomatoes as well as a chocolate and coconut torte. We continue to further develop our vegan and vegetarian dish ranges.

1,538 (95.29%) OF THE 1,614 PUBS VISITED IN 2016/17 BY LOCAL AUTHORITIES EARNED A FOUR OR FIVE STAR RATING

Food standards

We are proud that out of the 1,614 pubs visited in 2016/17 by local authorities, 1,538 (95.29%) earned a four or five star rating. It is paramount that we provide our customers with consistently high quality food and so we actively promote excellent kitchen standards. In Pub Company, this is achieved through training, internal and external audits and operational incentive schemes.

Promoting responsible drinking

All our Pub Company premises operate the 'Challenge 21' or 'Challenge 25' programmes and team members must pass an online training course on this before they can serve alcohol.

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

In 2016, more than 1,000 Greene King pubs took part in our annual Christmas anti-drink-drive campaign with Coca-Cola, by offering nominated drivers a free soft drink.

Quality standards for our beers

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

> "OUR BEERS ARE ALWAYS BREWED TO THE VERY HIGHEST OF QUALITY.

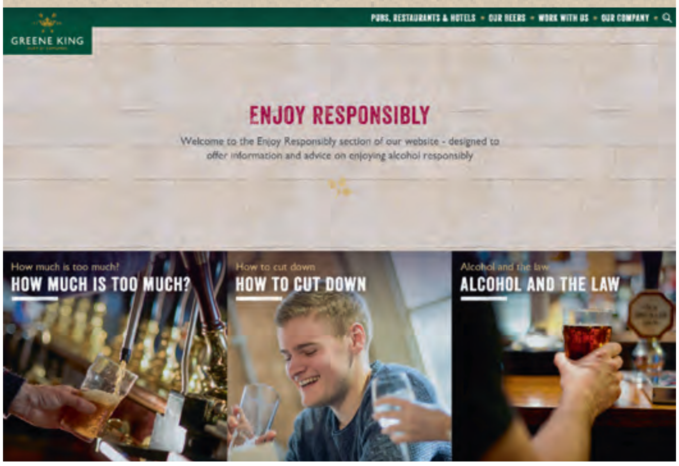
Enjoy Responsibly website

As part of our continued commitment to promoting responsible drinking, we relaunched our Enjoy Responsibly website as part of a wider Greene King corporate website refurbishment. It has been designed to offer information and advice on enjoying alcohol responsibly.

It provides information such as how much is too much alcohol, how to cut down, advice on alcohol and young people plus tips for enjoying alcohol responsibly.

All of our brands promote the Enjoy Responsibly website on their marketing materials.

For more information, please visit www.enjoyresponsibly.co.uk.



OPERATING IN A MORE SUSTAINABLE WAY

7,900 TONNES

OF FOOD WASTE COLLECTED FROM OUR PUBS, SAVING ENOUGH ENERGY TO POWER 7,000 UK HOMES FOR AN ENTIRE MONTH

395,000 TONNES

OF CO_2 SAVED FROM FOOD DIVERTED FROM LANDFILL, EQUIVALENT TO BOILING A KETTLE FOR OVER 700 MONTHS

OVERALL THE COMBINED GREENE KING AND SPIRIT ESTATE IS NOW ACHIEVING 95% TOTAL DIVERSION OF WASTE FROM LANDFILL

Zero waste to landfill by 2020

As a 218-year-old company, sustainability is at the heart of Greene King and we have recently become the first major pub company in the UK to pledge that by 2020 we will send zero waste to landfill.

The declaration follows the launch of Greene King's partnership with waste management company SWR in April 2016, and its commitment to the Courtauld 2025 initiative to create a best practice waste solution. This has already led to 95% diversion away from landfill since the agreement was signed, with almost 8,000 tonnes of food diverted from landfill across the entire estate. Initiatives have been introduced across our managed sites, including pub teams separating waste into dedicated bins for food, cardboard, glass and other materials before it is collected, reducing our number of general waste bins by 42%.

Energy and carbon

This year, we have introduced 'Night Watch' to reduce energy consumption by our managed pub estate. This means between the hours of midnight and 7.00am, all electricity is turned off where possible, such as all lights, boilers and bottled fridges. We report on this weekly, which gives us the ability to track progress and ensure that energy reduction is in place by site.

We are also pleased to now report that all of our managed pubs are fitted with LED lighting in all customer-facing areas. The final 216 pubs had LED lighting installed this year. In their first full month of having LEDs, the last 216 pubs to be fitted reduced their electricity consumption by 204,000kWh.

To reduce energy used in our beer cooling systems, we have invested in eco pumps. We have installed these in 1,100 of our pub cellars, which will cut energy use by 44% in these pumps.

Our Brewing & Brands division is continually seeking to reduce energy consumption and carbon emissions. Initiatives during 2016 included improving the energy efficiency of lighting at our Bury St Edmunds bottling plant, aiming to save 200,000kWh per year. Better training for our drivers has also ensured vehicles are less likely to be left idle with the engine on, reducing fuel waste. Several other projects are ongoing, such as investigating the procurement of green CO_2 from local sources for use in our brewing and packaging operations.

Water

We are at the forefront of the new water market, being the first self-supply licence holder and the first to implement a switch on the market database. By holding the licence, we can continue to reduce water used in our pubs as well as ensuring data is correct for accurate billing and that costs are competitive and transparent.

Preventing water waste is important to our business and a focused programme of water leak identification and repair is ongoing within our production areas. It is proving successful not just in reducing leaks, but also in raising awareness of the importance of highlighting leaks as soon as they occur.

Other 2016 initiatives included reusing water and not allowing it to drain away, thanks to a secondary reverse osmosis plant in the brewery. This has saved 7,800m^3 of water – the equivalent of more than three Olympic-sized swimming pools.

Other

Greene King Brewing & Brands has achieved recertification to the International Standard for Environmental Management Systems. This has a core set of values, known as the ISO 14001, for developing an effective environment management system. A work programme is already underway at Greene King to transition to the new ISO 14001 standard. This led to a senior management forum that was a great opportunity for discussion of a wide range of internal and external environment-related issues facing the business now and in the future.

Mandatory greenhouse gases

The table opposite, which has been produced in compliance with the requirements of the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013, shows the main greenhouse gas emissions in tonnes of CO_2 equivalent (CO_2e) for our scope 1 (direct) and scope 2 (indirect) CO_2 emissions. The figures below include those of Spirit Pub Company from the date of acquisition, being 23 June 2015, except where stated.

Scope 1 relates to the direct emissions from the fuels we use in our breweries, pubs, restaurants, hotels and offices such as natural gas and liquid petroleum gas. It also includes emissions from owned vehicles (including company cars) but excludes logistics where we outsource this to third parties. Refrigerant gas and F-gas emissions in respect of our breweries, pubs and restaurants are also included, except in relation to Spirit Pub Company for 2015/16.

We have used the UK government's greenhouse gas (GHG) Conversion Factors for Company Reporting for all scope 1 emissions (2015 for 2015/16 and 2016 for 2016/17). 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 (2015 for 2015/16 and 2016 for 2016/17).

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.

CO_2 emissions by type

	Source of emissions	**2016/17 tonnes of CO_2e**	2015/16 tonnes of CO_2e
Direct emissions Scope 1	Natural gas	**69,855**	61,940
	Gas oil	**666**	1,186
	Kerosene	**338**	188
	LPG	**4,146**	5,525
	Red diesel	**84**	78
	Refrigerants	**5,273**	3,115
	Owned vehicles	**8,613**	7,669
Total direct emissions Scope 1		**88,974**	79,700
Indirect emissions Scope 2	Electricity	**164,166**	167,562
Gross emissions		**253,140**	247,263
Turnover in Pub Company and Brewing & Brands (£'000)		**20,177**	18,851
Tonnes CO_2e per £100k turnover		**12.546**	13.117

> **"REUSING WATER IN OUR BREWERY SAVED 7,800M^3 OF WATER – THE EQUIVALENT OF MORE THAN THREE OLYMPIC-SIZED SWIMMING POOLS.**

APPROVAL OF THE STRATEGIC REPORT

Pages 2 to 43 of the annual report form the strategic report.

By order of the board

Lindsay Keswick
Company secretary
28 June 2017

Board of directors

Philip Yea (62)
Chairman

COMMENCED ROLE
May 2016 (appointed to board in February 2016)

COMMITTEE MEMBERSHIP
N

EXTERNAL APPOINTMENTS
Senior independent director at both Vodafone Group plc and Computacenter plc.

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

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

Rooney Anand (53)
Chief executive

COMMENCED ROLE
2005 (appointed to board in 2001)

COMMITTEE MEMBERSHIP
None

EXTERNAL APPOINTMENTS
Non-executive director at Wm Morrison Supermarkets plc.

RELEVANT PREVIOUS EXPERIENCE
Rooney Anand joined Greene King as managing director of the brewing division and was promoted to chief executive in 2005. He was previously president and managing director of the UK bakery division at Sara Lee, the international consumer goods business, and, prior to that, was at United Biscuits.

Kirk Davis (45)
Chief financial officer

COMMENCED ROLE
2014

COMMITTEE MEMBERSHIP
None

EXTERNAL APPOINTMENTS
None

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

Mike Coupe (56)
Non-executive director

COMMENCED ROLE
2011

COMMITTEE MEMBERSHIP
N A R

EXTERNAL APPOINTMENTS
Chief executive of J Sainsbury plc.

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

Gordon Fryett (63)
Non-executive director

COMMENCED ROLE
December 2016

COMMITTEE MEMBERSHIP
N A R

EXTERNAL APPOINTMENTS
Non-executive director of WJL Group Ltd.

RELEVANT PREVIOUS EXPERIENCE
Gordon Fryett has many years' experience in retail operations and property matters having held a number of senior positions within the Tesco Group, including that of group property director until his retirement in November 2013. Gordon was also non-executive director of Severn Trent plc from 2009 until July 2016.

Rob Rowley (67)
Senior independent non-executive director

COMMENCED ROLE
2014 (appointed senior independent director at the start of the financial year 2015–16)

COMMITTEE MEMBERSHIP
N A R

EXTERNAL APPOINTMENTS
Non-executive director, chairman of the audit committee and senior independent director at Taylor Wimpey plc. 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 was non-executive director of Moneysupermarket.com Group plc holding the positions of chairman of the audit committee until April 2016 and senior independent director until he retired from the board in May 2017. He was also non-executive director of Morgan Advanced Materials plc until July 2017.

Lynne Weedall (50)
Non-executive director

COMMENCED ROLE
2012

COMMITTEE MEMBERSHIP
N R

EXTERNAL APPOINTMENTS
Group HR director for Selfridges Group.

RELEVANT PREVIOUS EXPERIENCE
Lynne Weedall brings to the board a wealth of experience of HR and organisational development gained from a variety of roles in the retail sector, including at Dixons Carphone, Whitbread and Tesco.

KEY TO COMMITTEES

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

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

Corporate governance statement

Chairman's introduction

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

The 2016/17 financial year was a busy one for Greene King. The business focus continued to be on dealing with the integration of Spirit Pub Company and on the performance of our three main business units, whilst at board level we continued to ensure that we have a well balanced and effective board, strong oversight of risk management, alignment of remuneration policies with shareholder interests and sound shareholder relationships.

In accordance with the Code, we conducted a board evaluation exercise during the year. We used an internally generated questionnaire covering a range of topics as a starting point, which was completed by all board members and the company secretary. I then followed up on these with individual discussions with everyone who had completed the questionnaire, with a view to focusing on how to improve board effectiveness. As a result we have implemented a number of minor changes to our ways of working, but I am pleased to be able to report that nothing significant was raised.

Finally, I would like to thank my fellow directors for their support during my first year as chairman. I am confident that we can continue to maintain a strong and effective governance system to enable the business to deliver its strategy, generate shareholder value and safeguard our shareholders' long-term interests.

Philip Yea
Chairman

Statement of compliance with the UK Corporate Governance Code (2014 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 September 2014 throughout the year in all respects, save that, during the period between the retirement of Ian Durant from the board in September 2016, until Gordon Fryett joined the board on 1 December 2016, there were only two independent non-executive director members of the audit committee, one less than the three required by Code provision A4.2. Although the decision to appoint Gordon Fryett was made and announced in September 2016, his appointment only became effective on 1 December 2016 as his prior commitments meant that he was unable to attend any meetings scheduled prior to that date.

The board

Board composition

As at the year end the board comprised the chairman, two executive directors and four non-executive directors. The non-executive chairman is Philip Yea, the chief executive is Rooney Anand and the senior independent director is Rob Rowley.

The board believes that the structure and size of the board are appropriate and that no single individual or group dominates the decision-making process. During the year one non-executive director, Ian Durant, retired from the board and he was replaced by Gordon Fryett, who joined the board in December. Further details are set out in the nomination committee report.

The directors' biographies are on pages 44 and 45.

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

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 committee	Remuneration committee
Philip Yea	Yes	N		
Rooney Anand	No			
Mike Coupe	Yes	N	A	R
Kirk Davis	No			
Gordon Fryett	Yes	N	A	R
Rob Rowley	Yes	N	A	R
Lynne Weedall	Yes	N		R

Leadership

Role of the board

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

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

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

The chief executive's role is to develop the company's strategic direction and to lead senior management in executing the company's strategy and managing the operational requirements of the business.

The non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are carefully examined and fully discussed, that the performance of the company is monitored and challenged and that the financial information provided is comprehensive and accurate. They are also responsible for ensuring, through the relevant committees, that appropriate remuneration arrangements are in place for the executive directors.

Operation of the board

The board has a formal schedule of matters which are reserved for its consideration, including approval of the long-term objectives and strategy, approval of budgets and financial statements including the annual report and accounts, acquisitions and disposals, changes to the structure of the group and overall corporate governance issues. It reviews trading performance and considers major capital expenditure.

The board has delegated certain responsibilities to standing committees, details of which are set out on page 48. By delegating key responsibilities to these committees, the board is able to ensure that adequate time is devoted by board members to the oversight of key areas within their responsibility.

Day-to-day management and control of the business is delegated to the executive directors, business unit managing directors and certain key functional heads, who meet formally on a four-weekly basis together with other senior managers as appropriate.

Board meetings are scheduled to be held eight times a year, with main meetings linked to key events in the company's financial calendar, with the annual results and dividend being approved in June or July and the interim results and dividend in November or December. Regular agenda items include an overview of the market and current trading as well as a detailed review of financial performance against agreed targets.

There is a two-day meeting of the board in February each year focusing on strategy, with the business unit managing directors and heads of the main functional areas, namely trading, marketing, HR and property, attending for part thereof. The strategy sessions include an in-depth review of relevant economic factors and issues affecting the sector and management's projections for the medium term. The board then has the opportunity to agree the strategic plans across all areas for the short and medium term. Following approval of the company's strategy, budgets are prepared for the next financial year, which are reviewed and approved by the board in April. The board also has a programme to conduct more detailed reviews of different aspects of the business at each meeting, with the schedule of topics being regularly reviewed to ensure that it remains appropriate. The relevant managing director or functional head attends such meetings to present and answer questions.

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

Key focus areas for the board during the year included the continuing integration of the Spirit business, focusing on both synergy capture and the brand swap programme, where the board reviewed the returns on investment and the plans for each proposed core brand; and the impact of the Brexit vote, with the associated cost challenges and impact on consumer confidence, and the actions being taken by management to address these issues.

Corporate governance statement continued

GREENE KING BOARD

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

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

COMMITTEES

NOMINATION

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

AUDIT

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

REMUNERATION

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

MEMBERS

Nomination:
Philip Yea (Chairman)
Mike Coupe
Gordon Fryett
Rob Rowley
Lynne Weedall

Audit:
Rob Rowley (Chairman)
Mike Coupe
Gordon Fryett

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

Nomination committee report page 50

Audit committee report page 51

Remuneration report page 54

Leadership continued

Operation of the board continued

	Board	Nomination committee	Audit committee	Remuneration committee
Executive directors				
Rooney Anand	8/8	—	—	—
Kirk Davis	8/8	—	—	—
Non-executive directors				
Mike Coupe[1]	8/8	5/6	3/3	5/5
Ian Durant[2]	2/3	1/3	1/1	0/1
Gordon Fryett[3]	3/3	2/2	1/1	3/3
Rob Rowley[4]	8/8	6/6	3/3	4/5
Lynne Weedall	8/8	6/6	—	5/5
Philip Yea	8/8	6/6	—	—

Notes:

1. Mike Coupe was unable to attend one nomination committee meeting due to prior commitments with J Sainsbury plc.
2. Ian Durant was unable to attend one board meeting, two nomination committee meetings and one remuneration committee meeting due to prior commitments elsewhere. He retired from the board on 9 September 2016.
3. Gordon Fryett was appointed to the board on 1 December 2016.
4. Rob Rowley was unable to attend one remuneration committee meeting due to prior commitments elsewhere.

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 opposite.

Board papers are generally circulated seven days prior to each board or committee meeting to ensure that directors have sufficient time to review them before the meeting. Documentation includes detailed management accounts, reports on current trading, reports from each business unit and main functional areas and full papers on matters where the board is required to give its approval.

The chairman holds regular, informal meetings with the non-executive directors without the executive directors being present and the non-executives also meet with the chairman and the chief executive on an informal basis twice each year.

Board effectiveness

Board performance and evaluation

The UK Corporate Governance Code requires the board to conduct an annual evaluation of its own performance and that of its committees and directors.

The board evaluation exercise was carried out by Philip Yea, who conducted a questionnaire-based review followed by in-depth discussions with each director. All material matters agreed during the previous review had been actioned. Overall it was felt that the board was working well and that the strategy review meeting had been particularly effective. A regular review of the forward agenda for board meetings has allowed effective planning of important board discussions, and a number of topics for future review were identified and agreed as part of this exercise. The company's risk management process continued to evolve, both requiring and enabling a more nuanced discussion of risk appetite. Certain changes to the meeting cycle and the interaction between the audit committee dates and those of the board were agreed, subject to a further review after an initial period. A number of actions were agreed to improve the interface between the remuneration committee and the company between its meetings. The findings were recorded in a paper considered by the board at its meeting in April 2017. An evaluation was also undertaken of the operation of each of the board's committees, and of the chairman, the latter being conducted by Rob Rowley, the senior independent non-executive director.

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

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

Training and support

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

Newly appointed directors, including Gordon Fryett, who joined the board in December, receive a tailored induction on joining the board to acquaint them with the company. This includes meetings with other board members and senior management, the provision of an induction pack containing general information on the company, its policies and procedures and financial and operational information and a briefing on directors' responsibilities.

There is an agreed written procedure for directors, in the 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.

Commitments and conflicts of interest

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

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

Communication with shareholders

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

Institutional shareholders and analysts

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

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

AGM

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

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

The next AGM will be held on 8 September 2017 at the Millennium Grandstand, Rowley Mile Racecourse Conference Centre, Newmarket, Suffolk CB8 0TF. Details can be found in the separate notice of meeting.

Website

The company maintains a website (www.greeneking.co.uk) to provide up-to-date, detailed information on the company's operations and brands, which includes a dedicated investor relations section. All company announcements are available on this site, as are copies of slides used for presentations to investment analysts. We are happy to answer questions by telephone or email (investorrelations@greeneking.co.uk or companysecretary@greeneking.co.uk).

Board committees

The board has established a nomination committee, an audit committee and a remuneration committee, each of which has formal terms of reference governing its method of operation. Each of the terms of reference, which have been approved by the board, is available on request or to download from the company's website and will be available for inspection at the AGM.

DTR disclosure

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

Nomination committee report

I am pleased to introduce our nomination committee report for 2016/17, which explains the committee's focus and activities during the year. As indicated last year when I took over as chairman, the focus of the committee has continued to be on succession planning and on ensuring that the size, composition and structure of the board is appropriate for the delivery of the group's strategic objectives. We have also worked to ensure that all relevant provisions of the UK Corporate Governance Code continue to be met.

Philip Yea
Chairman of the nomination committee

Membership

During the year the nomination committee was chaired by Philip Yea. The other members of the committee were Mike Coupe, Ian Durant (until his retirement in September 2016), Rob Rowley, Lynne Weedall and Gordon Fryett (following his appointment as a director in December 2016). 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 the 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 six meetings during the year. Attendance at these meetings by the committee members is shown in the table on page 48.

A key activity for the committee during the year was to find a new non-executive director in place of Ian Durant, who retired from the board at the AGM in September 2016. Given that the board had previously agreed that Rob Rowley, as the former finance director of Reuters Group plc, should assume the chairmanship of the audit committee, it was agreed that previous financial experience was not a key priority for the new director. Instead the committee decided to focus on finding a candidate with relevant retail and property experience, given the large portfolio of assets owned by the company. The committee chose The Zygos Partnership to assist in the recruitment process; The Zygos Partnership 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. In conjunction with them, a job specification and a profile of the likely characteristics, qualifications, experience and merits required were produced before starting the search, with the aim of finding a shortlist of candidates suited to the role, without prejudice between male and female candidates.

A longlist of candidates was initially drawn up for the role, from which a shortlist evolved after consideration by the committee. The continuing non-executive directors then interviewed the shortlisted candidates before the committee made a formal recommendation to the board that Gordon Fryett be appointed to the board. Gordon has many years' experience in retail and property matters, having held the position of group property director at Tesco plc until his retirement in November 2013.

In terms of committee composition, Philip Yea became chairman of the nomination committee with effect from the beginning of the current financial year, Rob Rowley took over as chairman of the audit committee on the retirement of Ian Durant and Gordon Fryett was appointed as a member of the nomination, audit and remuneration committees on his appointment to the board. No other changes were recommended to the composition of the board committees.

In relation to succession planning, during the year the committee received a detailed report from the group HR director on the senior management team's skills and performance and the succession plans for each of them. The issues of succession planning and board structure will remain the ongoing focus of the committee during the course of the forthcoming year.

On the recommendation of the nomination committee, and taking into account the continuing effective performance of the directors, the board has decided once again this year to ask all directors to stand for re-election at the forthcoming AGM, with the exception of Gordon Fryett, who will be standing for election for the first time.

Other matters considered by the committee during the year included the board evaluation exercise, the position of chairman of the trustees of the Greene King final salary pension scheme, the training requirements of the directors and the committee's terms of reference.

Diversity

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

Audit committee report

Following Ian Durant's retirement from the board at the AGM in September 2016, I was subsequently appointed as chairman of the audit committee, and am therefore pleased to introduce our audit committee report for 2016/17. The committee's key responsibilities include monitoring the integrity of the group's financial reporting, internal controls and risk management procedures, overseeing the internal and external audit processes and a range of other corporate governance activities.

During the year the committee devoted particular attention to the following key areas: the year-end financial statements and interim report and associated audit matters; the integration of the new Ernst & Young audit partner to ensure delivery of a robust and detailed audit of the group's financial statements; and risk management processes and internal controls including the viability statement.

Rob Rowley
Chairman of the audit committee

Membership

The audit committee was chaired during the year by Ian Durant until his retirement in September 2016 when Rob Rowley was appointed as chairman. The other members of the committee were Mike Coupe and, from December 2016, Gordon Fryett. All members are considered by the board to be independent. The board is satisfied that Rob Rowley has recent and relevant financial experience, as a former finance director of Reuters Group plc.

Responsibilities

A key responsibility for the audit committee is reviewing the financial reporting, controls and risk management processes across the group. The committee assesses the external audit conclusions on both the full year and interim results, in each case prior to their submission to the board. Whilst the board retains responsibility for undertaking the required assessment that the annual report is fair, balanced and understandable, the audit committee this year, at the request of the board, has undertaken a review of this prior to submission of the annual report to the board, as detailed below.

The committee also reviews the company's internal control systems, advises the board on the appointment of external auditor, oversees the relationship with the external auditor, and reviews the quality and effectiveness of both the internal and the external audit. In addition, the committee is responsible for considering the company's whistle blowing procedures and reviewing their effectiveness in practice.

In relation to risk matters, the committee reviews the group's risk management policies and procedures prior to submission to the board and receives detailed reports on the risk management processes within the business units and key functional areas. The committee receives regular updates on regulatory, accounting and reporting developments and their application to the company.

Operation of the committee

The committee held three half-day meetings during the year. Attendance at these meetings by the committee members is shown in the table on page 48. On each occasion the external auditor, chief financial officer and senior members of the finance function attended, as well as the company secretary, head of risk and members of the internal audit function. By rotation, operational managers and functional heads present risk reports at audit committee meetings.

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

The committee's terms of reference are available on the company's website and these are reviewed annually and updated to reflect changes in the responsibility and regulation of the committee. In addition, the committee conducts a review of its own performance on an annual basis and considers steps for future improvement taking input from the members of the committee, the external auditor and senior members of the finance function. As a result of the review the audit committee has assisted the board in its fair, balanced and understandable review of the annual report, as explained below.

Financial statements and audit

The committee reviewed and provided input into the audit scope and audit plan presented by the external auditor, taking into account the comments on the prior year's annual report by the Financial Reporting Council in its review of those accounts. 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 auditor to enable it to form its opinion on the group's financial statements and demonstrating that it was appropriate for the directors to make the representations set out in the letter of representation.

Audit committee report continued

Significant issues considered by the audit committee in relation to the financial statements for 2016/17

Matter considered	What the committee did
Uncertain tax positions and stamp duty land tax	During the period a formal agreement was reached with HMRC on a number of historical tax positions and the Court of Appeal issued its final decision on the Sussex case. The only remaining historical open item with HMRC is an internal property arrangement which management expects to resolve before the end of the 2017/18 financial year. The committee is satisfied that an appropriate provision is in place in respect of this following discussion with the external auditor.
Impairment of property, plant and equipment and intangible assets	The committee considered detailed reports prepared by management concerning the methodology used to determine the extent of any impairment required. The committee reviewed the methodology and assumptions used, reviewed management's proposals and considered the expected timetable for the disposal of non-core sites. The committee assessed the proposed changes to both the underlying growth rates and the discount rate used and determined them to be appropriate in the current economic environment.
Capital versus expense accounting	The committee reviewed the group's fixed asset accounting policy during the year and considered the allocation of costs as either capital or expense. At the committee's request, management undertook an additional evaluation of the business' processes for the allocation of costs and reported its findings to the committee. Following revisions to the policy and the introduction of additional controls within the business, the committee was satisfied that the risk of material error identified had been appropriately mitigated.
Accounting for supplier income and customer rebates	The committee reviewed the group's accounting for supplier income, including listing fees, performance fees and volume rebates, noting that such income is not recognised until it can be reliably estimated. The auditor's review of both supplier income and customer rebates was considered. The committee was satisfied that the current controls in place provided reasonable assurance that the risks associated with these areas are being appropriately managed.
Presentation of exceptional items	The treatment of exceptional items was considered following increased market scrutiny in this area, particularly in relation to the reporting of alternative performance measures by regulators, including the Financial Reporting Council which had reviewed the group's prior year accounts. The committee approved the revised reporting of performance measures to address these concerns and ensure that they are properly defined.

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 committee undertook a review of management's processes in this regard (including the clear guidance given to contributors and the review process adopted by management) and also considered in detail the draft annual report to ensure that it was fair, balanced and understandable in its view. The committee then recommended to the board that it could make the required disclosure as set out on page 71.

Effectiveness of the external audit

After the 2015/16 audit was completed a review of the effectiveness of the auditor and of the audit service was undertaken, supported by a questionnaire completed by the audit committee chairman, the chief financial officer, and a number of key members of the finance team involved in the preparation of the statutory accounts. The overall quality of the service, the audit partner and the audit team were all reviewed and matters such as the management of the audit team, the quality of its challenge, insight and communications and the cost effectiveness of the audit were considered. Taking into account the internal review the committee was satisfied that the quality of the audit service provided by Ernst & Young LLP was appropriate. The feedback from the review was also provided to Ernst & Young LLP.

Ensuring external auditor independence

The audit committee is cognisant of the importance of auditor independence and objectivity and has a policy in relation to the use of the auditor for non-audit work. The company will award non-audit work to the firm which provides the best commercial solution for the work in question, taking into account the skills and experience of the firm, (if the audit firm is being considered) the nature of the services involved, the level of fees relative to the audit fee and whether there are safeguards in place to mitigate to an acceptable level any threat to objectivity and independence in the conduct of the audit resulting from such services.

Work estimated to cost in excess of £25,000 is put out to tender unless agreed otherwise by the chairman of the audit committee. The chief financial officer may approve specific engagements up to £50,000 (in aggregate up to £100,000 p.a.), and the chairman of the audit committee may approve engagements up to £100,000 (in aggregate up to £200,000 p.a.), with fees in excess of those limits being subject to approval of the full committee. This policy was complied with during the year.

The audit committee has recently approved a revised policy for non-audit services in line with the recent guidance issued by the FRC, which is now in effect for the group's 2017/18 and future financial years. In addition to the above financial restrictions the audit committee is now required to pre-approve all non-audit services, except in limited circumstances relating to ad hoc accounting advice, to review any services proposed to be provided by the external auditor, to consider whether the skills and expertise of the audit firm make it the most suitable supplier of the non-audit services, and to ensure that the fees for non-audit services do not exceed 70% of the average audit fee over a three-year period.

The 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 LTIP target review and the restated FRS 101 accounts for Greene King Finance plc, required in relation to the A6 bond issuance completed in May 2016. The total fees paid to Ernst & Young LLP during the year amounted to £640k of which £40k (6%) 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, and will not going forward, impair the external auditor's independence or objectivity.

External auditor – tendering and re-appointment

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

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

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

Internal audit

The company's internal audit function is responsible for reviewing the effectiveness and efficiency of the systems of internal control in place to safeguard the assets of the company. Under the terms of reference for the function, the internal audit team has direct access to the audit committee chairman to enable it to raise any significant issues and to maintain independence. Members of the internal audit team also attend the audit committee meetings to report on the progress and actions taken by the function. During the year, as well as full reviews of relevant divisions, the internal audit function reported to the committee on a number of areas where it had carried out key financial control reviews, including compliance with the Statutory Code (as explained below), free trade loan and customer account management, and the transition to a controls-based audit.

Other matters considered during the year

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

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

The committee has continued to review the subject of cyber security and receives regular reports from management on the issue and how it is managing external threats in this area. Significant investment has been made in hardware, software and user awareness during the year and management has continued to undertake testing (including by external consultants) of the company's defences against a cyber security attack.

The terms of reference of the committee were also reviewed during the year and updated following the introduction of The Pubs Code etc. Regulations 2016, which implemented a Statutory Code applicable to companies owning 500 or more tied tenanted pubs, to enable the audit committee to approve the compliance report which must be submitted to the Pubs Code adjudicator within four months of the year end. The first formal compliance report is due in August 2018.

Internal control and risk management

As disclosed in the risks and uncertainties section of this report on page 33, there is an ongoing process for identifying, evaluating and managing the principal risks faced by the company. The board has overall responsibility for the group's risk management framework and systems of internal control and for reviewing their effectiveness, whilst the audit committee monitors and reviews those internal controls and risks on a regular basis, and reports to the board on its findings. During the course of the year the committee continued to review reports from a number of business units and functional areas on their respective risk management processes and key risks and on the key financial internal controls and to challenge representatives of the relevant business unit or functional area who attended those meetings and presented the relevant reports.

The risk management framework and internal control systems are designed to manage to an acceptable level, and not to eliminate, the risk of failure to achieve business objectives. They can provide reasonable, but not absolute, assurance that the group's assets are safeguarded and that the financial information used within the business and for external reporting is reliable.

The company has in place procedures to assess the key risks to which it is exposed and has formalised the control environment needed to address these and other issues. There are processes in place which accord with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, and these remained in place up to the date of this report. The board is satisfied that there are no significant weaknesses in these systems and that the group's internal controls are operating effectively.

The key elements of the internal control framework, in addition to the risk management processes outlined in the risks and uncertainties section of this report, are:

- the schedule of matters reserved for the board;
- the group's defined management structure with suitable authority limits and responsibilities, staffed by appropriate personnel;
- regular updates for the board on strategy;
- a comprehensive planning and financial reporting procedure including annual budgets and a three-year strategic plan, both of which are reviewed and approved by the board;
- ongoing monitoring by both the board and senior management of performance against budgets, through the periodic reporting of detailed management accounts and key performance indicators;
- ongoing monitoring by the board of compliance with financial covenants;
- a centralised financial reporting system and close process, with controls and reconciliation procedures designed to facilitate the production of the consolidated accounts;
- clearly defined evaluation and approval processes for acquisitions and disposals, capital expenditure and project control, with escalating levels of authority (including board approval for major acquisitions and disposals), detailed appraisal and review procedures and post-completion reviews;
- a review of retail operational compliance by the retail internal audit team responsible and other analytical and control procedures facilitated by the EPOS till system;
- audits conducted by the group internal audit function of business and functional control environments; and
- documented policies to cover modern slavery, bribery and whistle blowing and regular updates on any incidents.

Remuneration report

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

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

Lynne Weedall
Chairman of the remuneration committee

Annual statement

As I explained in the annual statement introducing last year's directors' remuneration report, at our 2017 AGM we are required to resubmit our directors' remuneration policy for approval by our shareholders as it has been three years since the policy was first approved at our 2014 AGM. Accordingly, at our 2017 AGM there will be two remuneration related resolutions presented:

– the normal annual advisory vote on our directors' remuneration report; and

– the vote to approve our new directors' remuneration policy, which will apply to all payments to be made to directors from the 2017 AGM and which (unless altered with shareholders' approval) will apply for a period of three years.

Pay for performance in 2016/17

As described more fully in the strategic report, 2016/17 was another good year for Greene King. Revenue was up 6.9% whilst profit before exceptional and non-underlying items was up 6.6% to £273.5m. This performance was achieved against a difficult backdrop of increased costs, weaker consumer confidence and stronger competition.

Reflecting performance against the stretching targets set at the beginning of the year, bonus pay-outs for this year were 35.8% of eligible salary for the chief executive and 30.3% of eligible salary for the chief financial officer. In relation to the LTIP awards granted in 2013, which are due to vest in July this year, the core LTIP award will not vest as the performance targets were not met, whilst 18% of the growth LTIP award will vest.

Our new remuneration policy

The directors' remuneration policy which we are proposing at the 2017 AGM has a high degree of consistency with our current policy, although we are proposing to make certain changes which we believe are appropriate and which will enable the policy to better support our overall strategy.

We are making no changes regarding our policy on base salaries. In addition, in 2017/18 our executive directors' salaries will remain unchanged from the base salaries which were paid in 2016/17.

The changes being proposed to the current policy will adjust the mix of incentives at Greene King so that there is an equal weighting between the annual bonus plan and the LTIP, with the maximum opportunity under each plan set at 150% of base salary. Under the policy approved at the 2014 AGM, the maximum levels available under these plans were 100% of base salary for annual bonus and 200% of base salary for LTIP. Accordingly, the proposal involves a rebalancing of the incentives available within the policy. There is no increase in overall pay quantum as a result of these changes.

The reason for making this adjustment is that this revised structure is the most appropriate mechanism for introducing to our remuneration policy customer NPS in our Pub Company and employee team engagement, two of our existing KPIs which we do not currently apply as performance measures for incentive pay. These metrics, which will be included in the new annual bonus structure, relate directly to important pillars of our overall strategy: building strong and attractive brands; delivering industry-leading value, service and quality; and working with the best people. As a committee we believe it is important that these metrics are emphasised through their direct inclusion in our incentive plans – they reinforce that individuals' experience of Greene King (both as customers and employees) is at the heart of what makes Greene King a successful business that is operated in a balanced and sustainable way.

We also believe that applying these KPIs on a basis which is measured annually rather than over a three-year performance period is better as this gives the remuneration committee flexibility to set appropriate year-on-year growth targets. At the same time as making this change, we are also introducing other features which we believe are important balances against any risk of increased focus on short-term performance:

- within the annual bonus plan, there is no increase in the amount of cash which can be earned. Any amounts earned over the previous annual bonus maximum level (100% of base salary) will be subject to deferral in shares;
- in 2017/18, the level of attainment for annual bonus on-target performance (75% of base salary) will not be increased;
- a holding period (three years vesting and two years holding) will apply to the executive directors' LTIP awards from 2017 onwards; and
- our share ownership guidelines have been increased to 200% of base salary (from 100% of base salary).

Along with the reduction of LTIP quantum to 150% of base salary, we have also revisited the balance of the measures which are to be applied for LTIP awards from 2017 onwards, and in 2017 we intend to introduce a free cash flow measure for part of the LTIP awards, whilst also retaining ROCE and EPS growth as LTIP performance measures. We regard free cash flow as one of most important measures for determining success at Greene King, and so we believe it is appropriate to increase the emphasis within our remuneration package for this measure. Details of the actual performance targets for the 2017 LTIP awards are not included within this report. Due to timing constraints and in particular the closed period which preceded the announcement of our annual results, we will be consulting our major shareholders on these performance targets in the coming weeks, and we will disclose details thereof when the awards are made in the autumn, provided that the new remuneration policy is approved by shareholders at the 2017 AGM.

The remuneration committee consulted with its largest shareholders before proposing the changes reflected in the new remuneration policy and we are grateful for the constructive responses which we received in this process.

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

Lynne Weedall
Chairman of the remuneration committee
28 June 2017

Proposed changes to policy: summary

Pay element	Current policy	New policy
Annual bonus	– maximum bonus 100% of base salary – no mandatory bonus deferral – bonus measured on a combination of financial and personal performance measures	– maximum bonus 150% of base salary – any bonus above 100% of base salary will be delivered in shares with a minimum one-year holding restriction and linked to share ownership guidelines – introduction of strategic KPIs as annual bonus measures – customer NPS in our Pub Company and employee team engagement – financial measures to have a minimum two-thirds weighting (100% of base salary) in each year of this policy
LTIP	– maximum award 200% of base salary p.a. delivered as a core LTIP (100% of base salary and EPS measures) and growth award (100% of base salary and ROCE measures) – after the three-year performance period, awards vest	– maximum LTIP award reduced to 150% of base salary p.a. – performance measures to be a mix of ROCE, EPS and free cash flow – after the three-year performance period, a further two-year holding period will apply to performance-vested awards
Shareholding policy	– share ownership guidelines of 100% of base salary	– share ownership guidelines increased to 200% of base salary

No other changes are proposed to the current remuneration policy.

Policy report (unaudited)

The directors' remuneration policy as set out in this section of the remuneration report will, if approved by shareholders, take effect for all payments made to directors from the date of the AGM on 8 September 2017.

Policy overview

The key objective of the company's remuneration policy is to promote the long-term success of the company and to enable the achievement of the group's strategic aims. The remuneration package is designed to be competitive but not excessive and to contain an appropriate balance between fixed and variable remuneration and, for the variable remuneration, between short-term and longer-term performance.

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

Details of each element of remuneration, their purpose, their link to strategy and their operation and performance metrics are set out below. The table also shows where changes from the policy approved at the 2014 AGM are being proposed.

Policy table

Element of remuneration	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics	Changes from previous policy
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 occasion may need to recognise, for example, an increase in the scale, scope or responsibility of the role.	—	No material changes.
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 2017/18 annual bonus and 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 2016/17 financial year, and of the proposed measures and weightings for next year's annual bonus, are set out in the annual report on remuneration on pages 61 to 67. An explanation of how the performance measures were chosen is given in the notes below. The annual bonus remains a discretionary arrangement and the committee reserves discretion to adjust the outcomes achieved (from zero to any cap) under all performance measures should it consider that to be appropriate having considered overall performance in the year on a holistic basis.	Increase of maximum bonus to 150% of base salary, but with deferral of any outcomes achieved above 100% of base salary in shares. Confirms that for the duration of this policy, financial measures will have at least a two-thirds weighting for any year's annual bonus.

Element of remuneration	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics	Changes from previous policy
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.	Maximum annual award reduced to 150% of base salary. Confirms the introduction of holding periods on LTIP awards. Confirms that material changes to either the current performance measures or the relative weightings of such measures would be subject to consultation with major shareholders.
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.	—	—	Increase of shareholding guideline to 200% of base salary. Confirms that vested but unexercised awards can be credited (on an anticipated net of tax basis).
Pension	To offer market-competitive levels of benefit.	The company contributes to defined contribution pension arrangements for the executive directors or provides cash in lieu where appropriate.	Current company contribution levels are 25% for the chief executive and 20% for the chief financial officer.	—	No material changes.
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.	—	No material changes.
All employee share schemes	All employees, including executive directors, have the opportunity to build their shareholding in a tax-efficient way by participating in the company's HMRC-approved sharesave scheme.	Employees are invited to participate in the sharesave scheme in January each year provided that they have the requisite service.	The maximum saving under the sharesave scheme will be no more than HMRC-approved limits, allowing employees to buy company shares at up to a 20% discount at the end of a three or five-year savings period.	—	No material changes.

Remuneration report continued

Policy table continued

Notes:

1. A description of how the company intends to implement the policy set out in this table for 2017/18 is set out in the annual report on remuneration on pages 61 to 67.
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.
3. **Reason for selection of LTIP targets**

As explained in the remuneration policy table above, LTIP awards are subject to suitably stretching performance conditions set by the committee, which are reviewed annually. For 2017/18 the LTIP awards will be subject to three performance measures:

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

The performance targets for each metric will be set annually by the committee following a detailed review of the company's projections and will be appropriately stretching.

4. **Differences between the policy on remuneration for directors from the policy on remuneration of other employees**

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

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

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

5. **Malus and clawback**

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

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

6. **Travel and hospitality**

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

7. **Discretions reserved in operating incentive plans**

The committee will operate the annual bonus and LTIP according to their respective rules and the remuneration policy table on pages 56 and 57. 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 on page 59) 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.

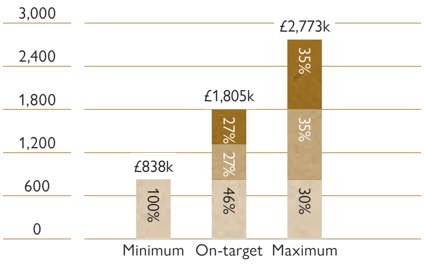
8. **Prior awards**

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.

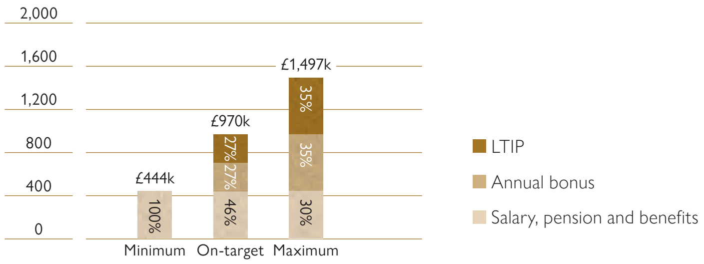
Indicative total remuneration levels

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.

Chief executive (£k)



Chief financial officer (£k)



Notes:

1. Minimum relates to the value of the package assuming that current salary, benefits and pension alone are paid.
2. The on-target annual bonus opportunity is assumed to be 50% of the maximum award for the purposes of these illustrations. The actual on-target level may vary from year to year reflecting the performance scale applied.
3. The on-target vesting level under LTIP is assumed to be 50% of the maximum award.
4. The maximum scenario assumes full bonus pay-out and full vesting of LTIP awards.
5. No assumption as to share price growth is made in either the on-target or the maximum scenarios.

Approach to recruitment and promotions

The remuneration package for a new executive director would be set in accordance with the terms of the company's prevailing approved remuneration policy at the time of recruitment. In particular, the annual bonus potential will be limited to 150% of salary and awards under the LTIP will be limited to 150% of salary.

In the case of an external hire, if required to secure an individual, the committee may offer additional cash and/or share-based elements, when it considers them to be in the best interests of the company, to take account of deferred remuneration forfeited by the new hire when leaving their former employer. Any such additional 'buy-out' payments would be one off in nature; would reflect where possible the nature, time horizons and performance requirements attaching to that forfeited remuneration; and would be limited to the value of the forfeited remuneration. For the avoidance of doubt, there is no formal limit on the value of any such buy-out awards.

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

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

Service agreements and exit payment policy

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

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

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

Remuneration report continued

Service agreements and exit payment policy continued

Rooney Anand, whose employment with the company commenced on 6 August 2001, is subject to a one-year notice period from the company. His terms of employment do not contain any additional terms relating to compensation for termination of employment. The terms of his appointment as chief executive were agreed and set out in a letter dated 24 December 2004.

Kirk Davis' employment, which commenced on 3 November 2014, is subject to the terms of a contract dated 29 September 2014. His employment may be terminated by the company 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 dates of their respective appointments.

Director	Date of appointment	Present expiry date
Philip Yea	2 Feb 16	1 Feb 19
Mike Coupe	26 Jul 11	25 Jul 20
Gordon Fryett	1 Dec 16	30 Nov 19
Rob Rowley	18 Jul 14	17 Jul 20
Lynne Weedall	11 Oct 12	10 Oct 18

The appointments of all these non-executive directors can be terminated by the company at any time on three months' written notice, notwithstanding the present expiry dates above.

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

Element of remuneration	Purpose and link to strategy	Operation	Reward	Performance metrics	Change from previous policy
Fee	To recruit and retain appropriately qualified non-executive directors.	The chairman and non-executive director fees are typically reviewed every two years. Fees are benchmarked against similar roles in the sector and in other similar sized companies and reflect the time commitments and responsibilities of each role.	Non-executive director fees may include a basic fee and a fee for acting as a committee chairman or senior independent director. They are set at a level that is considered appropriately competitive in light of market practice.	—	No material changes.

External directorships

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

Consultation

The company engages regularly with shareholders on matters relating to its strategy and business operations. Where necessary, we also engage with shareholders and their representative bodies on matters relating to executive remuneration and it is the committee's policy to consult with major shareholders prior to making any major changes to its executive remuneration structure. The committee consulted with its largest shareholders before proposing the changes reflected in this directors' remuneration policy.

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.

The committee is cognisant of the requests from, amongst others, the Investment Association for companies to publish ratios comparing CEO pay to employee pay. The committee has not, however, published this data in the directors' remuneration report given the absence of a common methodology for these comparisons; the company's expectation is that it will publish ratios showing comparisons in future years when, as can be expected, UK regulations or guidance develop a common methodology.

Annual report on remuneration

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

The remuneration committee

The remuneration committee is appointed by the board. The members are Lynne Weedall (chairman), Mike Coupe, Gordon Fryett (from his appointment on 1 December 2016) and Rob Rowley. Ian Durant was also a member of the committee until his retirement on 8 September 2016. 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 the incentive arrangements operating throughout the company.

During the year there were three scheduled meetings of the committee. Attendance at these meetings is shown in the table on page 48.

Advisers to the remuneration committee

The committee has appointed FIT Remuneration Consultants LLP to provide advice on general remuneration matters and comparator information. The committee is satisfied that FIT Remuneration Consultants LLP are independent advisers to the committee as they do not provide any other services to the company. Fees paid during the year to FIT Remuneration Consultants LLP in respect of advice to the committee, generally charged on a time spent basis, were £41,530.

Rooney Anand, chief executive, attends meetings of the committee by invitation and provides advice to help the committee determine appropriate remuneration and incentive packages for the chief financial officer and other senior executives, but he leaves the meeting when his own remuneration is being discussed. The chairman of the board also attends meetings of the committee by invitation.

Shareholder voting at the 2014 and 2016 AGM

The table below shows the results of the binding vote on the directors' remuneration policy at the AGM held in September 2014 and the advisory vote on the 2015/16 directors' remuneration report at the AGM held in September 2016.

	Votes for	Percentage	Votes against	Percentage	Votes withheld
Approval of the directors' remuneration policy report – passed in 2014	138,964,449	95.8%	6,047,870	4.2%	2,105,782
Approval of the remuneration report – passed in 2016	193,335,535	96.7%	6,687,191	3.3%	16,109,255

Audited information

Single figure of remuneration

The tables below show the details of the total remuneration paid to each director in 2016/17 and 2015/16.

	Salary or fees £'000	Taxable benefits £'000	Pension related benefits[1] £'000	Annual bonus £'000	Long-term incentives[2] £'000	Total £'000
2016/17 (52 weeks) (audited)						
Executive directors						
Rooney Anand	**645**	**25**	**161**	**231**	**92**	**1,154**
Kirk Davis	**351**	**19**	**70**	**106**	**—**	**546**
Non-executive directors						
Mike Coupe	**50**	**—**	**—**	**—**	**—**	**50**
Ian Durant[3]	**22**	**—**	**—**	**—**	**—**	**22**
Gordon Fryett[4]	**21**	**—**	**—**	**—**	**—**	**21**
Rob Rowley	**60**	**—**	**—**	**—**	**—**	**60**
Lynne Weedall	**60**	**—**	**—**	**—**	**—**	**60**
Philip Yea	**250**	**—**	**—**	**—**	**—**	**250**

CORPORATE GOVERNANCE

Remuneration report continued

Audited information continued

Single figure of remuneration continued

	Salary or fees £'000	Taxable benefits £'000	Pension related benefits[1] £'000	Annual bonus £'000	Long-term incentives[2] £'000	Total £'000
2015/16 (52 weeks) (audited)						
Executive directors						
Rooney Anand	609	20	152	594	920	2,295
Kirk Davis	340	12	68	264	—	684
Non-executive directors						
Tim Bridge[5]	183	34	—	—	—	217
Mike Coupe	46	—	—	—	—	46
Ian Durant	53	—	—	—	—	53
Rob Rowley	46	—	—	—	—	46
Lynne Weedall	53	—	—	—	—	53
Philip Yea	11	—	—	—	—	11

Notes:

1. Pension benefits for the executive directors comprised cash in lieu of pension contributions.
2. Long-term incentives in 2016/17 comprised the value of the awards granted in July 2014, which will vest in July 2017 and which were subject to performance targets measured over the three years to May 2017. The value of the award has been calculated using £6.94, being the average share price for the last three months of the 2016/17 financial year, and also takes into account the value of the dividend equivalent shares which accrued on the award. It has been assumed that the 2014 core LTIP award will not vest due to failure to meet the minimum performance conditions and that 18% of the 2014 growth LTIP will vest. For the long-term incentives in 2015/16 the actual share price on the date of vesting has been used (restated from the estimate of £1,172k for Rooney Anand disclosed in the 2015/16 annual report).
3. Ian Durant retired from the board on 9 September 2016.
4. Gordon Fryett was appointed to the board on 1 December 2016.
5. Tim Bridge retired from the board on 1 May 2016.

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

Base salary

The base salaries for 2016/17 for Rooney Anand and Kirk Davis were £645,000 and £351,000 respectively. The base fee for the chairman was £250,000, whilst the base fees for the non-executive directors were £50,000 for Mike Coupe and Gordon Fryett and £60,000 for Ian Durant (as chairman of the audit committee), Rob Rowley (as senior independent director and chairman of the audit committee) and Lynne Weedall (as chairman of the remuneration committee).

Taxable benefits

Taxable benefits were provided to directors in line with the policy table set out on pages 56 and 57.

Pension related benefits

Cash in lieu of pension contributions were in line with the policy table set out on pages 56 and 57.

Annual bonus

Executive directors may earn bonuses depending on the company's performance and their own individual performance. Awards for 2016/17 for the chief executive were based 90% on financial performance and 10% on individual performance, whilst for the chief financial officer the respective percentages were 80% on financial performance and 20% on individual performance.

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

	Target range	Actual performance[3]	Maximum percentage of bonus	Actual percentage of bonus
Rooney Anand				
PBTE	£281.0m–£290.0m	£273.5m	62.5	0.0
Free cash flow	£90.8m–£100.8m	£119.6m	15.0	15.0
Spirit Pub Company synergies	£34.9m–£39.9m	Between target and stretch	12.5	10.8
Personal target[1]			10.0	10.0
Total			100.0	35.8
Kirk Davis				
PBTE	£281.0m–£290.0m	£273.5m	45.0	0.0
Free cash flow	£90.8m–£100.8m	£119.6m	10.0	10.0
Spirit Pub Company synergies	£34.9m–£39.9m	Between target and stretch	10.0	8.3
Personal targets[2]			35.0	12.0
Total			100.0	30.3

Notes:

1. The personal target for Rooney Anand related to succession planning for members of the operating board. Following the remuneration committee's assessment of the personal target and actual performance, 10% of salary was awarded against this metric.
2. The personal targets for Kirk Davis included a like-for-like Pub Company sales growth (excluding brand swap sites benefiting from capex) target (15% weighting) and two personal targets relating to succession planning for the senior members of the finance function and his own personal development. As the like-for-like sales growth target remains commercially sensitive the target has not been disclosed but will be disclosed next year. Following the remuneration committee's assessment of his personal targets and actual performance, 12% of salary was awarded against these metrics.
3. As the precise outcome for the Spirit Pub Company synergies for 2016/17 remains commercially sensitive at this time, this has not been disclosed but will be disclosed next year.

Performance against the combined financial and individual targets resulted in bonuses being paid at £231k (35.8% of salary) for Rooney Anand and at £106k (30.3% of salary) for Kirk Davis.

Disclosure of 2015/16 bonus targets

The majority of the 2015/16 financial bonus targets and the company's performance against those targets were disclosed last year. However, Kirk Davis had a target relating to Pub Company like-for-like sales growth, details of which were not disclosed last year due to their commercial sensitivity, and are now set out below. The outcome set out below was disclosed last year.

Performance measure	Target range	Actual performance	Percentage of bonus opportunity awarded
Pub Company like-for-like sales growth	2.0%–2.7%	1.5%	0

Long-term incentive plans

The LTIP awards granted on 24 July 2014 were based on a three-year performance period ended 30 April 2017. The target ranges, calculated on a straight-line basis from 0% to 100%, are set out below.

Performance measure	Performance target	Actual performance	Threshold vesting of award	Maximum percentage of award	Actual percentage of award
Core LTIP – earnings per share	70.8p–75.9p	70.8p	0%	100%	0%
Growth LTIP – return on capital employed	9.25%–9.85%	9.36%	0%	100%	18%

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

Director	Type of award	Number of shares at grant	Number of shares to vest	Number of shares to lapse	Estimated value[1] £'000	Estimated value of dividend equivalent shares to vest[2] £'000	Total estimated value £'000
Rooney Anand	Core LTIP	66,361	—	66,361	—	—	—
Rooney Anand	Growth LTIP	66,361	11,945	54,416	83	9	92

Notes:

1. The estimated value of the vested shares is based on the average share price during the three months to 30 April 2017 (694p).
2. The LTIP enables award holders to benefit from the payment of dividend equivalents accrued until the date of vesting but only to the extent that the underlying share awards vest. The estimated value has been calculated on the same basis as set out in note 1 above.

Audited information continued

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 1 May 2016	Granted during the period	Vested during the period	Lapsed during the period	Outstanding at 30 April 2017	Performance period
Rooney Anand	4 Oct 13	Core LTIP	nil	68,630	—	68,630	—	—	May 2013 – May 2016
	4 Oct 13	Growth LTIP	nil	68,630	—	52,159	16,471	—	May 2013 – May 2016
	24 Jul 14	Core LTIP	nil	66,361	—	—	—	66,361	May 2014 – May 2017
	24 Jul 14	Growth LTIP	nil	66,361	—	—	—	66,361	May 2014 – May 2017
	10 Aug 15	Core LTIP	nil	66,558	—	—	—	66,558	May 2015 – May 2018
	10 Aug 15	Growth LTIP	nil	66,558	—	—	—	66,558	May 2015 – May 2018
	28 Jul 16	Core LTIP	nil	—	81,302	—	—	81,302	May 2016 – May 2019
	28 Jul 16	Growth LTIP	nil	—	81,302	—	—	81,302	May 2016 – May 2019
Kirk Davis	10 Aug 15	Core LTIP	nil	38,437	—	—	—	38,437	May 2015 – May 2018
	10 Aug 15	Growth LTIP	nil	38,437	—	—	—	38,437	May 2015 – May 2018
	28 Jul 16	Core LTIP	nil	—	44,243	—	—	44,243	May 2016 – May 2019
	28 Jul 16	Growth LTIP	nil	—	44,243	—	—	44,243	May 2016 – May 2019

The 2015 LTIP awards are dependent on performance over the three financial years to April 2018. There will be no vesting of the core award for EPS growth of 22% or less above a base of 61.0p, increasing on a straight-line basis to full vesting for growth of 32% during the performance period above that base. For the growth LTIP award, there will be no vesting for ROCE of 9.6% or less, increasing on a straight-line basis to full vesting for ROCE of 10.2% at the end of the performance period.

The 2016 awards are dependent on performance over the three financial years to April 2019. There will be no vesting under the core LTIP award for EPS growth (from a base of 69.9p) of 16% or less, increasing on a straight-line basis to full vesting for growth of 25%. For the growth LTIP award, there will be no vesting for ROCE of 9.75% or less, increasing on a straight-line basis to full vesting for ROCE of 10.3%.

The committee retains the discretion to scale back the vesting levels of the growth LTIP awards in appropriate circumstances.

Details of the awards granted to the directors on 28 July 2016 are as follows:

Director	Scheme	Type of award	Basis of award granted	Share price used for award purposes[1]	Number of shares over which award was granted	Face value of award	Performance period	Exercisable between
Rooney Anand	Core LTIP	Nil-cost option	100% of salary of £645,000	793.33p	81,302	£644,993	May 2016 – May 2019	24 July 2019 – 22 July 2026
Rooney Anand	Growth LTIP	Nil-cost option	100% of salary of £645,000	793.33p	81,302	£644,993	May 2016 – May 2019	24 July 2019 – 22 July 2026
Kirk Davis	Core LTIP	Nil-cost option	100% of salary of £351,000	793.33p	44,243	£350,993	May 2016 – May 2019	24 July 2019 – 22 July 2026
Kirk Davis	Growth LTIP	Nil-cost option	100% of salary of £351,000	793.33p	44,243	£350,993	May 2016 – May 2019	24 July 2019 – 22 July 2026

Note:

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

Interests under the sharesave scheme

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

	Outstanding as at 1 May 2016	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30 April 2017	Option price (p)	Exercise period
Kirk Davis	3,050	—	—	—	3,050	580	1 April – 30 September 2018

Payments to former directors

As disclosed in last year's directors' remuneration report, Matthew Fearn stepped down from the board and his role as chief financial officer on 29 September 2014. As disclosed last year, he remained an employee of the company until 24 August 2016.

As set out in last year's report, the awards granted to Matthew Fearn under the LTIP scheme in 2013 vested on the normal date in October 2016 subject to performance and time pro-rating. The actual value received by him in October 2016 was £315k, based on the share price at the date of vesting, compared to the estimated amount disclosed last year of £342k.

Directors' shareholdings and share interests

Under the shareholding guidelines in place for the 2016/17 year executive directors were required to build and retain a shareholding of at least 100% of salary and must retain 50% of the net exercised value of vested LTIP awards until the requirement is met.

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

	At 1 May 2016[1]	At 30 April 2017			
Director	Legally owned	Legally owned	Subject to performance under the LTIP	Total	Shareholding as percentage of salary as at 30 April 2017
Rooney Anand	529,041	599,919	428,442	1,028,361	699
Kirk Davis	4,000	4,000	165,360	169,360	9
Mike Coupe	3,690	3,690	—	3,690	—
Gordon Fryett	—	—	—	—	—
Rob Rowley	3,000	3,000	—	3,000	—
Lynne Weedall	2,051	3,051	—	3,051	—
Philip Yea	30,000	40,000	—	40,000	—

1. Or date of appointment if later.

In addition to the above Kirk Davis has an interest under the sharesave scheme disclosed on page 64.

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.

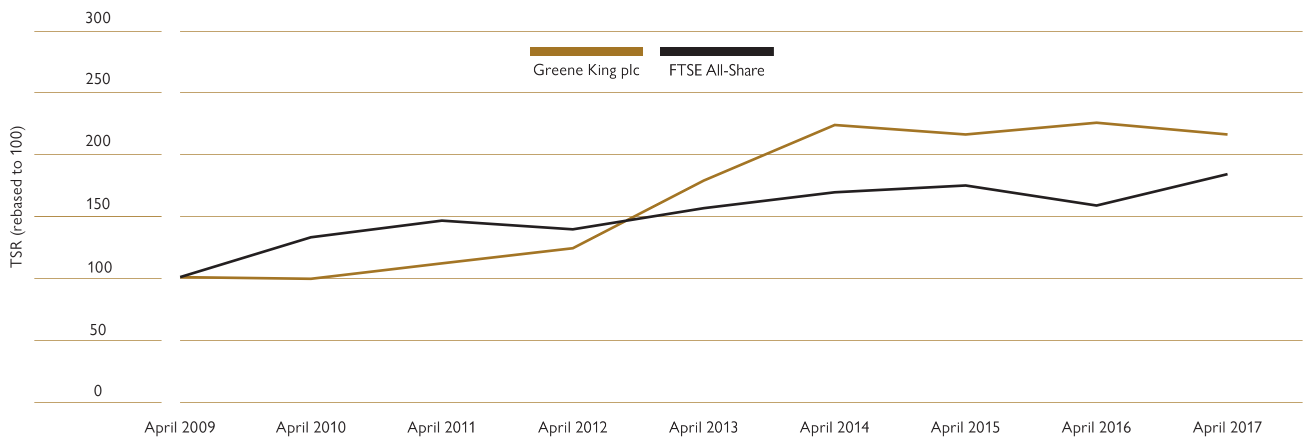
The share price as at 30 April 2017 was 751p.

There has been no change in the interests of the current directors since 30 April 2017 to the date of this report.

Other information (unaudited)

Performance graph and chief executive pay

A graph showing the total shareholder return of Greene King relative to the FTSE All-Share Index over the last eight years is shown below. We have chosen this comparator group as it is the most appropriate market index of which the company is a member.



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

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

Other information (unaudited) continued

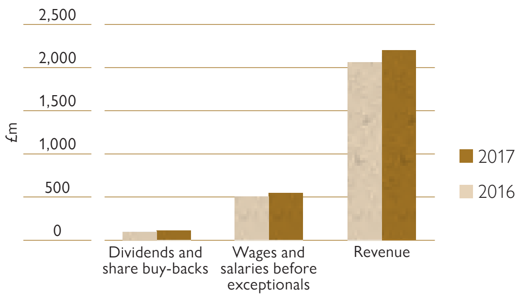
Percentage increase in the chief executive's remuneration

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

	Chief executive % change	Employees % change
Salary	5.9	6.7
Taxable benefits	25.0	-29.8
Annual bonus	-61.2	-20.1

Relative importance of spend on pay

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



Remuneration from other company directorships

Rooney Anand is non-executive chairman of JB Drinks Holdings Limited and received and retained £50k (2016: £56k) from that company by way of fees. He is also a non-executive director of Wm Morrison Supermarkets plc and received and retained £90k (2016: £12.5k) from that company by way of fees during the year. Neither company is a related party of the group.

Implementation of remuneration policy in 2017/18

Salary

Executive directors' salaries are generally reviewed annually but there will be no increase for the 2017/18 financial year at the recommendation of the executive directors, reflecting their alignment with a focus on the control of costs. Their salaries with effect from 1 May 2017 (and previous year levels) are as follows:

Name	Position	From 1 May 2017	Percentage increase	From 2 May 2016
Rooney Anand	Chief executive	£645,000	—	£645,000
Kirk Davis	Chief financial officer	£351,000	—	£351,000

Typical pay rises for the group's four-weekly paid employees (which include pub and restaurant managers but exclude colleagues working for them in those pubs and restaurants) were 1.0%.

Pension and benefits

The pension contributions and benefits will continue in line with the policy table on pages 56 and 57.

Annual bonus

The annual bonus opportunity for 2017/18 will, subject to the approval of the new remuneration policy at the 2017 AGM, be 150% of salary.

The chief executive's financial targets will be based primarily on group PBTE (maximum weighting 75% of salary) and free cash flow (maximum weighting 25%). In addition the chief executive will have two new strategic targets, with a maximum weighting of 15% each, relating to customer net promoter score in our Pub Company and employee engagement. Finally, a further 20% of his bonus will be based on personal targets relating to succession planning and values.

The chief financial officer's financial performance targets will be based on PBTE (maximum weighting 62.5% of salary), free cash flow (maximum weighting 12.5%), cost savings (maximum weighting 12.5%) and financing (maximum weighting 12.5%). He will have the two new strategic targets, with a maximum weighting of 15% each, relating to customer net promoter score in our Pub Company and employee engagement. A further 20% of his bonus will be based on personal targets which relate to succession planning and values.

The committee has decided that the bonus targets should not be disclosed prospectively due to commercial sensitivity. The committee expects to publish the performance targets, once they have ceased to be commercially sensitive, in the 2017/18 annual report.

LTIP

Subject to the approval of the new remuneration policy at the 2017 AGM, the awards to be made in 2017 will be subject to a maximum of 150% of the executive director's base salary, calculated by reference to the average closing prices on the three business days immediately prior to the date of the award.

The awards will vest three years after the date of the award, subject to continued employment within the group and dependent on performance over the three financial years to April 2020. There will then be a two-year holding period during which the executive directors will not be entitled to exercise their performance-vested awards.

The performance conditions applicable to the LTIP awards in 2017/18 will be based on return on capital employed (50% of total award), EPS (25% of total award) and free cash flow (25% of total award). 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.

The actual targets remain to be finalised and will be disclosed at the time of the granting of the awards, which will be following the 2017 AGM. In the meantime the committee will consult with major shareholders in relation to the proposed targets for the 2017 LTIP awards.

Chairman and non-executive directors' fees

The fees payable to the chairman and the non-executive directors in 2017/18 are as set out below. The chairman will not be entitled to any benefits.

Name	Position	2016/17 base fee	2017/18 base fee	Percentage increase
Philip Yea	Chairman	£250,000	£250,000	—
Mike Coupe	Non-executive director	£50,000	£50,000	—
Gordon Fryett	Non-executive director	—	£50,000	—
Rob Rowley	Non-executive director	£60,000	£60,000	—
Lynne Weedall	Non-executive director	£60,000	£60,000	—

Approved by the board on 28 June 2017.

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 30 April 2017. The company has chosen, in accordance with section 414C(11) of the Companies Act 2006, to include matters of strategic importance, such as future developments in the business of the group and details of the greenhouse gas emissions in the strategic report which otherwise would be required to be disclosed in the directors' report.

Profits and dividends

The group's profit before tax for the period amounted to £184.9m (2016: £189.8m). An interim dividend of 8.8p per share (2016: 8.45p) was paid on 20 January 2017. The directors recommend a final dividend of 24.4p per ordinary share (2016: 23.6p), making a total dividend for the year of 33.2p per share (2016: 32.05p). Subject to the approval of shareholders at the AGM, the final dividend will be paid on 15 September 2017 to shareholders on the register at the close of business on 11 August 2017.

Directors

Details of the current directors are given on pages 44 and 45. During the year Ian Durant retired on 9 September 2016, having served for nine and a half years as a non-executive director. Gordon Fryett was appointed to the board on 1 December 2016.

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

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

Directors' interests in shares

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

	1 May 2016	**30 April 2017**
Rooney Anand	529,041	**599,919**
Mike Coupe	3,690	**3,690**
Kirk Davis	4,000	**4,000**
Gordon Fryett	—	**—**
Rob Rowley	3,000	**3,000**
Lynne Weedall	2,051	**3,051**
Philip Yea	30,000	**40,000**

There have been no changes in the interests of the current directors between 30 April 2017 and the date of this report.

Interests in contracts

No director had a material interest in any contract, other than an employment contract, that was significant in relation to the group's business at any time during the period.

Substantial shareholdings

The company has been notified of the following significant holdings (3% or more) of voting rights:

	1 May 2016	**30 April 2017**
Standard Life Investments (Holdings) Limited	4.774%	**4.774%**
The Capital Group Companies, Inc	16.28%	**16.28%**
HSBC Global Custody Nominees (UK) Ltd	—	**3.01%**

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 26 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 748,840 ordinary shares, with an aggregate nominal value of £93,605, were allotted for cash during the period in connection with the company's share option schemes.

The company makes regular use of the employee benefit trust (EBT) to satisfy the exercise of share options and will make market purchases of the company's shares from time to time to ensure that it has sufficient shares to enable it to do so. During the year 200,000 shares were acquired by the trustees of the EBT at a cost of £1.6m.

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 22 July 2016. The authority, which has not been exercised, was approved and remains exercisable until the next AGM or 8 December 2017, whichever is earlier. The directors have again sought approval for the authority to purchase the company's own shares.

Voting rights

In a general meeting of the company, on a show of hands, every member who is present in person or by proxy and entitled to vote shall have one vote. On a poll every member who is present in person or by proxy shall have one vote for every share of which they are the holder. The AGM notice gives full details of deadlines for exercising voting rights in respect of resolutions to be considered at the meeting.

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

Transfer of shares

There are no restrictions on the transfer of shares in the company other than those which may from time to time be applicable under existing laws and regulations (for example under the Market Abuse Directive).

In addition, pursuant to the Listing Rules of the Financial Conduct Authority, directors of the company and persons discharging managerial responsibility are required to obtain prior approval from the company to deal in the company's securities and are prohibited from dealing during close periods.

Change of control

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

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

There is one employee who, on a change of control of the company resulting in the termination of their employment, would be entitled to compensation for loss of office. However, in the context of the company as a whole, this agreement is de minimis.

Articles of association

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

Appointment and replacement of directors

The number of directors on the board shall be no less than five nor more than 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.

Communications with shareholders

Shareholders who are interested in signing up to e-communications should refer to the shareholders' information page for further information on how to register via www.greeneking-shares.com.

Charitable donations

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

Employment and recruitment policies

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

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

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

Diversity

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

We promote an environment in our pubs, restaurants, hotels, headquarters, pub company support centre and breweries that is free from discrimination. We work to a policy in which no employee receives less favourable treatment on the grounds of their colour, nationality, race, religion/belief, ethnic or national origin, sex, marital or civil partnership status, gender reassignment (whether proposed, started or completed and under or not under medical supervision), disability or past disability, part-time or fixed-term status, pregnancy or maternity, parental responsibilities, sexual orientation or age (a protected characteristic).

	Male	Female	Total	Percentage female
Directors	6	1	7	14
Senior managers (excluding directors)	165	53	218	24
All employees	19,347	21,311	40,658	52

Human rights

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

Corporate responsibility

Disclosure of the group's greenhouse gas emissions is contained within the corporate responsibility statement on page 43.

Directors' and officers' indemnity insurance

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

Financial instruments

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

Post balance sheet events

Details of events occurring after the year end are set out in note 32 to the financial statements.

Directors' report and disclosures continued

Directors' statement as to disclosure of information to the auditor

The directors who were members of the board at the time of approving the directors' report are listed on pages 44 and 45. Having made enquiries of fellow directors and of the company's auditor, each of these directors confirms that:

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

Going concern

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

The directors are of the opinion that the group's forecast and projections, which take account of reasonably possible changes in trading performance, and its stress testing to take account of severe but plausible shocks to the business show that the group should be able to operate within its current borrowing facilities and comply with its financing covenants.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Auditor

Ernst & Young LLP has expressed its willingness to continue in office and a resolution to re-appoint the firm as the company's auditor will be proposed at the AGM.

Annual general meeting

The AGM will be held at 12.30pm on Friday 8 September 2017 at the Millennium Grandstand, Rowley Mile Racecourse Conference Centre, Newmarket, Suffolk. The notice of the AGM is set out in the separate circular to shareholders.

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

By order of the board

Lindsay Keswick
Company secretary
28 June 2017

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 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 44 and 45.

P E Yea
Director
28 June 2017

R Anand
Director

APPROVAL OF THE CORPORATE GOVERNANCE REPORT

Pages 44 to 71 of the annual report form the corporate governance report.

By order of the board

Lindsay Keswick
Company secretary
28 June 2017

Independent auditor's report

To the members of Greene King plc

Our opinion on the financial statements

In our opinion:

– the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 April 2017 and of the group's profit for the year then ended;

– the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;

– the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 Reduced Disclosure Framework; and

– the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

What we have audited

We have audited the primary statements and related notes of Greene King plc for the 52 weeks ended 30 April 2017 which comprise:

Group	Parent company
Group income statement for the 52 weeks ended 30 April 2017	Company balance sheet as at 30 April 2017
Group statement of comprehensive income for the 52 weeks ended 30 April 2017	Company statement of changes in equity for the 52 weeks ended 30 April 2017
Group balance sheet as at 30 April 2017	Related notes 34 to 44 to the financial statements
Group cash flow statement for the 52 weeks ended 30 April 2017	
Group statement of changes in equity for the 52 weeks ended 30 April 2017	
Related notes 1 to 33 to the financial statements	

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

Overview of our audit approach

Materiality	– Overall group materiality was £13.7m (2016: £12.4m), which represents approximately 5% of pre-tax profit before exceptional and non-underlying items.
Audit scope	– We performed an audit of the complete financial information of all of the trading components and the corporate centre which together represent 100% of the group's results for the year. – We have obtained an understanding of the entity-level controls of the group which assisted us in identifying and assessing risks of material misstatement due to fraud or error, as well as assisting us in determining the most appropriate audit strategy.
Risks of material misstatement	– Capital expenditure accounting. – Asset impairment considerations in relation to the trading estate. – Stamp duty land tax. – Revenue recognition, including fraud risks and risk of management override. – Complex customer and supplier arrangements including rebates. – Goodwill impairment.
What has changed	– Our audit approach and assessment of areas of focus changed in response to changes in circumstances affecting the Greene King plc business and impacting the group financial statements. Since the 2016 audit we have made the following changes to our areas of focus: – Errors identified in prior periods of incorrect capitalisation of assets and assets being misclassified and assigned incorrect useful economic lives, together with the ongoing Greene King and Spirit estate integration and the more challenging trading environment, have resulted in this risk being raised to a significant risk this year. – We have separated the trading estate impairment risk and goodwill impairment risk into separate risks to better reflect their respective risk profile and testing strategies. – We have also separated the significant risk related to complex customer and supplier arrangements from revenue recognition fraud risk in order to better reflect their respective risk profiles and testing strategies. – There is a new significant risk this year as a result of HMRC raising a protective assessment for a potential stamp duty land tax liability on a property group restructuring and where the outcome is highly judgmental and uncertain. – We no longer consider the risk relating to uncertain tax positions (UTPs) as a risk of material misstatement as the material UTPs have now been settled with HMRC. – We no longer consider the risk relating to the deferred tax provision for rolled over gains and property revaluations to be a significant risk. This is due to the decreased level of deferred tax liability and improvements in management's process following the implementation of a new software system to assist in the calculations. – Our performance materiality had been set to a lower threshold of 50% in 2016, due to the increased risk of material misstatement arising from the significant changes in the group following the acquisition of Spirit in that period. The integration is largely complete and therefore the risk was substantially reduced and performance materiality was set back at the normal level of 75%.

Our assessment of risk of material misstatement

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

Details of why we identified these risks of material misstatements and our audit response are set out in the table below. This is not a complete list of all the procedures we performed in respect of these areas. The arrows in the table indicate whether we consider the financial statement risk associated with this focus area to have increased, decreased or stayed the same compared to 2016.

Risk	Our response to the risk	Key observations communicated to the audit committee
Capital expenditure accounting Refer to the audit committee report (page 51); accounting policies (page 85); and note 14 of the group financial statements (page 105)		**Risk direction** New
From our testing of additions for property, plant and equipment (PP&E) in prior year audits we had identified a small but increasing trend of (i) items being capitalised that were non-capital in nature and (ii) assignment of inappropriate UELs or residual values (RVs). This was considered together with the ongoing Greene King and Spirit estate integration, and the more challenging trading environment this year. Management performed their own analysis and testing of items capitalised in the year and made an adjustment for the errors identified. We have identified capital expenditure accounting as a significant risk.	We verified the appropriateness of the group's capital expenditure accounting principally through (but not limited to) the following key procedures: – We disaggregated the PP&E additions population by purchase order type and by value in order to identify homogeneous subsets exhibiting the same risk characteristics. From these sub-populations we selected both key-item and representative samples. We checked the supporting rationale for capitalisation against the recognition requirements of IAS 16. – The identified sample error rates were extrapolated over the homogenous sub-populations to estimate the overall error. – We compared our test results to those of management and assessed the reasons for the differences. Our respective test results were materially consistent. – We benchmarked the capitalisation policy with industry peers in order to confirm they were comparable. – For our sample we reviewed the useful economic lives (UELs) and RVs against an expectation based on historic actual UELs. – We benchmarked the net impairment charges and depreciation expenses as a percentage of PP&E to peers in order to compare trends.	As a result of the procedures performed and after considering management's corrections, we have concluded that PP&E additions have been recognised in accordance with IAS 16.
Asset impairment considerations in relation to the trading estate Refer to the audit committee report (page 51); accounting policies (page 85); and note 14 of the group financial statements (page 105)		**Risk direction** ↔
The group has PP&E with a net book value of £3,622m relating to its trading estate as at 30 April 2017. For the trading estate, impairments are considered on a site-by-site basis when an impairment indicator has been identified. In assessing impairment, management estimates the recoverable value of each site by reference to the higher of its value in use (based on the group's key assumptions in relation to forecast profits, growth rate and applied discount rate) and fair value less costs of disposal (FVLCD). As a result of the Spirit acquisition and the bond issue, external valuations were obtained in 2016 to determine the FVLCD.	We obtained an understanding of the group's process employed to identify indicators of impairment and to estimate appropriate impairments of PP&E at a cash-generating unit (CGU) level (site level). We then tested key elements of those processes. In particular: – We compared the profit growth rates in the cash flow forecasts to the budget, to external market growth estimates and to the rates applied by industry peers. We also compared them to recent actual profit growth rates over the last five-year period and corroborated explanations for any anomalies. – 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 reperformed the group's sensitivity calculations applied to the cash flows and considered the group's judgment of how a reasonably possible change in assumptions would lead to an impairment based upon our knowledge of the group's activities and industry knowledge. – We checked the arithmetical accuracy and integrity of the impairment models using formula consistency tools and reperformance.	We considered the reasonableness and appropriateness of the group's estimates, noting that all significant assumptions fell within a range of acceptable outcomes. As a result of the procedures performed, we concluded that the group's impairment indicator analysis and impairment assessment for the group's CGUs had been carried out appropriately and in accordance with the accounting standards.

Independent auditor's report continued

To the members of Greene King plc

Our assessment of risk of material misstatement continued

Risk	Our response to the risk	Key observations communicated to the audit committee
Asset impairment considerations in relation to the trading estate continued		
An update of certain property valuations in 2017 was performed where necessary to support FVLCDs used. These processes have a high degree of judgment and therefore carry a higher level of inherent risk of material error.	— We checked in the impairment model that the site's recoverable amount (RA) was the higher of value in use (VIU) and FVLCD. — Where the FVLCD was required to support the recoverable value of a site, we evaluated the robustness and appropriateness of the valuation methodologies and the reasonableness of key assumptions and judgments made by the company's experts. In addition for a sample of sites where the RA continued to be supported by the FVLCD and a decrease in VIU had been seen, we requested management obtain updated external valuations. — We evaluated the competence and independence of the experts used by the company by reference to their qualifications and experience. — Where impairment indicators existed but no impairment charge had been recognised due to management's judgment being applied and manually overriding the model, we sought and corroborated explanations from management on the individual pubs to validate that no impairment charge was required. — We evaluated the appropriateness, sufficiency, and clarity of any impairment-related disclosures provided in the group financial statements, including the disclosure of key sensitivities.	We concluded that the related disclosures in the group financial statements are appropriate.
Stamp duty land tax Refer to the audit committee report (page 51); accounting policies (page 85); and note 25 of the group financial statements (page 117)		**Risk direction** New
We have identified a significant risk of a stamp duty land tax (SDLT) provision being materially misstated given the level of judgment involved in its estimation. This estimate is significant following HMRC raising a protective assessment on Greene King on the intra-group transfer of a property portfolio completed as part of a property reorganisation transaction in 2012.	We used our tax audit, stamp duty and tax controversy specialists to evaluate the group's assessment of the provision required. Our work included: — inspecting correspondence with HMRC and the advice received from the group's own tax advisers, and performing our own assessment of the most likely outcome on the basis of our experience of similar scenarios.	As a result of the procedures performed, and in light of the information known to date, we have concluded that management's estimate of the possible SDLT exposure is appropriate and in accordance with the requirements of IAS 37.
Revenue recognition, including fraud risks and risk of management override Refer to the audit committee report (page 51); accounting policies (page 85); and note 3 of the group financial statements (page 93)		**Risk direction** ↔
In accordance with International Standards on Auditing (UK and Ireland) there is a presumed fraud risk relating to revenue recognition. We consider that there is a higher level of risk associated with whether beer and liquor sales in the Brewing & Brands and Pub Partners divisions are recognised appropriately and in the correct accounting period. For food, liquor and accommodation sales in the Pub Company division, we consider these are low risk given that the transactions are routine, low value, and high volume with no estimation uncertainty. Accordingly, the fraud risk for such revenues is limited to manual journal entries and other adjustments made at the end of a reporting period.	We obtained an understanding of the processes for the recognition of revenue in each of the revenue streams, and separately for the recognition of retrospective discounts (please see below for details of their testing). For food, liquor and accommodation sales in the Pub Company division we have focused our testing on manual journals posted to this revenue stream. For beer and liquor sales in the Brewing & Brands and Pub Partners divisions: — we performed detailed transaction testing by agreeing a sample of individual revenue items to sales invoices, evidence of delivery and subsequent cash receipt; — we performed sales cut-off testing immediately before and after the year end by testing sales invoices to evidence of delivery to ensure that revenue had been recognised in the correct accounting period; additionally we have performed similar detailed testing on credit notes to confirm that the credit note has been recognised in the appropriate accounting period; and — we conducted specific analytical procedures on revenue and credit notes recognised either side of the year end to test management's conclusion that the related revenue had been recognised in the correct accounting period. Please also see the procedures performed over the customer rebate payables detailed opposite.	As a result of the procedures performed, we have been able to conclude that revenue has been recognised in accordance with the revenue recognition policy and accounting standards.

Our assessment of risk of material misstatement continued

Risk	Our response to the risk	Key observations communicated to the audit committee
Complex customer and supplier arrangements including rebates Refer to the audit committee report (page 51); accounting policies (page 85); and note 3 of the group financial statements (page 93)		**Risk direction** ↓
We have identified a significant risk of material misstatement on customer and supplier arrangements which include complex retrospective rebate estimates which could include incorrect judgments or assumptions. This risk is associated with the accuracy and completeness of retrospective discounts and rebates due to the area being more susceptible to management override.	— We obtained an understanding of the different rebate programmes, obtaining the standard terms of the most material programmes and arrangements and agreed them to managements' calculation. — We checked that the revenue data used in management's calculation was consistent with that which had been audited. — We completed analytical review procedures over the rebate programme investigating unusual movements period on period. — We have tested and concluded that the correct revenue cut-off had been applied through our testing over revenue. — For the key rebates receivable recognised as due at the period end we have vouched material items to payments or credits received after the period end if payments had been received. For those key rebates where payments had not yet been received since period end we obtained contracts and vouched key rebate terms back to the period-end position in order to determine that the correct accounting treatment had been applied.	As a result of the procedures performed, we have been able to conclude that revenue, taking account of any due discounts payable, has been recognised in accordance with IAS 18. We also conclude that, from the procedures performed, the discounts receivable had been correctly recognised. We noted that in all cases management's assumptions and estimates were reasonable.
Goodwill impairment Refer to the audit committee report (page 51); accounting policies (page 85); and note 13 of the group financial statements (page 103)		**Risk direction** ↓
As at 30 April 2017, the goodwill on the group balance sheet amounted to £1,108.8m (2016: £1,122m). Goodwill recorded by the group represents the purchase price in excess of the fair value of the net assets of businesses acquired. For Greene King, impairment is assessed at an operating segment level (i.e. Pub Company, Pub Partners and Brewing & Brands), being the lowest level at which goodwill is monitored. In line with IAS 36, management reviews the goodwill allocated to its goodwill CGUs (carrying its operating segments) annually or more frequently if impairment indicators are present. These processes have a high degree of judgment and therefore carry a higher level of inherent risk of material error.	We obtained an understanding of the group's process employed to identify indicators of impairment and to estimate RA of the goodwill CGUs (at an operating segment level). We then tested key elements of those processes. In particular: — we challenged management's assumptions by comparing the profit growth rates in the cash flow forecasts to the budget, external market growth estimates rates applied by industry peers and recent actual profit growth rates over the last five-year period, and corroborated explanations for any anomalies; — we tested the reasonableness of the discount rate applied to cash flows through benchmarking to comparator companies and market expectations; — we reperformed the group's sensitivities applied to the cash flows and considered the group's judgment of how a reasonably possible change in assumptions would lead to an impairment based upon our knowledge of the group's activities and factors in the sector; — we reviewed management's determination of operating segments (as this is considered to be the lowest level at which management monitors and assesses goodwill). We noted that the Spirit divisions acquired in the prior year have been subsumed within the legacy divisional structure to match how management now operates the business; — we checked the arithmetical accuracy and integrity of the impairment models; and — we evaluated the appropriateness, sufficiency, and clarity of any impairment-related disclosures provided in the group financial statements, including the disclosure of key sensitivities.	As a result of the procedures performed, we have been able to conclude and concur with management that no impairment should be recognised in accordance with IAS 36 given the significant headroom across all three operating divisions. We noted that in all cases management's assumptions and estimates were reasonable.

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

Independent auditor's report continued

To the members of Greene King plc

The scope of our audit

Tailoring the scope

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

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

We performed an audit of the complete financial information of all of the trading components and the corporate centre which together represent 100% of the group's results for the year. We have obtained an understanding of the entity-level controls of the group which assisted us in identifying and assessing risks of material misstatement due to fraud or error, as well as assisting us in determining the most appropriate audit strategy.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

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

MATERIALITY	PERFORMANCE MATERIALITY	REPORTING THRESHOLD
£13.7m	£10.3m	£700k

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 £13.7m (2016: £12.4m), which is set at approximately 5% (2016: 5%) of pre-tax profit before exceptional and non-underlying items. Our materiality amount provides a basis for determining the nature and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature and extent of further audit procedures. Materiality is assessed on both quantitative and qualitative grounds.

How we determined materiality

STARTING BASIS	ADJUSTMENT	MATERIALITY
Profit before tax of £184.9m	Excluding exceptional items of £88.6m to determine the profit before tax and exceptional and non-underlying items of £273.5m	£13.7m, being approximately 5% of the profit before tax and exceptional and non-underlying items

Rationale for basis

We used pre-tax profit before exceptional and non-underlying items of £273.5m because it is a key performance indicator used in communications with investors, it is more reflective of underlying trading profitability and it is a key metric used by the group in the assessment of the performance of management. We also note that market and analyst commentary on the group uses pre-tax profit before exceptional and non-underlying items as a key metric. Therefore, in our view, 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 as we considered this to be the most relevant performance measure to the stakeholders of the entity.

Materiality continued

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the group's overall control environment, the absence of changes in the business environment such as the acquisition of Spirit in 2016 and the number and monetary amounts of individual uncorrected misstatements identified in prior periods as well as the nature of the misstatements, our judgment was that the overall performance materiality for the group should be 75% (2016: 50%) of our planning materiality, namely £10.3m (2016: £6.2m). We have set our performance materiality to a higher threshold in 2017, reflecting the absence of significant changes in the group such as the acquisition of Spirit in 2016 which had, in that period, increased the risks of misstatement. 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 £13.7m for the group financial statements as a whole.

Audit work on individual components for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the size of the component relative to the group as a whole and our assessment of risk of misstatement at that component. In the current year the range of performance materiality allocated to components was £2.7m to £8.1m (2016: £2.5m to £5.6m).

Reporting threshold

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

We agreed with the audit committee that we would report to them all uncorrected audit differences in excess of £0.7m (2016: £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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement set out on page 71, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- 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
  - the strategic report and the directors' report have been prepared in accordance with the applicable legal requirements;
- based on the work undertaken in the course of the audit the information given in the corporate governance statement set out on pages 46 to 71 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures and in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency rules sourcebook made by the Financial Conduct Authority:
  - is consistent with the financial statements; and
  - has been prepared in accordance with the applicable legal requirement; and
- based on the work undertaken during the course of the audit rules 7.2.2, 7.2.3 and 7.2.7 in respect in the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority (with respect to the Company's corporate governance code and practices about its administrative, management and supervisory bodies and their committees) have been complied with if applicable.

Independent auditor's report continued

To the members of Greene King plc

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial information in the annual report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or – otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement (included on page 71) that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.	We have no exceptions to report.
Companies Act 2006 reporting	In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have identified no material misstatements in the strategic report, directors' report or corporate governance statement. We are required to report to you if, in our opinion: – adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or – the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or – certain disclosures of directors' remuneration specified by law are not made; or – we have not received all the information and explanations we require for our audit; or – a corporate governance statement has not been prepared by the company.	We have no exceptions to report.
Listing Rules review requirements	We are required to review: – the directors' statement in relation to going concern, set out on page 70, and longer-term viability, set out on page 37; and – the part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

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

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: – the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; – the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; – the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; and – the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Lloyd Brown (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, statutory auditor
London
28 June 2017

Notes:

1. The maintenance and integrity of the Greene King plc website is the responsibility of the directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group income statement

For the fifty-two weeks ended 30 April 2017

	Note	2017 Before exceptional and non-underlying items £m	2017 Exceptional and non-underlying items (note 5) £m	2017 Total £m	2016 Before exceptional and non-underlying items £m	2016 Exceptional and non-underlying items (note 5) £m	2016 Total £m
Revenue	2,3	**2,216.5**	**—**	**2,216.5**	2,073.0	—	2,073.0
Operating costs	4	**(1,805.0)**	**(65.0)**	**(1,870.0)**	(1,680.8)	(25.9)	(1,706.7)
Operating profit	2,4	**411.5**	**(65.0)**	**346.5**	392.2	(25.9)	366.3
Finance income	7	**1.0**	**—**	**1.0**	1.5	—	1.5
Finance costs	7	**(139.0)**	**(23.6)**	**(162.6)**	(137.2)	(40.8)	(178.0)
Profit before tax		**273.5**	**(88.6)**	**184.9**	256.5	(66.7)	189.8
Tax	10	**(54.3)**	**21.1**	**(33.2)**	(49.4)	50.5	1.1
Profit attributable to equity holders of parent		**219.2**	**(67.5)**	**151.7**	207.1	(16.2)	190.9

	Note	2017 Before exceptional items	2017 Total	2016 Before exceptional items	2016 Total
Earnings per share					
– Basic	12		**49.0p**		64.4p
– Adjusted basic	12	**70.8p**		69.9p	
– Diluted	12		**48.9p**		64.1p
– Adjusted diluted	12	**70.7p**		69.5p	
Dividends per share (paid and proposed in respect of the period)	11		**33.20p**		32.05p

Group statement of comprehensive income

For the fifty-two weeks ended 30 April 2017

	Note	2017 £m	2016 £m
Profit for the period		**151.7**	190.9
Other comprehensive (loss)/income to be reclassified to the income statement in subsequent periods:			
Cash flow hedges:			
– Losses on cash flow hedges taken to other comprehensive income	24	**(38.5)**	(40.1)
– Transfers to income statement on cash flow hedges	24	**26.7**	27.6
Income tax on cash flow hedges	10	**2.0**	—
Deferred tax on cash flow hedges	10	**(0.4)**	(2.5)
		(10.2)	(15.0)
Items not to be reclassified to the income statement in subsequent periods:			
Remeasurement gains/(losses) on defined benefit pension schemes	9	**37.3**	(4.5)
Deferred tax on remeasurement gains	10	**(7.4)**	(1.5)
		29.9	(6.0)
Other comprehensive gain/(loss) for the period, net of tax		**19.7**	(21.0)
Total comprehensive income for the period, net of tax		**171.4**	169.9

Group balance sheet

As at 30 April 2017

	Note	**As at 30 April 2017 £m**	As at 1 May 2016 £m
Non-current assets			
Property, plant and equipment	14	**3,621.9**	3,671.3
Intangibles	13	**163.7**	174.6
Goodwill	13	**1,108.8**	1,121.9
Financial assets	15	**16.3**	16.8
Deferred tax assets	10	**63.1**	78.7
Prepayments		**0.2**	0.3
Trade and other receivables	19	**0.1**	0.1
		4,974.1	5,063.7
Current assets			
Inventories	18	**45.0**	41.3
Financial assets	15	**10.1**	9.8
Trade and other receivables	19	**93.3**	82.7
Prepayments		**27.6**	27.7
Cash and cash equivalents	20	**443.0**	381.7
		619.0	543.2
Property, plant and equipment held for sale	21	**5.1**	2.3
		624.1	545.5
Current liabilities			
Borrowings	23	**(219.7)**	(210.3)
Derivative financial instruments	24	**(30.9)**	(41.2)
Trade and other payables	22	**(429.3)**	(424.0)
Off-market contract liabilities	25	**(21.3)**	(22.4)
Income tax payable	10	**(12.6)**	(30.3)
Provisions	25	**(26.9)**	(24.7)
		(740.7)	(752.9)
Non-current liabilities			
Borrowings	23	**(2,297.8)**	(2,219.8)
Trade and other payables	22	**(1.9)**	(1.5)
Off-market contract liabilities	25	**(264.1)**	(277.5)
Derivative financial instruments	24	**(313.9)**	(399.7)
Deferred tax liabilities	10	**(9.8)**	(17.9)
Post-employment liabilities	9	**(11.2)**	(53.6)
Provisions	25	**(14.6)**	(12.7)
		(2,913.3)	(2,982.7)
Total net assets		**1,944.2**	1,873.6
Issued capital and reserves			
Share capital	26	**38.7**	38.6
Share premium	27	**261.7**	261.0
Merger reserve	27	**752.0**	752.0
Capital redemption reserve	27	**3.3**	3.3
Hedging reserve	27	**(192.2)**	(182.0)
Own shares	27	**(0.2)**	(0.2)
Retained earnings		**1,080.9**	1,000.9
Total equity		**1,944.2**	1,873.6
Net debt	29	**2,074.5**	2,048.4

Signed on behalf of the board on 28 June 2017

P E Yea
Director

R Anand
Director

Group cash flow statement

For the fifty-two weeks ended 30 April 2017

	Note	**2017 £m**	2016 £m
Operating activities			
Operating profit		**346.5**	366.3
Operating exceptional and non-underlying items	5	**65.0**	25.9
Depreciation	14	**102.6**	94.9
Amortisation	13	**10.0**	9.8
EBITDA[1]	2	**524.1**	496.9
Working capital and other movements	28	**(29.2)**	(75.1)
Interest received		**1.0**	1.5
Interest paid		**(148.1)**	(132.8)
Tax paid		**(48.6)**	(45.7)
Net cash flow from operating activities		**299.2**	244.8
Investing activities			
Purchase of property, plant and equipment		**(194.9)**	(194.1)
Advances of trade loans	15	**(6.1)**	(4.1)
Repayment of trade loans	15	**6.3**	4.8
Sales of property, plant and equipment		**88.6**	82.6
Acquisition of subsidiary, net of cash acquired	17	**—**	104.3
Net cash flow from investing activities		**(106.1)**	(6.5)
Financing activities			
Equity dividends paid	11	**(100.1)**	(93.3)
Issue of shares		**0.8**	1.7
Purchase of shares		**(1.6)**	—
Transaction costs for share issue		**—**	(2.1)
Payment of derivative liabilities		**(117.4)**	—
Securitised bond issuance		**300.0**	—
Financing costs		**(7.1)**	—
Repayment of borrowings	29	**(200.6)**	(44.0)
Advance of borrowings	29	**—**	65.0
Net cash flow from financing activities		**(126.0)**	(72.7)
Net increase in cash and cash equivalents		**67.1**	165.6
Opening cash and cash equivalents	20	**375.9**	210.3
Closing cash and cash equivalents	20	**443.0**	375.9

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

Group statement of changes in equity

For the fifty-two weeks ended 30 April 2017

	Note	Share capital (note 26) £m	Share premium (note 27) £m	Merger reserve (note 27) £m	Capital redemption reserve (note 27) £m	Hedging reserve (note 27) £m	Own shares (note 27) £m	Retained earnings £m	Total equity £m
At 3 May 2015		**27.5**	**259.3**	**—**	**3.3**	**(167.0)**	**(4.9)**	**910.7**	**1,028.9**
Profit for the period		—	—	—	—	—	—	190.9	190.9
Other comprehensive income:									
Actuarial losses on defined benefit pension schemes (net of tax)		—	—	—	—	—	—	(6.0)	(6.0)
Net loss on cash flow hedges (net of tax)		—	—	—	—	(15.0)	—	—	(15.0)
Total comprehensive income		**—**	**—**	**—**	**—**	**(15.0)**	**—**	**184.9**	**169.9**
Issue of ordinary share capital	26	11.1	1.7	752.0	—	—	—	—	764.8
Transaction costs for share issue	17	—	—	—	—	—	—	(2.1)	(2.1)
Release of shares	27	—	—	—	—	—	4.7	(4.7)	—
Share-based payments	8	—	—	—	—	—	—	6.2	6.2
Tax on share-based payments	10	—	—	—	—	—	—	(0.8)	(0.8)
Equity dividends paid	11	—	—	—	—	—	—	(93.3)	(93.3)
At 1 May 2016		**38.6**	**261.0**	**752.0**	**3.3**	**(182.0)**	**(0.2)**	**1,000.9**	**1,873.6**
Profit for the period		—	—	—	—	—	—	151.7	151.7
Other comprehensive income:									
Actuarial profits on defined benefit pension schemes (net of tax)		—	—	—	—	—	—	29.9	29.9
Net loss on cash flow hedges (net of tax)		—	—	—	—	(10.2)	—	—	(10.2)
Total comprehensive income		**—**	**—**	**—**	**—**	**(10.2)**	**—**	**181.6**	**171.4**
Issue of ordinary share capital	26	0.1	0.7	—	—	—	—	—	0.8
Release of shares	27	—	—	—	—	—	1.6	(1.6)	—
Purchase of shares		—	—	—	—	—	(1.6)	—	(1.6)
Share-based payments	8	—	—	—	—	—	—	(0.4)	(0.4)
Tax on share-based payments	10	—	—	—	—	—	—	0.5	0.5
Equity dividends paid	11	—	—	—	—	—	—	(100.1)	(100.1)
At 30 April 2017		**38.7**	**261.7**	**752.0**	**3.3**	**(192.2)**	**(0.2)**	**1,080.9**	**1,944.2**

Notes to the accounts
For the fifty-two weeks ended 30 April 2017

1 Accounting policies
Corporate information
The consolidated financial statements of Greene King plc for the 52 weeks ended 30 April 2017 were authorised for issue by the board of directors on 28 June 2017. 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 30 April 2017 (prior year 52 weeks ended 1 May 2016).

Basis of preparation
The consolidated financial statements have been prepared in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. They are presented in pounds sterling, with values rounded to the nearest hundred thousand, except where otherwise indicated.

A small number of minor changes have been made to reclassify exceptional and non-underlying items in the prior year.

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 viability statement included in the strategic report on page 37.

Changes in accounting policies
The accounting policies adopted are consistent with those of the previous financial year. New standards and interpretations which came into force during the year did not have a significant impact on the group's financial statements.

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

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

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

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

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

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

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

Intangible assets
Operating lease intangibles

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

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

Brand intangibles

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

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

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

Any contingent consideration to be transferred to the vendor is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which are deemed to be an asset or a liability are recognised in the income statement.

If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Notes to the accounts continued

For the fifty-two weeks ended 30 April 2017

1 Accounting policies continued

Significant accounting policies continued

Business combinations and goodwill continued

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

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

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

Impairment

Property, plant and equipment

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

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

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

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

Details of the impairment losses recognised in respect of property, plant and equipment are provided in note 14.

Goodwill

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units (or groups of cash-generating units) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated represents the lowest level within the group at which goodwill is monitored for internal management purposes and cannot be larger than an operating segment before aggregation.

Impairment is determined by the recoverable amount of an operating segment. Where this is less than the carrying value of the operating segment an impairment loss is recognised immediately in the income statement. This loss cannot be reversed in future periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, any goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill amortised prior to the conversion to IFRS on 3 May 2004 has not been reinstated and the net book value of goodwill at that date has been carried forward as the carrying value. Prior to May 1998, goodwill was written off to reserves. Such goodwill has not been reinstated and is not included in determining profit or loss on disposal.

Financial instruments

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

Financial assets

Financial assets are classified as either financial assets at fair value through the income statement, loans and receivables, held-to-maturity investments or available-for-sale financial assets. The group determines the classification of its financial assets at initial recognition and, where appropriate, re-evaluates this designation at each financial year end.

The group makes trade loans to publicans who purchase the group's beer. Trade loans are non-derivative and are not quoted in an active market and have therefore been designated as 'Loans and receivables', carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

The group assesses at each balance sheet date whether any individual trade loan is impaired. If there is evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the loan's carrying amount and the expected future receipts, (excluding future credit losses that have not been incurred), discounted at the loan's original effective interest rate. The loss is recognised in operating profit.

Trade and other receivables

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

1 Accounting policies continued

Significant accounting policies continued

Inventories

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

Cash and cash equivalents

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

Property, plant and equipment held for sale

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

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received, net of issue costs. After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method.

Finance costs and income

Finance costs are expensed to the income statement using the effective interest method. Finance income is recognised in the income statement using the effective interest method.

Derivative financial instruments and hedge accounting

The group uses interest rate swaps to hedge its exposure to interest rate fluctuations on its variable rate loans, notes and bonds.

Interest rate swaps are initially measured at fair value, if any, and carried on the balance sheet as an asset or liability. Subsequent measurement is at fair value and the movement is recognised in the income statement unless hedge accounting is adopted. For interest rate swaps where hedge accounting is not applied the fair value movement is analysed between pre-exceptional finance costs and exceptional finance costs.

Pre-exceptional finance costs includes cash payments or receipts on the interest rate swaps so as to show the underlying fixed rate on the debt with the remaining fair value movement (which is generally the movement in the carrying value of the swap in the period) reflected as an exceptional item.

For derivatives acquired at a non-zero fair value (e.g. on acquisition) the amortisation of the initial fair value is recognised in pre-exceptional finance costs to offset the cash payments or receipts.

Hedge accounting

To qualify for hedge accounting the hedge relationship must be designated and documented at inception. Documentation must include the group's risk management objective and strategy for undertaking the hedge and formal allocation to the item or transaction being hedged. The group also documents how it will assess the effectiveness of the hedge and carries out assessments on a regular basis to determine whether it has been, and is likely to continue to be, highly effective.

Hedges can be classified as either fair value (hedging exposure to changes in fair value of an asset or liability), or cash flow (hedging the variability in cash flows attributable to an asset, liability or forecast transaction). The group uses certain of its interest rate swaps as cash flow hedges.

Cash flow hedge accounting

The effective portion of the gain or loss on an interest rate swap is recognised in Other comprehensive income (OCI), whilst any ineffective portion is recognised immediately in the income statement.

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

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

Trade payables

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

Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation.

Provisions are discounted to present value where the effect of the time value of money is material using a pre-tax discount rate that reflects current market estimates of the time value of money and the risks specific to the liability. The amortisation of the discount is recognised as a finance cost.

Off-market contract liabilities

Off-market contract liabilities are recognised where contracts are at unfavourable terms relative to current market terms on acquisition. For leases where the current rentals are below market terms, the related asset is considered to be 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 liability unwinds against the rental expense so that the income statement charge reflects current market terms.

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

Notes to the accounts continued

For the fifty-two weeks ended 30 April 2017

1 Accounting policies continued

Significant accounting policies continued

Pensions and other post-employment benefits

Defined benefit pension schemes

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

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

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

The defined benefit asset or liability recognised on the balance sheet comprises the present value of the schemes' obligations less the fair value of scheme assets. 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 a reduction in future contributions to the schemes.

Defined contribution pension schemes

The cost of the group's defined contribution pension schemes amounts to the value of contributions made. Contributions are charged to the income statement as they become payable.

Share-based payments

Certain employees and directors receive equity-settled remuneration, whereby they render services in exchange for shares or rights over shares. The fair value of the shares and options granted is measured using a Black-Scholes model, at the date at which they were granted. No account is taken in the fair value calculation of any vesting conditions (service and performance), other than market conditions (performance linked to the price of the shares of the company). Any other conditions that are required to be met in order for an employee to become fully entitled to an award are considered non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value. The fair value of shares and options granted is recognised as an employee expense with a corresponding increase in equity spread over the period in which the vesting conditions are fulfilled ending on the relevant vesting date. The cumulative amount recognised as an expense reflects the extent to which the vesting period has expired, adjusted for the estimated number of shares and options that are ultimately expected to vest. The periodic charge or credit is the movement in the cumulative position from beginning to end of that period.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Own shares

Own shares consist of treasury shares and shares held within an employee benefit trust. The group has an employee benefit trust for the granting of shares to applicable employees.

Own shares are recognised at cost as a deduction from shareholders' equity. Subsequent consideration received for the sale of such shares is also recognised in equity, with any difference between the sale proceeds from the original cost being taken to retained earnings. No gain or loss is recognised in the performance statements on transactions in treasury shares.

Revenue

Generally, revenue represents external sales (excluding taxes) of goods and services, net of discounts. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and is measured at the fair value of consideration receivable, excluding discounts, rebates, and other sales taxes or duty relating to brewing and packaging of certain products. Revenue principally consists of drink, food and accommodation sales, which are recognised at the point at which goods or services are provided, and rental income, which is recognised on a straight-line basis over the lease term and machine income, where net takings are recognised as earned. The accrued value for rebates payable is included within other payables.

Supplier rebates

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

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership are classified as operating leases. Lease payments are recognised as an expense in the income statement on a straight-line basis over the period of the lease.

Lease premiums paid on entering into or acquiring operating leases represent prepaid lease payments and are held on the balance sheet as current (the portion relating to the next financial period) or non-current prepayments. These are amortised on a straight-line basis over the lease term.

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

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

1 Accounting policies continued

Significant accounting policies continued

Finance leases

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

Merger reserve

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

Taxes

Income tax

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

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

Deferred tax

Deferred tax is provided for using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying values in the financial statements.

Deferred tax is recognised for all temporary differences except where the deferred tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss or, in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences and carry forward of unused tax losses only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax losses can be utilised.

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

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

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

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

Uncertain tax positions

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

Exceptional and non-underlying items and adjusted profitability measures

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

– operating profit before exceptional and non-underlying items;

– profit before tax, exceptional and non-underlying items (PBTE);

– profit attributable to equity holders before exceptional and non-underlying items; and

– adjusted basic earnings per share.

We report these measures as we believe that they provide management and investors with useful additional information about the group's performance.

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

Exceptional and non-underlying items are not defined under IFRS. Exceptional items are classified as those which are separately identifiable by virtue of their size, nature or expected frequency and therefore warrant separate presentation. Non-underlying items are other items that we consider 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 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.

Notes to the accounts continued

For the fifty-two weeks ended 30 April 2017

1 Accounting policies continued

Significant accounting policies continued

Exceptional and non-underlying items and adjusted profitability measures continued

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

Exceptional items:

– profits or losses resulting from the disposal of a business or investment;

– costs incurred in association with business combinations, such 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 in respect of tangible and intangible assets as a result of restructuring, business closure, underperformance of sites or fire damage;

– finance costs or income resulting from gains or losses upon the settlement of interest rate swap 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 are included as exceptional items. These items are separately identified to allow management and investors to separately understand tax charges relating to in-year on-going activity and what relates to prior periods.

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:

Non-underlying items may include:

– profit or loss on the disposal of property, plant and equipment. 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 the 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 the group's licensed estate and indexation; and

– other adjustment in respect of prior periods' tax arises from finalising the tax returns for earlier periods and rolled over gains on the licensed estate.

New standards and interpretations not applied

As at the date of approval of the financial statements there are a number of standards and interpretations issued by the IASB and IFRIC with an effective date after the date of these financial statements and which have not been early adopted by the group. These are expected to be applied as follows:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was issued in July 2014 and is a replacement of IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 covers the classification, measurement and derecognition of financial assets and financial liabilities, together with a new hedge accounting model and the new expected credit loss model for calculating impairment.

The new standard becomes effective for annual periods beginning on or after 1 January 2018, subject to EU adoption. An initial assessment indicates that the adoption of IFRS 9 will not have a material impact on its consolidated results and financial position.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 Revenue from Contracts with Customers in May 2014. The new standard provides a single, five-step revenue recognition model, applicable to all sales contracts, which is based upon the principle that revenue is recognised when the control of goods or services is transferred to the customer. This standard replaces all existing revenue recognition guidance under current IFRS and becomes effective for annual periods beginning on or after 1 January 2018, subject to EU adoption. Initial assessments undertaken by the Group indicate that the adoption of IFRS 15 will not have material impact on its consolidated results and financial position, but is likely to result in additional disclosure requirements.

IFRS 16 Leases

The IASB issued IFRS 16 Leases in January 2016. The new standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The new standard will be effective for annual periods beginning on or after 1 January 2019, subject to EU adoption, and replaces the existing leasing standard, IAS 17 Leases. For lessors, there is little change to the existing accounting in IAS 17 Leases.

The group has determined that the application of IFRS 16 will have a material impact on its consolidated financial results and financial position. This includes recognition of interest and amortisation expense in place of fixed rental expense in the income statement and the recognition of right of use assets and lease liabilities for its operating lease portfolio on the balance sheet. There is no net cash flow impact on application of IFRS 16. The group will conduct a detailed assessment to determine the full impact of IFRS 16 on its consolidated results and financial position.

1 Accounting policies continued

New standards and interpretations not applied continued

IAS 7 Disclosure Initiative – Amendment to IAS 7

The IASB issued the amendment in January 2016. The improvements to disclosure relate to the statement of cash flows and require companies to provide information about changes in their financial liabilities. This amendment is a response to requests from investors for information that helps them better understand changes in a company net debt. The amendment will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash flows (such as foreign exchange gains and losses) and becomes effective for annual periods beginning on or after 1 January 2017, subject to EU adoption. The group has determined that the impact of IAS 7 will be limited to disclosure and will have no impact on its consolidated results and financial position.

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. Given the timing of the release the group will assess the impact of this standard in the coming period.

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

- IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses;
- IFRS 2 Amendments to IFRS 2; and
- the IASB's annual improvement process, 2014–2016.

Significant accounting judgments and estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions in the application of accounting policies that affect reported amounts of assets and liabilities, income and expense. The group bases its estimates and judgments on historical experience and other factors deemed reasonable under the circumstances, including any expectations of future events. Actual results may differ from these estimates. The estimates and judgments considered to be significant are detailed below:

Taxation

Judgment is required when determining the provision for taxes as the tax treatment of some transactions cannot be finally determined until a formal resolution has been reached with the tax authorities. Assumptions are also made around the assets which qualify for capital allowances and the level of disallowable expenses and this affects the income tax calculation. Provisions are also made for uncertain exposures which can have an impact on both deferred and current tax. Tax benefits are not recognised unless it is probable that the benefit will be obtained and tax provisions are made if it is possible that a liability will arise. The final resolution of these transactions may give rise to material adjustments to the income statement and/or cash flow in future periods. The group reviews each significant tax liability or benefit each period to assess the appropriate accounting treatment. Refer to notes 5, 10 and 25 for further details.

Share-based payments

Judgment is required when calculating the fair value of awards made under the group's share-based payment plans. Note 8 describes the key assumptions and valuation model inputs used in the determination of these values. In addition estimates are made of the number of awards that will ultimately vest and judgment is required in relation to the probability of meeting non-market-based performance conditions and the continuing participation of employees in the plans.

Pension liabilities

The present values of pension liabilities are determined on an actuarial basis and depend on a number of actuarial assumptions which are disclosed in note 9. Any change in these assumptions will impact on the carrying amount of pension liabilities. Note 9 describes the key assumptions used in the accounting for retirement benefit obligations.

Impairment of goodwill

The group determines whether goodwill is impaired on at least an annual basis. Details of the tests and carrying value of the assets are shown in note 13. This requires an estimation of the value-in-use of the cash-generating units to which the goodwill is allocated. Value-in-use calculations require assumptions to be made regarding the expected future cash flows from the cash-generating unit and choice of a suitable discount rate in order to calculate the present value of those cash flows. If the actual cash flows are lower than estimated, future impairments may be necessary.

Impairment of property, plant and equipment

The group determines whether property, plant and equipment is impaired where there are indicators of impairment. This requires an estimation of the value-in-use and fair value less costs of disposal at an individual pub level. Value-in-use calculations require assumptions to be made regarding the expected future cash flows from the cash-generating unit and choice of a suitable discount rate in order to calculate the present value of those cash flows.

Note 14 describes the assumptions used in the impairment testing of property, plant and equipment together with an analysis of the sensitivity to changes in key assumptions.

Residual values

Residual values of property are determined with reference to current market property trends. If residual values were lower than estimated, an impairment of asset value and reassessment of future depreciation charge may be required. Useful lives are reassessed annually which may lead to an increase or reduction in depreciation accordingly.

Property provisions

The group provides for its onerous obligations under operating leases where the property is closed or vacant and for properties where rental expense is in excess of income. The estimated timings and amounts of cash flows are determined using the experience of internal and external property experts. However, changes to the expected method of exiting from the obligation could lead to changes in the level of provision recorded. See note 25 for details.

Notes to the accounts continued

For the fifty-two weeks ended 30 April 2017

2 Segment information

At the start of the financial period Greene King reverted to three reportable segments, 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.

2017	Pub Company £m	Pub Partners £m	Brewing & Brands £m	Corporate £m	Total operations £m
External revenue	**1,817.4**	**198.8**	**200.3**	**—**	**2,216.5**
Segment operating profit	**308.1**	**92.8**	**31.0**	**(20.4)**	**411.5**
Exceptional items					**(65.0)**
Net finance costs					**(161.6)**
Income tax credit					**(33.2)**
					151.7
EBITDA[2]	**403.2**	**103.1**	**36.2**	**(18.4)**	**524.1**
Balance sheet					
Segment assets	**3,750.5**	**892.8**	**394.0**	**54.8**	**5,092.1**
Unallocated assets[1]					**506.1**
	3,750.5	**892.8**	**394.0**	**54.8**	**5,598.2**
Segment liabilities	**(428.3)**	**(46.8)**	**(107.8)**	**(149.6)**	**(732.5)**
Unallocated liabilities[1]					**(2,921.5)**
	(428.3)	**(46.8)**	**(107.8)**	**(149.6)**	**(3,654.0)**
Net assets	**3,322.2**	**846.0**	**286.2**	**(94.8)**	**1,944.2**
Other segment information					
Capital expenditure	**155.5**	**20.0**	**7.2**	**4.2**	**186.9**
Depreciation and amortisation	**(95.1)**	**(10.3)**	**(5.2)**	**(2.0)**	**(112.6)**

2016	Pub Company £m	Pub Partners £m	Brewing & Brands £m	Corporate £m	Total operations £m
External revenue	1,688.2	187.9	196.9	—	2,073.0
Segment operating profit	299.2	85.3	32.7	(25.0)	392.2
Exceptional items					(25.9)
Net finance costs					(176.5)
Income tax credit					1.1
					190.9
EBITDA[2]	386.0	95.3	37.8	(22.2)	496.9
Balance sheet					
Segment assets	3,790.8	917.7	384.5	55.8	5,148.8
Unallocated assets[1]					460.4
	3,790.8	917.7	384.5	55.8	5,609.2
Segment liabilities	(435.2)	(45.4)	(84.8)	(174.0)	(739.4)
Unallocated liabilities[1]					(2,996.2)
	(435.2)	(45.4)	(84.8)	(174.0)	(3,735.6)
Net assets	3,355.6	872.3	299.7	(118.2)	1,873.6
Other segment information					
Capital expenditure	157.2	21.3	6.3	7.1	191.9
Depreciation and amortisation	(86.8)	(10.0)	(5.1)	(2.8)	(104.7)

1. Unallocated assets/liabilities comprise cash, borrowings, pensions, net deferred tax, net current tax, derivatives and indirect tax provisions.
2. EBITDA represents earnings before interest, tax, depreciation, amortisation and exceptional items and is calculated as operating profit before exceptionals adjusted for the depreciation and amortisation charge for the period.

2 Segment information continued

Management reporting and controlling systems

Management monitors the operating results of its strategic business units separately for the purpose of making decisions about allocating resources and assessing performance. Segment performance is measured based on segment operating profit or loss referred to as trading profit in our management and reporting systems. Included within the corporate column in the table above are functions managed by a central division.

No information about geographical regions has been provided as the group's activities are predominantly domestic.

3 Revenue

Revenue is analysed as follows:

	2017 £m	2016 £m
Goods	**2,069.1**	1,920.6
Services	**147.4**	152.4
	2,216.5	2,073.0

Revenue from services includes rent receivable from licensed properties of £53.5m (2016: £50.5m).

4 Operating expenses

Operating profit is stated after charging/(crediting):

	2017			2016		
	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	**769.7**	**—**	**769.7**	748.7	—	748.7
Employment costs (note 6)	**590.9**	**4.9**	**595.8**	529.4	9.7	539.1
Depreciation of property, plant and equipment (note 14)	**102.6**	**—**	**102.6**	94.9	—	94.9
Amortisation (note 13)	**10.0**	**—**	**10.0**	9.8	—	9.8
Operating lease rentals:						
– Minimum lease rentals payable	**79.9**	**—**	**79.9**	71.9	—	71.9
Other operating charges	**251.9**	**63.5**	**315.4**	226.1	40.0	266.1
Net profit on disposal (note 5)	**—**	**(3.4)**	**(3.4)**	—	(23.8)	(23.8)
	1,805.0	**65.0**	**1,870.0**	1,680.8	25.9	1,706.7

Fees paid to the auditor during the period consisted of:

	2017 £m	2016 £m
Audit of the consolidated financial statements	**0.4**	0.5
Audit of subsidiaries	**0.2**	0.1
Included in other operating charges	**0.6**	0.6

Notes to the accounts continued

For the fifty-two weeks ended 30 April 2017

5 Exceptional and non-underlying items

	2017			2016		
	Exceptional items £m	Non-underlying items £m	Total £m	Exceptional items £m	Non-underlying items £m	Total £m
Included in operating profit						
Acquisition and integration costs	**(10.8)**	**—**	**(10.8)**	(17.5)	—	(17.5)
Net impairment of property, plant and equipment (note 14)	**(58.6)**	**—**	**(58.6)**	(32.2)	—	(32.2)
Employee costs	**—**	**(3.7)**	**(3.7)**	—	—	—
Share-based payment credit	**—**	**3.1**	**3.1**	—	—	—
Net profit on disposal of property, plant and equipment and goodwill	**—**	**3.4**	**3.4**	—	23.8	23.8
Pension and post-employment liabilities credit	**—**	**1.6**	**1.6**	—	—	—
	(69.4)	**4.4**	**(65.0)**	(49.7)	23.8	(25.9)
Included in financing costs						
Gain on settlement of interest rate swap liabilities	**12.2**	**—**	**12.2**	—	—	—
Amounts recycled from hedging reserve in respect of settled interest rate liabilities	**—**	**(11.8)**	**(11.8)**	—	—	—
Fair value losses on ineffective element of cash flow hedges	**—**	**(0.4)**	**(0.4)**	(1.3)	—	(1.3)
Fair value movements of derivatives held at fair value through profit and loss	**(23.6)**	**—**	**(23.6)**	(39.1)	—	(39.1)
Interest on indirect tax provision (note 25)	**—**	**—**	**—**	—	(0.4)	(0.4)
Total exceptional and non-underlying items before tax	**(80.8)**	**(7.8)**	**(88.6)**	(90.1)	23.4	(66.7)
Tax impact of exceptional items	**5.0**	**—**	**5.0**	11.3	—	11.3
Tax impact of non-underlying items	**—**	**2.8**	**2.8**	—	0.1	0.1
Tax credit in respect of the licensed estate	**3.2**	**6.3**	**9.5**	5.8	27.8	33.6
Tax credit in respect of rate change	**—**	**4.3**	**4.3**	—	4.8	4.8
Adjustment in respect of prior periods	**(2.7)**	**2.2**	**(0.5)**	0.3	0.4	0.7
Total exceptional and non-underlying tax	**5.5**	**15.6**	**21.1**	17.4	33.1	50.5
Total exceptional and non-underlying items after tax	**(75.3)**	**7.8**	**(67.5)**	(72.7)	56.5	(16.2)

Exceptional operating costs

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

During the period to 30 April 2017 the group has recognised a net impairment loss of £58.6m (2016: £32.2m). This is comprised of an impairment charge of £77.7m (2016: £79.5m) and reversal of previously recognised impairment losses of £19.1m (2016: £47.3m). £23.7m 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 £34.9m 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.

Non-underlying operating costs

The net profit on disposal of property, plant and equipment and goodwill of £3.4m (2016: £23.8m) comprises a total profit on disposal of £38.2m (2016: £50.6m) and a total loss on disposal of £34.8m (2016: £26.8m).

The group incurred £3.7m of exceptional employee costs, which included restructuring costs and costs associated with changes to key management. In addition a share-based payment credit of £3.1m was recognised which resulted from the reversal of charges recognised in earlier years following a reassessment of expected scheme performance.

The group recognised a £1.6m non-underlying credit in relation to pension settlement following the completion of a flexible retirement offer and pension increase exchange during the period.

Exceptional and non-underlying finance costs

Following the issue of £300m secured bonds, a number of the group's swap liabilities were settled at a discount recognising a £12.2m exceptional gain. The cash cost of settling this was £114.2m.

The swaps concerned were hedging cash flows relating to the Greene King A5 bond and floating rate bank loans. These cash flows are still expected to occur and therefore in accordance with IAS 39 the cumulative losses taken to the hedging reserve will be recycled to the income statement over the same period during which the hedged forecast cash flows affect profit or loss. A non-underlying charge of £11.8m has been recognised in respect of this during the period.

During the prior period the group acquired as part of a business combination derivatives that are subsequently accounted for at fair value through profit and loss as opposed to existing derivatives which are designated in hedge relationships. An exceptional charge of £23.6m (2016: £39.1m) 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 24). 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.

5 Exceptional and non-underlying items continued

Exceptional tax

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

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

The remaining historical tax position is an internal property arrangement for which discussions with HMRC are at an early stage (see note 25).

Non-underlying tax

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

The Finance (No.2) Act 2015 reduced the rate of corporation tax from 20% to 19% from 1 April 2017 and the Finance Act 2016 further reduced the rate to 17% from 1 April 2020. Both these rate reductions were substantively enacted at the balance sheet date and are therefore included in these accounts. The net deferred tax asset has been calculated using the rates at which each temporary difference is expected to reverse. The effect of these rate reductions is to reduce the deferred tax asset by a net £0.6m comprising a credit to the income statement of £4.3m, a charge to the group statement of comprehensive income of £3.6m and a charge to the group statement of changes in equity of £0.1m.

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

6 Employment costs

	2017			2016		
	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	**546.3**	**7.0**	**553.3**	484.5	9.7	494.2
Other share-based payments (note 8)	**2.3**	**(3.1)**	**(0.8)**	6.2	—	6.2
Total wages and salaries	**548.6**	**3.9**	**552.5**	490.7	9.7	500.4
Social security costs	**34.9**	**0.9**	**35.8**	32.0	—	32.0
Other pension costs (note 9):						
– Defined contribution	**7.4**	**0.1**	**7.5**	6.7	—	6.7
	590.9	**4.9**	**595.8**	529.4	9.7	539.1

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

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

	2017	2016
Pub Company	**40,693**	39,587
Pub Partners	**64**	50
Brewing & Brands	**838**	806
Corporate	**884**	1,043
	42,479	41,486

The figures above include 25,473 (2016: 20,638) part-time employees.

Details of directors' emoluments are shown in the directors' remuneration report on pages 61 to 67.

Notes to the accounts continued

For the fifty-two weeks ended 30 April 2017

7 Finance (costs)/income

	2017			2016		
	Before exceptional and non-underlying items £m	**Exceptional and non-underlying items £m**	**Total £m**	Before exceptional and non-underlying items £m	Exceptional and non-underlying items £m	Total £m
Bank loans and overdrafts	**(6.2)**	**—**	**(6.2)**	(10.7)	—	(10.7)
Other loans including recycling of cash flow hedge reserve	**(117.1)**	**—**	**(117.1)**	(112.4)	—	(112.4)
Ineffective element of cash flow hedges	**0.2**	**(0.4)**	**(0.2)**	1.6	(1.3)	0.3
Derivatives held at fair value through profit and loss	**—**	**(23.6)**	**(23.6)**	—	(39.1)	(39.1)
Gain on settlement of interest rate swap liabilities	**—**	**12.2**	**12.2**	—	—	—
Amounts recycled from hedging reserve in respect of settled interest rate liabilities	**—**	**(11.8)**	**(11.8)**	—	—	—
Interest on tax provisions	**—**	**—**	**—**	(1.2)	—	(1.2)
Interest on exceptional VAT provision	**—**	**—**	**—**	—	(0.4)	(0.4)
Unwinding of discount element of provisions and off-market contract liabilities	**(14.2)**	**—**	**(14.2)**	(12.6)	—	(12.6)
Net finance cost from pensions	**(1.7)**	**—**	**(1.7)**	(1.9)	—	(1.9)
Total finance costs	**(139.0)**	**(23.6)**	**(162.6)**	(137.2)	(40.8)	(178.0)
Bank interest receivable	**1.0**	**—**	**1.0**	1.5	—	1.5
Total finance income	**1.0**	**—**	**1.0**	1.5	—	1.5
Net finance costs	**(138.0)**	**(23.6)**	**(161.6)**	(135.7)	(40.8)	(176.5)

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 61 to 67. All are equity settled.

The total charge recognised for the period arising from share-based payment transactions including National Insurance contributions is £0.8m (2016: £7.1m). A corresponding debit of £0.4m (2016: £6.2m credit) 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 award granted in the 2017 issue the fair value was 805p (2016: 863p) per share option. Future dividend payments have not been factored into the valuation as participants are entitled to dividend payments.

The fair value of previously issued LTIPs was estimated using a Black-Scholes model.

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

	2017 SAYE	2016 SAYE
Weighted average share price	**682p**	870p
Exercise price	**574p**	726p
Expected dividend yield	**4.4%**	3.9%
Risk-free rate of return	**0.6%**	0.6%
Volatility	**22.5%**	21.2%
Expected life (years)	**3.3**	3.3
Weighted average fair value of grants in the year	**107p**	140p

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

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

8 Share-based payment plans continued

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

ESOS

	Number of options		Weighted average exercise price	
	2017 **m**	2016 m	**2017** **p**	2016 p
Outstanding at the beginning of the period	**—**	0.1	**—**	528
Exercised	**—**	(0.1)	**—**	528
Outstanding at the end of the period	**—**	—	**—**	528
Exercisable at the end of the period	**—**	—	**—**	—

SAYE

	Number of options		Weighted average exercise price	
	2017 **m**	2016 m	**2017** **p**	2016 p
Outstanding at the beginning of the period	**2.3**	1.9	**645**	570
Granted	**1.3**	1.0	**574**	726
Forfeited	**(0.7)**	(0.3)	**682**	603
Exercised	**(0.1)**	(0.3)	**503**	462
Outstanding at the end of the period	**2.8**	2.3	**610**	645
Exercisable at the end of the period	**0.2**	0.2	**620**	453

LTIP

	Number of shares	
	2017 **m**	2016 m
Outstanding at the beginning of the period	**2.2**	2.1
Granted	**1.0**	1.0
Forfeited	**(0.3)**	(0.2)
Vested	**(0.6)**	(0.7)
Outstanding at the end of the period	**2.3**	2.2
Exercisable at the end of the period	**—**	—

The options and shares granted under the LTIP are at nil cost; therefore, the weighted average exercise price for rights outstanding at the beginning and end of the period, and granted, forfeited and exercised during the period is £nil (2016: £nil).

SAYE and LTIP

Options were exercised on a range of dates. The weighted average share price through the period was 748p in 2017 and 856p in 2016.

The rights outstanding at 30 April 2017 under the LTIP had an exercise price of £nil (2016: £nil) and a weighted average remaining contractual life of 1.4 years (2016: 1.4 years).

The outstanding options for the SAYE scheme had an exercise price of between 387p and 726p (2016: 368p and 726p) and the weighted average remaining contractual life was 3.2 years (2016: 3.4 years).

9 Pensions

The group maintains three defined contribution schemes, which are open to all new employees, and two (2016: three) defined benefit schemes. During the year the assets and liabilities of the Belhaven Pension Scheme transferred into the Greene King Pension Scheme.

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

Defined contribution pension schemes

Member funds for the defined contribution schemes are held and administered by the Friends Life Group. The total cost recognised in operating profit for the period was £7.5m (2016: £6.7m).

Notes to the accounts continued

For the fifty-two weeks ended 30 April 2017

9 Pensions continued

Defined benefit pension schemes and post-employment benefits

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

Member funds for the defined benefit schemes are held in separate funds independently of the group's finances and are administered by pension trustees. Pension benefits are related to members' final salary at the earlier of retirement or closure to future accrual and their length of service.

Since the pension liability is adjusted for the changes to consumer price index, the pension plan is exposed to inflation, interest rate risks and changes in the life expectancy for pensioners. As the plan assets include significant investments in quoted equity shares of entities in the manufacturing and consumer product sector, the group is also exposed to equity market risk arising in the manufacturing and consumer products sector. The significant increase in equities and bonds is due to the acquisition of Spirit. The majority of the bonds relate to UK government and corporate bonds.

The total cost recognised in the income statement was:

	Pension schemes 2017 £m	Pension schemes 2016 £m
Administrative costs	**—**	2.1
Total recognised in operating profit	**—**	2.1
Interest on pension scheme assets	**26.3**	26.5
Interest on scheme liabilities	**(28.0)**	(28.4)
Net interest on net defined liability	**(1.7)**	(1.9)

The values of the schemes' liabilities have been determined by a qualified actuary based on the results of the last actuarial valuation, updated to 30 April 2017 using the following principal actuarial assumptions:

	2017	2016
Discount rate	**2.7–2.8%**	3.4%
Expected pension payment increases	**2.7%**	3.4%
Rate of inflation (RPI)	**3.3%**	3.3%
Rate of inflation (CPI)	**2.2%**	2.3%
The mortality assumptions imply the following expectations of years of life from age 65:		
Man currently aged 40	**22.1**	24.4
Woman currently aged 40	**23.5**	26.5
Man currently aged 65	**23.9**	22.2
Woman currently aged 65	**25.5**	24.2

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

The table below shows the investment allocation of pension assets against the related liabilities of the pension schemes and other post-employment benefits:

	Pension plans value 2017 £m	Pension plans value 2016 £m	Post-employment benefits 2017 £m	Post-employment benefits 2016 £m
Investment quoted in active markets				
Equities	**410.6**	366.6	**—**	—
With profits	**—**	3.1	**—**	—
Bonds	**425.7**	370.2	**—**	—
Annuities	**1.5**	1.5	**—**	—
Unquoted investments				
Property	**48.0**	48.0	**—**	—
Cash	**2.2**	11.8	**—**	—
Total fair value of assets	**888.0**	801.2	**—**	—
Present value of scheme liabilities:				
Funded plans	**(899.2)**	(853.5)	**—**	—
Unfunded plans	**—**	—	**—**	(1.3)
Non-current liability recognised	**(11.2)**	(52.3)	**—**	(1.3)

9 Pensions continued

Defined benefit pension schemes and post-employment benefits continued

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

	Pension assets 2017 £m	Pension assets 2016 £m	Pension liabilities 2017 £m	Pension liabilities 2016 £m	Net pension liability 2017 £m	Net pension liability 2016 £m
At beginning of period	**801.2**	324.4	**(853.5)**	(383.6)	**(52.3)**	(59.2)
Net acquisition (note 17)	**—**	480.4	**—**	(477.5)	**—**	2.9
Pension costs charged to income statement						
Administrative costs	**—**	(2.1)	**—**	—	**—**	(2.1)
Net interest	**26.3**	26.5	**(28.0)**	(28.4)	**(1.7)**	(1.9)
	26.3	24.4	**(28.0)**	(28.4)	**(1.7)**	(4.0)
Benefits paid	**(33.4)**	(35.7)	**33.4**	35.7	**—**	—
Settlement	**(25.4)**	—	**27.0**	—	**1.6**	—
Remeasurement gains/(losses) in other comprehensive income						
Return on plan assets (excluding amounts included in net interest expenses)	**115.4**	(4.8)	**—**	—	**115.4**	(4.8)
Actuarial changes arising from changes in demographic assumptions	**—**	—	**9.8**	5.1	**9.8**	5.1
Actuarial changes arising from changes in financial assumptions	**—**	—	**(92.3)**	(19.9)	**(92.3)**	(19.9)
Experience adjustments	**—**	—	**4.4**	15.1	**4.4**	15.1
	115.4	(4.8)	**(78.1)**	0.3	**37.3**	(4.5)
Contributions paid – employers	**3.9**	12.5	**—**	—	**3.9**	12.5
At end of period	**888.0**	801.2	**(899.2)**	(853.5)	**(11.2)**	(52.3)

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

	Post-employment benefits liability 2017 £m	Post-employment benefits liability 2016 £m
At beginning of period	**(1.3)**	(1.3)
Released	**1.3**	—
At end of period	**—**	(1.3)

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

	Decrease/(increase) in liability 2017 £m	Decrease/(increase) in liability 2016 £m
0.25% points increase in discount rate	**40.5**	37.1
0.25% points increase in inflation assumption	**(31.8)**	(29.6)
Additional one-year increase to life expectancy	**(36.6)**	(27.1)

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

	2017 £m	2016 £m
Within 1 year	**3.3**	3.3
Between 2 and 5 years	**13.1**	13.1
Between 5 and 10 years	**9.7**	12.4
	26.1	28.8

The average duration of the defined benefit plan obligation at the end of the reporting period is 18–19 years (2016: 18 years).

Notes to the accounts continued

For the fifty-two weeks ended 30 April 2017

10 Taxation

Consolidated income statement	2017 Before exceptional and non-underlying items £m	2017 Exceptional and non-underlying items £m	2017 Total £m	2016 Before exceptional and non-underlying items £m	2016 Exceptional and non-underlying items £m	2016 Total £m
Income tax						
Corporation tax before exceptional items	**43.3**	**—**	**43.3**	32.6	—	32.6
Recoverable on exceptional and non-underlying items	**—**	**(11.1)**	**(11.1)**	—	(3.2)	(3.2)
Current income tax	**43.3**	**(11.1)**	**32.2**	32.6	(3.2)	29.4
Adjustment in respect of prior periods	**—**	**0.8**	**0.8**	(1.0)	(0.5)	(1.5)
	43.3	**(10.3)**	**33.0**	31.6	(3.7)	27.9
Deferred tax						
Origination and reversal of temporary differences	**11.0**	**(6.2)**	**4.8**	17.3	(41.8)	(24.5)
Adjustment in respect of prior periods	**—**	**(0.3)**	**(0.3)**	0.5	(0.2)	0.3
Tax credit in respect of rate change	**—**	**(4.3)**	**(4.3)**	—	(4.8)	(4.8)
	11.0	**(10.8)**	**0.2**	17.8	(46.8)	(29.0)
Tax charge/(credit) in the income statement	**54.3**	**(21.1)**	**33.2**	49.4	(50.5)	(1.1)

Group statement of comprehensive income	2017 £m	2016 £m
Deferred tax		
Gain/(loss) on actuarial valuation of pension liability	**6.3**	(0.8)
Net loss on revaluation on cash flow hedges	**(2.1)**	(2.3)
Tax charge in respect of rate change	**3.6**	7.1
	7.8	4.0
Income tax		
Derivative financial instruments – current taxable benefit	**(2.0)**	—
Total tax	**5.8**	4.0

Group statement of changes in equity	2017 £m	2016 £m
Deferred tax		
Share-based payment – future taxable benefit	**(0.6)**	3.4
Tax charge in respect of rate change	**0.1**	0.4
Deferred tax reported in equity	**(0.5)**	3.8
Income tax		
Share-based payments – current taxable benefit	**—**	(3.0)
Total tax reported in equity	**(0.5)**	0.8

Reconciliation of income tax expense for period

The effective rate of taxation is lower (2016: lower) than the full rate of corporation tax. The differences are explained below:

	2017 £m	2016 £m
Profit before tax	**184.9**	189.8
Profit before tax multiplied by standard rate of corporation tax 19.9% (2016: 20.0%)	**36.8**	38.0
Effects of:		
Expenses not allowable for tax purposes	**0.9**	(1.1)
Impact of deferred tax in respect of licensed estate	**1.1**	(32.6)
Impact of deferred tax being at different rate to income tax	**(1.8)**	0.6
Impact of change in tax rate on deferred tax balances	**(4.3)**	(4.8)
Adjustment in respect of prior periods – income tax	**0.8**	(1.5)
Adjustment in respect of prior periods – deferred tax	**(0.3)**	0.3
Income tax expense/(credit) reported in the income statement	**33.2**	(1.1)

10 Taxation continued

Income tax payable

The income tax liability of £12.6m (2016: £30.3m) includes an assessment of the expected payments on uncertain tax positions which have yet to be agreed or are in dispute with HMRC.

Deferred tax

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

	2017 £m	2016 £m
Deferred tax liability		
Accelerated capital allowances	**24.2**	30.8
Rolled over gains and property revaluation	**15.3**	29.6
Operating leases	**25.4**	28.7
Other temporary differences	**14.5**	8.7
	79.4	97.8
Deferred tax asset		
Post-employment liabilities	**(2.0)**	(9.7)
Derivative financial instruments	**(75.7)**	(79.4)
Share-based payment	**(0.1)**	(1.6)
Off-market contract liabilities	**(48.4)**	(53.7)
Capital losses carried forward	**(5.5)**	(11.7)
Trading losses carried forward	**(1.0)**	(2.5)
	(132.7)	(158.6)
Net deferred tax asset	**(53.3)**	(60.8)

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:

	30 April 2017 £m	1 May 2016 £m
Deferred tax liability	**9.8**	17.9
Deferred tax asset	**(63.1)**	(78.7)
Net deferred tax asset	**(53.3)**	(60.8)

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

	2017			2016		
	Before exceptional and non-underlying items £m	**Exceptional and non-underlying items £m**	**Total £m**	Before exceptional and non-underlying items £m	Exceptional and non-underlying items £m	Total £m
Deferred tax in the income statement						
Accelerated capital allowances	**4.7**	**(11.3)**	**(6.6)**	3.6	(4.0)	(0.4)
Rolled over gains and property revaluations	**—**	**(14.3)**	**(14.3)**	—	(47.6)	(47.6)
Operating leases	**(1.7)**	**(1.6)**	**(3.3)**	(1.6)	(3.4)	(5.0)
Post-employment liabilities	**0.6**	**(0.3)**	**0.3**	1.5	(1.2)	0.3
Other temporary differences	**0.4**	**5.4**	**5.8**	0.8	(1.5)	(0.7)
Derivative financial instruments	**2.7**	**0.6**	**3.3**	2.2	(4.0)	(1.8)
Share-based payments	**0.5**	**1.5**	**2.0**	(1.7)	0.4	(1.3)
Off-market contract liabilities	**2.3**	**3.0**	**5.3**	2.5	6.3	8.8
Capital losses carried forward	**—**	**6.2**	**6.2**	—	8.2	8.2
Tax losses carried forward	**1.5**	**—**	**1.5**	10.5	—	10.5
Deferred tax expense	**11.0**	**(10.8)**	**0.2**	17.8	(46.8)	(29.0)

Notes to the accounts continued

For the fifty-two weeks ended 30 April 2017

10 Taxation continued

Deferred tax continued

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

Deferred tax liabilities	Accelerated capital allowances £m	Rolled over gains and property revaluation £m	Operating leases £m	Other temporary differences £m	Total £m
At 3 May 2015	33.7	63.8	—	—	97.5
Credit to the income statement	(0.4)	(47.6)	(5.0)	(1.6)	(54.6)
Acquired (note 17)	(2.5)	13.4	33.7	10.3	54.9
At 1 May 2016	30.8	29.6	28.7	8.7	97.8
(Charge)/credit to the income statement	(6.6)	(14.3)	(3.3)	5.8	(18.4)
At 30 April 2017	**24.2**	**15.3**	**25.4**	**14.5**	**79.4**

Deferred tax assets	Post-employment liabilities £m	Other temporary differences £m	Derivatives £m	Share-based payments £m	Off-market contract liability £m	Capital losses carried forward £m	Trading losses carried forward £m	Total £m
At 3 May 2015	(12.1)	(0.9)	(47.1)	(1.9)	—	(6.4)	—	(68.4)
Charge to equity/comprehensive income	1.5	—	2.5	3.8	—	—	—	7.8
Charge/(credit) to the income statement	0.3	0.9	(1.8)	(1.3)	8.8	8.2	10.5	25.6
Acquired (note 17)	0.6	—	(33.0)	(2.2)	(62.5)	(13.5)	(13.0)	(123.6)
At 1 May 2016	(9.7)	—	(79.4)	(1.6)	(53.7)	(11.7)	(2.5)	(158.6)
Charge to equity/comprehensive income	7.4	—	0.4	(0.5)	—	—	—	7.3
Charge to the income statement	0.3	—	3.3	2.0	5.3	6.2	1.5	18.6
At 30 April 2017	**(2.0)**	**—**	**(75.7)**	**(0.1)**	**(48.4)**	**(5.5)**	**(1.0)**	**(132.7)**

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

At 30 April 2017, the group had unused trading losses of £5.3m (2016: £12.6m) and unused capital losses of £809.7m (2016: £815.5m). A deferred tax asset of £1.1m (2016: £2.5m) has been recognised in respect of trading losses and a deferred tax asset of £5.5m (2016: £11.7m) 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 (No.2) Act 2015 reduced the rate of corporation tax from 20% to 19% from 1 April 2017 and the Finance Act 2016 further reduced the rate to 17% from 1 April 2020. Both these rate reductions were substantively enacted at the balance sheet date and are therefore included in these accounts. The net deferred tax asset has been calculated using the rates at which each temporary difference is expected to reverse. The effect of these rate reductions is to reduce the deferred tax asset by a net £0.6m comprising a credit to the income statement of £4.3m, a charge to the group statement of comprehensive income of £3.6m and a charge to the group statement of changes in equity of £0.1m.

11 Dividends paid and proposed

	2017 £m	2016 £m
Declared and paid in the period		
Interim dividend for 2017 – 8.8p (2016: 8.45p)	**27.2**	26.2
Final dividend for 2016 – 23.6p (2015: 21.8p)	**72.9**	67.1
	100.1	93.3
Proposed for approval at AGM		
Final dividend for 2017 – 24.4p (2016: 23.6p)	**75.6**	72.9
Total proposed dividend for 2017 – 33.2p (2016: 32.05p)	**102.8**	99.1

Dividends on own shares have been waived.

12 Earnings per share

Basic earnings per share has been calculated by dividing the profit attributable to equity holders of £151.7m (2016: £190.9m) by the weighted average number of shares in issue during the period of 309.4m (2016: 296.2m).

Diluted earnings per share has been calculated on a similar basis taking account of 0.8m (2016: 1.6m) dilutive potential shares under option, giving a weighted average number of ordinary shares adjusted for the effect of dilution of 310.2m (2016: 297.8m). There were no (2016: nil) anti-dilutive share options excluded from the diluted earnings per share calculation. The performance conditions for share options granted over 2.4m (2016: 1.6m) shares have not been met in the current financial period and therefore the dilutive effect of the number of shares which would have been issued at the period end has not been included in the diluted earnings per share calculation.

Adjusted earnings per share excludes the effect of exceptional 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	**2017 £m**	2016 £m	**2017 p**	2016 p	**2017 p**	2016 p
Profit attributable to equity holders	**151.7**	190.9	**49.0**	64.4	**48.9**	64.1
Exceptional and non-underlying items	**67.5**	16.2	**21.8**	5.5	**21.8**	5.4
Profit attributable to equity holders before exceptional and non-underlying items	**219.2**	207.1	**70.8**	69.9	**70.7**	69.5

13 Goodwill and other intangible assets

	Brand intangibles £m	Operating lease intangibles £m	Total other intangibles £m	Goodwill £m
Cost				
At 3 May 2015	—	—	—	700.9
Disposal	—	—	—	(13.0)
Additions (acquisition note 17)	16.1	168.3	184.4	434.0
At 1 May 2016	16.1	168.3	184.4	1,121.9
Disposal	—	(1.3)	(1.3)	(13.1)
At 30 April 2017	**16.1**	**167.0**	**183.1**	**1,108.8**
Impairment and amortisation				
At 3 May 2015	—	—	—	—
Amortisation	(0.9)	(8.9)	(9.8)	—
At 1 May 2016	(0.9)	(8.9)	(9.8)	—
Amortisation	(1.1)	(8.9)	(10.0)	—
Disposal	—	0.4	0.4	—
At 30 April 2017	**(2.0)**	**(17.4)**	**(19.4)**	**—**
Net book value				
At 30 April 2017	**14.1**	**149.6**	**163.7**	**1,108.8**
At 1 May 2016	15.2	159.4	174.6	1,121.9
At 3 May 2015	—	—	—	700.9

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

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

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

The carrying amount of goodwill is allocated as follows:

	2017 £m	2016 £m
Pub Company	**691.6**	699.9
Pub Partners	**182.3**	187.1
Brewing & Brands	**234.9**	234.9
	1,108.8	1,121.9

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

Notes to the accounts continued

For the fifty-two weeks ended 30 April 2017

13 Goodwill and other intangible assets continued

Goodwill disposed of in the year

	2017 £m	2016 £m
Pub Company	**8.3**	4.3
Pub Partners	**4.8**	8.7
	13.1	13.0

The recoverable amount of each segment was determined on a value-in-use basis, using cash flow projections based on 1-year budgets approved by the board, and in all cases exceeded the carrying amount.

The key assumptions used in the value-in-use calculations are budgeted EBITDA, the pre-tax discount rate and the growth rate used to extrapolate cash flows beyond the budgeted period.

Budgeted EBITDA is based on past experience adjusted to take account of the impact of expected changes to sales prices, volumes, business mix and margin based on the current estate.

Cash flows are discounted at 8.65% (2016: 8.65%) which is used as an approximation for the risk-adjusted discount rate of the relevant operating segment. As risk factors are considered to be similar in each of the group's operating segments the same level of discount rate is applied to all. A growth rate of 1.75% in Pub Company (2016: 1.75%), 2.50% in Pub Partners (2016: 2.50%) and 1.00% in Brewing & Brands (2016: 1.00%) has been used to extrapolate cash flows. The growth rate is below the long-term average growth rate for the operating segments and reflects trends in trading performance.

Sensitivity to changes in assumptions

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

14 Property, plant and equipment

	Licensed estate		Other		
	Land and buildings £m	Plant and equipment £m	Land and buildings £m	Plant and equipment £m	Total £m
Cost					
Balances at 3 May 2015	2,130.3	681.3	66.1	130.3	3,008.0
Additions during the period	96.6	92.7	(0.2)	2.8	191.9
Acquisitions	1,265.0	142.7	5.7	—	1,413.4
Transfer to property, plant and equipment held for sale	(2.6)	—	—	—	(2.6)
Disposals during the period	(45.8)	(11.2)	(1.0)	(0.4)	(58.4)
Balances at 1 May 2016	3,443.5	905.5	70.6	132.7	4,552.3
Additions during the period	76.2	92.4	5.4	12.9	186.9
Transfer to property, plant and equipment held for sale	(6.1)	(0.7)	—	—	(6.8)
Disposals during the period	(58.1)	(23.2)	(4.1)	(0.1)	(85.5)
Balances at 30 April 2017	**3,455.5**	**974.0**	**71.9**	**145.5**	**4,646.9**
Depreciation and impairment					
Balances at 3 May 2015	178.5	496.3	14.9	82.9	772.6
Provided during the year	2.0	86.6	1.8	4.5	94.9
Written back on disposals	(10.8)	(7.3)	(0.2)	(0.1)	(18.4)
Impairment (see below)	74.7	—	—	4.8	79.5
Impairment reversal (see below)	(47.3)	—	—	—	(47.3)
Transfer to property, plant and equipment held for sale	(0.3)	—	—	—	(0.3)
Balances at 1 May 2016	196.8	575.6	16.5	92.1	881.0
Provided during the year	14.4	81.2	2.2	4.8	102.6
Written back on disposals	(0.3)	(15.0)	(0.1)	(0.1)	(15.5)
Impairment (see below)	77.7	—	—	—	77.7
Impairment reversal (see below)	(19.1)	—	—	—	(19.1)
Transfer to property, plant and equipment held for sale	(1.2)	(0.5)	—	—	(1.7)
Balances at 30 April 2017	**268.3**	**641.3**	**18.6**	**96.8**	**1,025.0**
Net book value					
At 30 April 2017	**3,187.2**	**332.7**	**53.3**	**48.7**	**3,621.9**
At 1 May 2016	3,246.7	329.9	54.1	40.6	3,671.3
At 3 May 2015	1,951.8	185.0	51.2	47.4	2,235.4

14 Property, plant and equipment continued

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

The net book value of land and buildings comprises:

	2017 £m	2016 £m
Freehold properties	**3,078.3**	3,171.9
Leasehold properties >50 years unexpired term	**104.6**	75.6
Leasehold properties <50 years unexpired term	**57.6**	53.3
	3,240.5	3,300.8

Valuation

The licensed estate properties were valued by the group's own professionally qualified chartered surveyors, as at 20 December 2003, on the basis of existing use value, in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards. A representative sample of properties was also valued by external valuers Gerald Eve Chartered Surveyors and Property Consultants, who confirmed that the values were consistent with their appraisal. Frozen revaluation has been taken as deemed cost on the transition to IFRS; therefore, no historic cost analysis is provided.

Up to 1999 the brewery and depots were valued at depreciated replacement cost and other properties at open market value. These valuations have been retained but they have not been updated. Subsequent additions have been included at cost or, in the case of acquisitions, at fair value.

Charges over assets

Included in land and buildings are properties with a net book value of £1,593.8m (2016: £1,446.2m) and £1,522.4m (2016: £1,519.1m) over which there is a first charge in favour of the securitised debt holders of the Greene King secured financing vehicle and the Spirit secured financing vehicle respectively. See details in note 23.

Assets held under finance leases

The group leases various licensed properties, offices and other commercial properties and other assets under finance leases. The leases have various terms, escalation clauses and renewal rights. Included in property, plant and equipment above are properties held under finance leases with a net book value of £21.4m (2016: £22.3m).

Future capital expenditure

	2017 £m	2016 £m
Contracted for	**8.1**	7.6

Impairment of property, plant and equipment

During the period to 30 April 2017 the group has recognised a net impairment loss of £58.6m (2016: £32.2m). This is comprised of an impairment charge of £77.7m (2016: £79.5m) and reversal of previously recognised impairment losses of £19.1m (2016: £47.3m). The recoverable amount for assets impaired was based on value in use of £13.1m (2016: £25.2m) and fair value less costs of disposal of £64.6m (2016: £47.3m). The recoverable amount for assets with impairment reversal was based on value in use of £9.4m (2016: £43.0m) and fair value less costs of disposal of £9.7m (2016: £4.6m).

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

	2017			2016		
	Impairment £m	**Reversal of impairment £m**	**Net impairment £m**	Impairment £m	Reversal of impairment £m	Net impairment £m
Pub Company	**62.2**	**(14.7)**	**47.5**	56.6	(33.5)	23.1
Pub Partners	**14.4**	**(4.4)**	**10.0**	17.4	(13.8)	3.6
Corporate	**1.1**	**—**	**1.1**	5.5	—	5.5
	77.7	**(19.1)**	**58.6**	79.5	(47.3)	32.2

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

The group estimates value in use using a discounted cash flow model. The key assumptions used are expected cash flow projections for the next year, the discount rate applied to those cash flows of 8.65% (2016: 8.65%) and the projected cash flows extrapolated using an average growth rate of 1.75% in Pub Company (2016: 1.75%) and 2.50% in Pub Partners (2016: 2.50%) which are below the long-term average growth rate for the operating segments and reflect trends in trading performance. As risk factors are considered to be similar in each of the group's operating segments the same level of discount rate is applied to all.

Cash flow projections relating to individual CGUs have been made based on historic trends adjusted for management's estimates of medium-term trading prospects.

Estimates of fair value less costs of disposal are based on an external valuation with the latest valuation being performed in 2016/17. 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, as further explained in note 24.

Notes to the accounts continued

For the fifty-two weeks ended 30 April 2017

14 Property, plant and equipment continued

Impairment of property, plant and equipment continued

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

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

Sensitivity to changes in assumptions

The level of impairment is predominantly dependent upon judgments used in arriving at fair values, future growth rates and the discount rate applied to cash flow projections. The net impact on the impairment charge of applying different assumptions to fair values, the growth rates used to calculate cash flow projections and in the pre-tax discount rates would be as follows:

Increased net impairment resulting from:

	A 10% reduction in fair value less cost of disposal		A 1% increase in discount rate		A 1% reduction in growth rate	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Pub Company	**22.7**	9.8	**8.4**	11.7	**8.4**	11.7
Pub Partners	**2.2**	2.2	**2.7**	3.1	**2.7**	3.1
	24.9	12.0	**11.1**	14.8	**11.1**	14.8

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

15 Financial assets

	2017 £m	2016 £m
Trade loans (net of provision)	**10.1**	9.8
Total current	**10.1**	9.8
Trade loans (net of provision)	**15.8**	16.3
Other financial assets	**0.5**	0.5
Total non-current	**16.3**	16.8

Trade loans are net of provisions of £5.1m (2016: £5.1m). During the year £0.3m (2016: £0.3m) of the provision was utilised and £0.3m (2016: £1.3m) of new provision was created. All trade loans that are neither past due nor impaired are expected to be fully recoverable. All significant overdue balances are fully provided for.

Trade loans are advanced to customers on terms linked to supply terms such that returns are greater than interest income. The fixed rate trade loans amounted to £18.8m (2016: £19.2m) and variable rate trade loans amounted to £12.2m (2016: £12.0m). Included in fixed rate loans are £15.7m of loans with settlement related to purchase levels (2016: £16.4m). The write down of these loans has been taken on a straight-line basis over the remaining term of the loan as an approximation of the settlement.

The fixed rate trade loans had a weighted average interest rate of 0.3% (2016: 0.5%) and a weighted average period of 3.30 years (2016: 3.93 years). Interest rates on variable rate trade loans are linked to base rate.

Trade loans (net of provision)	**2017 £m**	2016 £m
Balance at beginning of period	**26.1**	29.9
Advances	**6.1**	4.1
Repayments	**(6.3)**	(6.9)
Provisions	**—**	(1.0)
Balance at end of period	**25.9**	26.1

16 Subsidiary undertakings

The subsidiary undertakings are:

Subsidiary undertakings	Principal activity	Country of incorporation	Held by	Holding	Proportion of voting rights and ownership
Directly held by Greene King plc					
Greene King Developments Limited[1]	Property	England & Wales	Parent	Ordinary shares	100%
Greene King EBT Investment (Jersey) Limited[1]	Holding company	Jersey	Parent	Ordinary shares	100%
Greene King GP Limited[1]	Dormant	England & Wales	Parent	Ordinary shares	100%
Greene King Investments Limited[1]	Holding company	England & Wales	Parent	Ordinary shares	100%
Greene King Pension Scheme Limited[1]	Pension trustee	England & Wales	Parent	Ordinary shares	100%
Greene King Properties Limited[1]	Property	England & Wales	Parent	Ordinary shares	100%
Greene King Pubs Limited[1]	Property	England & Wales	Parent	Ordinary shares	100%
Greene King Retailing Parent Limited[1]	Holding company	England & Wales	Parent	Ordinary shares	100%
Norman Limited[4]	Holding company	Guernsey	Parent	Ordinary shares	100%
Realpubs Limited[1]	Financing	England & Wales	Parent	Ordinary shares	100%
Rushmere Sports Club Limited[1]	Financing	England & Wales	Parent	Ordinary shares	100%
Spirit Pub Company Limited[1]	Holding company	England & Wales	Parent	Ordinary shares	100%
The Capital Pub Company Limited[1]	Holding company	England & Wales	Parent	Ordinary shares	100%
Indirectly held by Greene King plc					
Allied Kunick Entertainments Limited[1]	Property	England & Wales	Subsidiary	Ordinary shares	100%
Ashes Investment LP[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Aspect Ventures Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
AVL (Pubs) No.1 Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
AVL (Pubs) No.2 Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Belhaven Brewery Company Limited[2]	Financing	Scotland	Subsidiary	Ordinary shares	100%
Belhaven Finance Limited[2]	Financing	Scotland	Subsidiary	Ordinary shares	100%
Belhaven Pubs Limited[2]	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[3]	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[2]	Financing	Scotland	Subsidiary	Ordinary shares	100%
Mountloop Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Narnain[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%

1. Registered office: Westgate Brewery, Bury St Edmunds, Suffolk IP33 1QT.
2. Registered office: Belhaven Brewery, Brewery Lane, Dunbar, East Lothian EH42 1PE.
3. Company is limited by guarantee.
4. Registered office: Dorey Court, Admiral Park, St Peter Port, Guernsey.

Notes to the accounts continued

For the fifty-two weeks ended 30 April 2017

16 Subsidiary undertakings continued

Subsidiary undertakings	Principal activity	Country of incorporation	Held by	Holding	Proportion of voting rights and ownership
Old English Inns Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Open House Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Premium Casual Dining Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Premium Dining Restaurants and Pubs Limited[2]	Retailing	Scotland	Subsidiary	Ordinary shares	100%
R.V. Goodhew Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
				Deferred ordinary shares	100%
Realpubs Developments Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Realpubs II Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Sapphire Food North East No.1 Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Sapphire Food North West No.3 Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Sapphire Food South East No.4 Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Sapphire Food South West No.2 Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Sapphire Rural Destinations 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[1,3]	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%

1. Registered office: Westgate Brewery, Bury St Edmunds, Suffolk IP33 1QT.
2. Registered office: Belhaven Brewery, Brewery Lane, Dunbar, East Lothian EH42 1PE.
3. Company is limited by guarantee.
4. Registered office: Dorey Court, Admiral Park, St Peter Port, Guernsey.

16 Subsidiary undertakings continued

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

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

17 Business combinations

In the prior period the group completed the acquisition of Spirit Pub Company plc creating the UK's leading managed pub company.

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

Fair value of assets acquired

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

The net cash flow impact of the acquisition is:

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

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

Notes to the accounts continued

For the fifty-two weeks ended 30 April 2017

17 Business combinations continued

Fair value of assets acquired continued

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

Off-market contract liabilities of £312.7m were recognised upon acquisition where contracts are at unfavourable terms relative to current market terms. For leases where the current rentals are below market terms, an 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 (see note 25).

External qualified surveyors were engaged to provide a formal evaluation of current market rentals for the acquired leased pub assets. Rental growth rates of 2.0–2.5% were taken from market consensus forecasts for the retail sector and a discount rate of 5% was applied, being the estimated incremental borrowing costs of the acquired business, to arrive at the present value of market rentals.

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

18 Inventories

	2017 £m	2016 £m
Raw materials and work in progress	**5.4**	4.7
Finished goods and goods for resale	**36.7**	34.2
Consumable stores	**2.9**	2.4
	45.0	41.3

19 Trade and other receivables

	2017 £m	2016 £m
Other receivables	**0.1**	0.1
Total non-current	**0.1**	0.1
Trade receivables	**73.9**	63.2
Other receivables	**19.4**	19.5
Total current	**93.3**	82.7

Trade and other receivables are non-interest bearing.

The ageing analysis of trade receivables is as follows:

	2017 £m	2016 £m
Neither past due nor impaired	**65.8**	55.5
Past due but not impaired:		
– Less than 30 days	**2.5**	3.6
– 30–60 days	**2.4**	1.0
– Greater than 60 days	**3.2**	3.1
	73.9	63.2

Trade receivables are shown net of a provision of £5.4m (2016: £5.4m).

20 Cash and cash equivalents

	2017 £m	2016 £m
Cash at bank and in hand	**202.1**	155.2
Short-term deposits	**83.4**	69.0
Liquidity facility reserve (note 23)	**157.5**	157.5
Cash and cash equivalents for balance sheet	**443.0**	381.7
Bank overdrafts (note 23)	**—**	(5.8)
Cash and cash equivalents for cash flow	**443.0**	375.9

Included within cash at bank and in hand and short-term deposits is £112.0m (2016: £109.1m) and £88.9m (2016: £113.0m) 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.

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

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

21 Property, plant and equipment held for sale

	2017 £m	2016 £m
Property, plant and equipment held for sale	**5.1**	2.3

At the period end, property, plant and equipment held for sale of £5.1m (2016: £2.3m) 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 (2016: £nil).

22 Trade and other payables

	2017 £m	2016 £m
Trade payables	**110.0**	112.2
Other payables:		
– Other taxation and social security costs	**91.8**	87.2
– Accruals and deferred income	**209.9**	194.2
– Interest payable	**17.6**	30.4
Total current	**429.3**	424.0
Other payables	**1.9**	1.5
Total non-current	**1.9**	1.5

Trade payables and other payables are non-interest bearing. Interest payable is mainly settled monthly, quarterly or semi-annually throughout the year, in accordance with the terms of the related financial instrument. Interest payable also includes interest on uncertain tax positions of £1.9m (2016: £13.8m).

23 Borrowings

		2017			2016		
	Repayment date	**Current £m**	**Non-current £m**	**Total £m**	Current £m	Non-current £m	Total £m
Bank overdrafts	On demand	**—**	**—**	**—**	5.8	—	5.8
Liquidity facility loan	On demand	**157.5**	**—**	**157.5**	157.5	—	157.5
Bank loans – floating rate	2021	**—**	**168.3**	**168.3**	—	315.0	315.0
Secured debt:							
– Issued by Greene King Finance plc	2005 to 2036	**48.9**	**1,343.6**	**1,392.5**	34.3	1,106.6	1,140.9
– Issued by Spirit Issuer plc	2015 to 2036	**11.7**	**765.9**	**777.6**	11.1	777.6	788.7
Obligations under finance leases	2015 to 2084	**1.6**	**20.0**	**21.6**	1.6	20.6	22.2
		219.7	**2,297.8**	**2,517.5**	210.3	2,219.8	2,430.1

Bank overdrafts

Overdrafts are utilised for the day-to-day management of cash. The group has facilities of £25.0m (2016: £25.0m) available with interest linked to base rate.

Bank loans – unsecured

In the year the group amended and extended its five-year revolving credit facility of £400m, of which £170m (2016: £315m) was drawn down at the year end with a carrying value of £168.3m (2016: £315.0m) which included £1.7m (2016: £nil) of fees.

Any amounts drawn down bear interest at a margin above LIBOR and the group is charged a utilisation fee based on the proportion of facility drawn. Commitment interest is charged on the undrawn portions. Interest is payable at each renewal date, which vary in maturity. Although any individual draw-downs are repayable within 12 months of the balance sheet date, the group expects to renew this funding and immediate renewal is available under the £400m facility until October 2021. 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 May 2016 the group issued an additional £300m of secured loan notes with a fixed coupon of 4.06% (tranche A6) in connection with the securitisation of an additional 89 of the group's pubs.

23 Borrowings continued

Greene King secured financing vehicle continued

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

Tranche	Nominal value (£m)	Carrying value (£m)[1] 2017	2016	Interest	Interest rate (%)[2]	Last repayment period	Weighted average life[3]
A1	104.3	**103.3**	112.8	Floating	6.11	2031	5.8 years
A2	232.5	**230.4**	235.7	Fixed	5.32	2031	9.3 years
A3	61.4	**60.6**	72.6	Floating	6.09	2021	2.4 years
A4	258.9	**257.7**	257.6	Fixed	5.11	2034	11.4 years
A5	235.1	**235.1**	242.9	Floating	3.93	2033	9.9 years
A6	290.6	**285.8**	—	Fixed	4.06	2035	10.0 years
B1	120.9	**120.1**	120.0	Fixed/floating	5.7[4]	2034	16.2 years
B2	99.9	**99.5**	99.3	Floating	6.92	2036	18.3 years
	1,403.6	**1,392.5**	1,140.9				

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 24.
3. This assumes notes are held until final maturity.
4. B1 tranche switches to floating rate L+1.80% in March 2020 with a swap rate of 5.16%-L.

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

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

1. For variable rate bonds the interest rate payable is 3-month LIBOR (L) plus the margin as shown.

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

The Class A1, A2, A3, A4, A5 and A6 bonds rank pari passu in point of security and as to payment of interest and principal, and have preferential interest payment and repayment rights over the Class B bonds. The Class B1 and B2 bonds rank pari passu in point of security, principal repayment and interest payment.

The securitisation is governed by various covenants, warranties and events of default, many of which apply to Greene King Retailing Limited, a group company. These include covenants regarding the maintenance and disposal of securitised properties and restrictions on its ability to move cash to other group companies.

During the year the group settled mark-to-market liabilities in respect of the A5 swap and as a result the swap was re-couponed from a fixed rate of 5.26% to a market rate of 1.43%.

Liquidity facility

In 2014 the standby liquidity facility provider to the Greene King secured financing vehicle, the Royal Bank of Scotland, had its short-term credit rating downgraded below the minimum prescribed in the facility agreement and as such the group exercised its entitlement to draw the full amount of the facility and hold it in a designated bank account. The corresponding balance of £157.5m (2016: £157.5m) held in this bank account is included within cash and cash equivalents. The amounts drawn down can only be used for the purpose of meeting the securitisation's debt service obligations should there ever be insufficient funds available from operations to meet such payments. As such these amounts are considered to be restricted cash.

23 Borrowings continued

Spirit secured financing vehicle

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

The group's secured loan notes, issued by Spirit Issuer plc, consist of the following:

Tranche	Nominal value (£m)	Carrying value (£m)[1] 2017	Carrying value (£m)[1] 2016	Interest	Interest rate (%)[2]	Last repayment period	Weighted average life[3]
A1	29.5	**26.3**	25.9	Floating	8.37	2026	8.7 years
A2	186.6	**181.8**	181.3	Floating	9.42	2029	10.7 years
A3	27.7	**27.1**	37.2	Floating	6.13	2019	1.3 years
A4	207.7	**218.4**	220.5	Fixed/floating	6.58[4]	2025	5.3 years
A5	158.5	**165.5**	166.1	Fixed/floating	6.49[4]	2032	13.9 years
A6	101.3	**99.5**	98.3	Floating	8.52[5]	2036	17.8 years
A7	58.4	**59.0**	59.4	Floating	8.48[5]	2036	17.8 years
	769.7	**777.6**	788.7				

1. Carrying value includes premium arising from fair value adjustment.
2. Includes the cost of a financial guarantee provided by Ambac and the effect of interest rate swap rates on the floating notes. The group's interest rate swap arrangements are discussed in note 24.
3. This assumes notes are held until final maturity.
4. The following tranches switch to floating rate A4 L+2.78% in December 2018 with swap rate 4.56%-L and Class A5 L+0.75% in December 2028 with swap rate 4.56%-L.
5. The following floating rate notes will have margin step-up to Class A6 L+3.30% in September 2018 and Class A7 L+5.45% in September 2018.

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

Tranche	Interest rate payable[1]	Interest rate swap	Total interest rate
A1	L+1.69%	6.68%-L	8.37%
A2	L+2.74%	6.68%-L	9.42%
A3	L+1.60%	4.53%-L	6.13%
A6	L+1.84%	6.68%-L	8.52%
A7	L+3.95%	4.53%-L	8.48%

1. For variable rate bonds the rate payable is 3-month LIBOR (L) plus the margin as shown and for the A1, A2, A3 and A6 bonds includes guarantee fees payable to Ambac.

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

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

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

On 28 June 2017 the group repaid the £27.7m Class A3 secured loan note issued by Spirit Issuer plc at par.

Obligations under finance leases

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

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

	2017 Minimum lease payments £m	**2017** Present value of future obligations £m	2016 Minimum lease payments £m	2016 Present value of future obligations £m
Within 1 year	**1.6**	**1.6**	1.6	1.6
Within 1 to 5 years	**4.9**	**4.0**	5.3	4.5
Over 5 years	**52.0**	**16.0**	53.1	16.1
	58.5	**21.6**	60.0	22.2

Notes to the accounts continued

For the fifty-two weeks ended 30 April 2017

24 Financial instruments

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

The principal financial instruments held for the purpose of raising finance for operations are bank loans and overdraft, secured bonds, cash and short-term deposits. Other financial instruments arise directly from the operations of the group, such as trade and other receivables, trade payables and trade loans.

Derivative financial instruments, principally interest rate swaps, are used to manage the interest rate risks related to the group's operations and financing sources. No speculative trading in derivative financial instruments is undertaken.

The main risks from the group's financial instruments are interest rate risk, liquidity risk and credit risk. The policy for managing each of these risks is set out below.

Interest rate risk

Exposure to changes in interest rates on the group's borrowings is reviewed with regard to the maturity profile and cash flows of the underlying debt. The group uses a mixture of fixed and floating interest rate debt with exposure to market interest rate fluctuations primarily arising from the floating rate instruments. The group'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 6 months.

In accordance with IFRS 7, the group has undertaken sensitivity analysis on its financial instruments which are affected by changes in interest rates. This analysis has been prepared on the basis of a constant amount of net debt, a constant ratio of fixed to floating interest rates, and on the basis of the hedging instruments in place at 30 April 2017 and 1 May 2016. 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 £47.8m (2016: £50.6m) and the group's OCI by £65.4m (2016: £82.9m). An increase in interest rates would increase the group's profit.

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

The percentage of net debt that was fixed as at the year end was 95.8% (2016: 96.1%), in line with the group's target of fixing at least 95% of all net debt.

Liquidity risk

The group mitigates liquidity risk by managing cash generated by its operations combined with bank borrowings and long-term debt. The group's objective is to maintain a balance between the continuity of funding and flexibility through the use of overdrafts and bank loans. The group also monitors the maturity of financial liabilities to avoid the risk of a shortage of funds.

The standard payment terms that the group has with its suppliers is 60 days following month end (2016: 60 days following month end).

Excess cash used in managing liquidity is placed on interest-bearing deposit with maturities fixed at no more than 1 month. Short-term flexibility is achieved through the use of short-term borrowing on the money markets under the group's revolving credit facility.

The table below summarises the maturity profile of the group's financial liabilities at 30 April 2017 and 1 May 2016 based on contractual undiscounted payments including interest.

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

24 Financial instruments continued

Liquidity risk continued

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

Credit risk

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

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

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

Financial instruments qualifying for hedge accounting

(i) Greene King secured financing vehicle

At 30 April 2017 the group held 4 (2016: 4) interest rate swap contracts for a nominal value of £500.7m (2016: £530.0m), which are designated cash flow hedges against £500.7m (2016: £530.0m) of variable rate bonds. These swaps are hedges of the A1, A3, A5 and B2 tranches, receiving a variable rate of interest based on LIBOR and paying a fixed rate of 5.155% on the A1 tranche, 4.837% on the A3 tranche, 1.426% on the A5 tranche and 4.837% on the B2 tranche. The weighted average fixed rate of the swaps was 3.3% (2016: 5.1%).

In addition, the group holds 1 (2016: 1) forward starting swap commencing when the B1 notes 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 5 interest rate swaps are held on the balance sheet at fair value of £146.6m (2016: £214.6m). The contract maturity dates range from September 2021 to March 2036. Retrospective quantitative hedge effectiveness testing is performed and the bonds and related interest rate swaps have the same critical terms excluding credit risk.

Changes in cash flow hedge fair values are recognised in the hedging reserve to the extent that the hedges are effective. The interest rate swaps have been assessed as highly effective during the period and are expected to remain highly effective over their remaining contract lives. The ineffectiveness amounting to £0.2m loss (2016: £0.3m gain) has been recognised within finance costs/income.

(ii) Unsecured bank loans

At 30 April 2017 the group held no interest rate swap contracts for the unsecured bank loans. At 1 May 2016 the group held 2 interest rate swap contracts for a nominal value of £100m, designated as a hedge of the cash flow interest rate risk of the £315m drawn down from the revolving credit facility in the year. The interest rate swaps were held on the balance sheet as a fair value liability of £34.6m. The cash flows occurred quarterly based on a variable rate of interest based on LIBOR.

In the year, the group settled interest rate swap liabilities in respect of 2 swaps, one designated a hedge of the A5 secured bond and the other designated a hedge of the group's unsecured bank loan. A loss of £11.8m was recycled from the hedging reserve to the income statement in respect of these swaps and the remaining losses recognised in the hedging reserve will be recycled over the period over which the hedged forecast cash flows affect profit or loss. The swap designated a hedge of the A5 bond was amended to reflect market terms and remained in place at the year end and the swap designated a hedge of the unsecured bank loan was cancelled.

In addition a swap held as a hedge of the unsecured bank loans matured in the year.

Financial instruments not qualifying for hedge accounting

At 30 April 2017 the group held 3 (2016: 3) interest rate swap contracts for a nominal value of £349.7m (2016: £376m). The swaps, which do not qualify for hedge accounting are in respect of the A1, A2, A3, A6 and A7 tranches of Spirit bonds, receive a variable rate of interest based on LIBOR and pay a fixed rate of 6.681% on class A1, A2 and A6 and 4.529% on class A3 and A7. The weighted average fixed rate of the swaps was 6.3% (2016: 6.2%).

The fixed rate payable on the interest rate swaps associated with the A1, A2 and A6 bonds increases to 6.791% from September 2018.

In addition, the group holds 2 (2016: 2) forward starting swap contracts commencing when the class A4 and A5 notes switch from fixed rate interest to floating rate in December 2018 and December 2028, respectively. The swaps will receive a variable rate of interest based on LIBOR and pay a fixed rate of 4.555%.

Upon the acquisition of Spirit Pub Company, the swaps were deemed ineffective hedges and therefore do not qualify for hedge accounting, with movements in their fair value being recognised in the income statement. The interest rate swaps are held on the balance sheet as a fair value liability of £198.1m (2016: £191.7m). The cash flows occurred quarterly based on a variable rate of interest based on LIBOR.

The fair value movement in the year splits into cash payments made of £21.0m (2016: £21.7m) recognised in pre-exceptional finance costs net of amortisation of fair value on acquisition of £13.9m (2016: £12.3m).

Notes to the accounts continued

For the fifty-two weeks ended 30 April 2017

24 Financial instruments continued

Financial instruments not qualifying for hedge accounting continued

These amounts are included within pre-exceptional profits as they can be deemed to be the market rate of the acquired swaps. In the year, there was a partial break in the swaps resulting in a cash payment of £3.2m. The remainder of the fair value movement is recognised as a charge in exceptional finance costs amounting to £23.6m (2016: £39.1m) as it is considered to be more volatile and its inclusion in pre-exceptional profit would hinder year-on-year comparability of performance.

Where the nominal value of the derivative exceeds that of the related secured note (for example, due to early repayment of floating rate notes) the group will seek to eliminate the over-hedging where this is financially practicable. At 30 April 2017, there are £2.9m (2016: £5.7m) of interest swaps outstanding on cancelled floating rate notes which relate to the Spirit secured debt.

Fair values

Set out in the table below is a comparison of carrying amounts and fair values of all of the group's financial instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents (comprising cash at bank and in hand and short-term deposits) – approximates to the carrying amount stated in the accounts.
- Trade receivables – approximates to the carrying amount because of the short maturity of these instruments.
- Financial assets – these are carried at amortised cost using the effective interest method and fair value is deemed to be the same as this.
- Overdrafts – approximates to the carrying amount because of the short maturity of these instruments.
- Long-term loans – based on quoted market prices in the case of the securitised debt; approximates to the carrying amount in the case of the floating rate bank loans and other variable rate borrowings.
- Interest rate swaps – calculated by discounting all future cash flows by the market yield curve at the balance sheet date and adjusting for, where appropriate, the group's and counterparty credit risk. The changes in credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships.
- Trade payables and accruals – approximates to the carrying amount because of the short maturity of these instruments.
- Finance lease obligations and off-market contract liabilities (excludes off-market lease liability) – estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

	Hierarchical classification	**Fair value 2017 £m**	**Carrying value 2017 £m**	Fair value 2016 £m	Carrying value 2016 £m
Financial liabilities					
Overdraft	Level 2	**—**	**—**	5.8	5.8
Interest-bearing loans and borrowings					
– Secured debt:					
Issued by Greene King Finance plc	Level 1	**1,478.0**	**1,392.5**	1,158.0	1,140.9
Issued by Spirit Issuer plc	Level 1	**776.0**	**777.6**	757.3	788.7
– Floating rate bank loans	Level 2	**168.3**	**168.3**	315.0	315.0
– Liquidity facility loan	Level 2	**157.5**	**157.5**	157.5	157.5
Interest rate swaps	Level 2	**344.8**	**344.8**	440.9	440.9
Trade payables and accruals	Level 2	**334.8**	**334.8**	318.3	318.3
Finance lease obligations	Level 2	**21.6**	**21.6**	22.2	22.2
Off-market contract liabilities	Level 2	**21.1**	**21.1**	22.6	22.6
Financial assets					
Cash	Level 2	**(285.5)**	**(285.5)**	(224.2)	(224.2)
Trade receivables	Level 2	**(73.9)**	**(73.9)**	(63.2)	(63.2)
Liquidity facility reserve	Level 2	**(157.5)**	**(157.5)**	(157.5)	(157.5)
Financial assets	Level 3	**(26.4)**	**(26.4)**	(26.6)	(26.6)

Carrying values of the secured debt issued by Greene King Finance plc are stated net of any deferred finance fees which amounted to £11.1m (2016: £6.9m). The carrying values of the secured debt issued by Spirit Issuer plc include premium arising from fair value adjustments of £7.9m (2016: £8.2m). Floating rate bank loan notes are stated net of deferred finance fees of £1.7m (2016: £nil).

24 Financial instruments continued

Hierarchical classification of financial assets and liabilities measured at fair value

IFRS 13 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive fair value. The classification uses the following three-level hierarchy:

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

Level 2 – other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3 – techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

During the periods ending 30 April 2017 and 1 May 2016 there were no transfers between levels 1, 2, or 3 fair value measurements.

Capital risk management

The group aims to maximise shareholder value by maintaining a strong credit rating and a core level of debt which optimises the weighted average cost of capital (WACC) and shareholder value.

A number of mechanisms are used to manage 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 maintain a minimum dividend cover of 2 times adjusted basic earnings per share.

25 Off-market contract liabilities and provisions

	Off-market liabilities £m	Property leases £m	Indirect tax provisions £m	Total provisions £m
At 3 May 2015	—	6.6	—	6.6
Acquisitions (note 17)	312.7	7.4	23.0	343.1
Unwinding of discount element of provisions	12.2	0.4	—	12.6
Provided for during the period	—	—	0.4	0.4
Utilised during the period	(25.0)	(0.4)	—	(25.4)
At 1 May 2016	299.9	14.0	23.4	337.3
Unwinding of discount element of provisions	13.8	0.4	—	14.2
Provided for during the period	—	4.4	2.2	6.6
Realised	(6.3)	(1.0)	—	(7.3)
Utilised during the period	(22.0)	(1.9)	—	(23.9)
At 30 April 2017	**285.4**	**15.9**	**25.6**	**326.9**

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

	30 April 2017				1 May 2016			
	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	**21.3**	**1.3**	**25.6**	**48.2**	22.4	1.3	23.4	47.1
Non-current	**264.1**	**14.6**	**—**	**278.7**	277.5	12.7	—	290.2
	285.4	**15.9**	**25.6**	**326.9**	299.9	14.0	23.4	337.3

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 18 years (2016: 19 years). The remainder of the balance held relates to an unfavourable guarantee contract.

Property leases

The provision for property leases has been set up to cover operating costs of vacant or loss-making premises as well as dilapidation requirements. Payments are expected to be ongoing on these properties for an average of 15 years (2016: 15 years).

Notes to the accounts continued

For the fifty-two weeks ended 30 April 2017

25 Off-market contract liabilities and provisions continued

Indirect tax provisions

During a previous period the Greene King group received VAT refunds of £7.0m and prior to its acquisition 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 principle of fiscal neutrality. HMRC successfully appealed the decision in October 2013 and the Greene King group was therefore required to repay the VAT refund of £7.0m and associated interest of £1.7m. However, HMRC did not seek to recover the VAT refunded to the Spirit Pub Company of £17.9m and associated interest of £6.1m 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.

In addition the group has made a provision of £1.5m for stamp duty land tax (SDLT) that may arise as a consequence of settling the only other historical tax position with HMRC, an internal property arrangement implemented in 2012. Discussions with HMRC are at a relatively early stage and disclosing the range of possible outcomes may be prejudicial to the group's position which it will continue to defend robustly.

26 Share capital

	2017		2016	
	Number of issued shares m	**Share capital £m**	Number of issued shares m	Share capital £m
Called up, allotted and fully paid				
At beginning of period	**309.2**	**38.6**	219.7	27.5
Issue of share capital – Spirit acquisition	**—**	**—**	89.1	11.1
Issue of share capital – share options exercised	**0.7**	**0.1**	0.4	—
At end of period	**309.9**	**38.7**	309.2	38.6

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

27 Reserves

Share premium account

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

Merger reserve

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

Capital redemption reserve

Capital redemption reserve arose from the purchase and cancellation of own share capital, and represents the nominal amount of the share capital cancelled.

Hedging reserve

Hedging reserve adjustments arise from the movement in fair value of the group's derivative instruments used as an effective hedge, in line with the accounting policy disclosed in note 1. Amounts recycled to income are included within finance costs in the income statement.

Own shares

Own shares relate to shares held in treasury, held by the employee benefit trust or purchased to fulfil awards made under the deferred share bonus scheme. At 30 April 2017 nil shares (2016: nil) were held in treasury, 0.1m shares (2016: 0.04m) were held by the employee benefit trust and nil (2016: nil) were held to fulfil awards under the deferred share bonus scheme. The market value at 30 April 2017 of the treasury shares was £nil (2016: £nil), of the shares held by the employee benefit trust was £0.2m (2016: £0.3m) and of the shares held for the deferred share bonus scheme was £nil (2016: £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 (2016: nil) treasury shares and nil (2016: nil) shares in the employee benefit trust were allocated to meet awards under the long-term incentive plan.

A transfer of £1.6m (2016: £4.7m) from own shares to retained earnings has been made to reflect transfers to satisfy awards under the long-term incentive plan and options exercised under the executive share option plan and reflects the weighted average cost of own shares.

During the period nil (2016: nil) shares were repurchased at a cost of £nil (2016: £nil) to fulfil awards made under the deferred share bonus scheme with nil (2016: nil) shares transferred to individuals to satisfy awards. The employee benefit trust purchased 0.8m shares (2016: nil) at a cost of £1.6m (2016: £nil) and 0.74m (2016: 0.57m) shares were transferred to satisfy awards under the long-term incentive plan.

Goodwill

The cumulative amount of goodwill written off to retained earnings in respect of acquisitions made prior to May 1998 amounts to £89.7m.

28 Working capital and non-cash movements

	2017 £m	2016 £m
Increase in inventories	**(3.7)**	(0.2)
(Increase)/decrease in trade and other receivables	**(10.4)**	4.9
Increase/(decrease) in trade and other payables	**24.4**	(28.7)
Decrease in off-market contract liabilities	**(22.0)**	(25.0)
Decrease in provisions	**(1.9)**	—
Other non-cash movement	**—**	3.1
Share-based payment expense	**2.7**	6.2
Difference between defined benefit pension contributions paid and amounts charged	**(3.9)**	(10.4)
Operating exceptional and non-underlying items	**(14.4)**	(25.0)
Working capital and other movements	**(29.2)**	(75.1)

29 Analysis of and movements in net debt

	2017 £m	2016 £m
Cash at bank and in hand and short-term deposits[1]	**285.5**	224.2
Liquidity facility reserve[1]	**157.5**	157.5
Overdrafts	**—**	(5.8)
Current portion of borrowings	**(62.2)**	(47.0)
Liquidity facility loan	**(157.5)**	(157.5)
Non-current portion of borrowings	**(2,297.8)**	(2,219.8)
Closing net debt	**(2,074.5)**	(2,048.4)

1. Included in cash and cash equivalents on the balance sheet.

Movement in net debt

	2017 £m	2016 £m
Net increase in cash and cash equivalents	**67.1**	165.6
Proceeds – advances of borrowings	**—**	(65.0)
Repayment of principal – securitised debt	**55.0**	44.0
Repayment of bank loans	**145.0**	—
Repayment of principal – finance leases	**0.6**	—
Securitised bond issuance	**(300.0)**	—
Debt acquired through acquisitions (note 17)	**—**	(822.0)
Finance issue costs	**7.1**	—
Increase in net debt arising from cash flows	**(25.2)**	(677.4)
Other non-cash movements	**(0.9)**	(2.3)
Increase in net debt	**(26.1)**	(679.7)
Opening net debt	**(2,048.4)**	(1,368.7)
Closing net debt	**(2,074.5)**	(2,048.4)

Notes to the accounts continued

For the fifty-two weeks ended 30 April 2017

30 Financial commitments

The group has entered into commercial leases on certain properties and items of plant and machinery. The terms of the leases vary but typically on inception a property lease will be for a period of up to 30 years and plant and machinery will be for up to 6 years. Most property leases have an upwards-only rent review based on open market rents at the time of the review.

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

	2017 £m	2016 £m
Within 1 year	**80.5**	81.9
Between 1 and 5 years	**304.6**	315.2
After 5 years	**1,201.9**	1,281.7
	1,586.9	1,678.8

Operating leases for which an off-market liability has been recognised on acquisition have been included in the above.

The group leases part of its licensed estate and other non-licensed properties to tenants. The majority of lease agreements have terms of between 6 months and 25 years and are classified for accounting purposes as operating leases. Most of the leases with terms of over 3 years include provision for rent reviews on either a 3-year or 5-year basis.

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

	2017 £m	2016 £m
Within one year	**45.5**	47.0
Between one and five years	**131.5**	145.0
After five years	**124.5**	133.1
	301.5	325.1

Future minimum lease rentals include £5.0m (2016: £1.5m) receivable in respect of non-cancellable subleases.

31 Related party transactions

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

Greene King Finance plc and Spirit Issuer plc are structured entities set up to raise bond finance for the group, and as such are deemed to be related parties. The results and financial position of the entities have been consolidated.

Compensation of directors and other key management personnel of the group

	2017 £m	2016 £m
Short-term employee benefits (including National Insurance contributions)	**5.1**	4.9
Post-employment pension and medical benefits	**0.6**	0.5
Termination benefits	**—**	1.0
Share-based payments	**0.1**	2.3
	5.8	8.7

Key management personnel

Key management personnel are deemed to be those employees who are directors of Greene King plc or its subsidiaries.

Directors' interests in an employee share incentive plan

Details of the options held by executive members of the board of directors are included in the remuneration report. No options have been granted to the non-executive members of the board of directors under this scheme.

32 Post balance sheet events

Final dividend

A final dividend of 24.4p per share (2016: 23.6p) amounting to a dividend of £75.6m (2016: £72.9m) was proposed by the directors at their meeting on 28 June 2017. These financial statements do not reflect the dividend payable.

Borrowings

On 28 June 2017 the group repaid the £27.7m Class A3 secured loan note issued by Spirit Issuer plc at par.

33 Contingent liabilities

The group has provided guarantees totalling £0.4m at 30 April 2017 (2016: £0.8m) in respect of free trade customers' bank borrowings.

Company balance sheet

As at 30 April 2017

Registered number: 24511

	Note	As at 30 April 2017 £m	As at 1 May 2016 £m
Fixed assets			
Investments	38	**3,493.5**	3,381.9
Current assets			
Debtors			
Amounts due from subsidiaries		**470.5**	270.7
Cash		**34.7**	—
Creditors: amounts falling due within one year			
Bank overdraft		**—**	(4.4)
Income tax payable		**—**	(6.4)
Other creditors	39	**(2,455.8)**	(1,921.1)
Net current liabilities		**(1,950.6)**	(1,661.2)
Total assets less current liabilities		**1,542.9**	1,720.7
Creditors: amounts falling due after more than one year			
Borrowings	40	**(168.3)**	(315.0)
Net assets		**1,374.6**	1,405.7
Capital and reserves			
Called up share capital	41	**38.7**	38.6
Share premium account	42	**261.7**	261.0
Merger reserve	42	**752.0**	752.0
Revaluation reserve		**2.5**	2.5
Other reserve	42	**93.9**	93.9
Own shares	42	**(0.2)**	(0.2)
Retained earnings[1]		**226.0**	257.9
Equity attributable to owners of the parent		**1,374.6**	1,405.7

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 £70.2m (2016: £22.7m).

Signed on behalf of the board on 28 June 2017

P E Yea
Director

R Anand
Director

Company statement of changes in equity

For the fifty-two weeks ended 30 April 2017

	Called up share capital £m	Share premium account £m	Merger reserve £m	Revaluation reserve £m	Hedging reserve £m	Other reserve £m	Own shares £m	Retained earnings £m	Total £m
At 3 May 2015	**27.5**	**259.3**	**—**	**2.5**	**(1.2)**	**93.9**	**(4.9)**	**329.1**	**706.2**
Profit for the period	—	—	—	—	—	—	—	22.7	22.7
Other comprehensive income:									
Cash flow hedges – loss taken to equity	—	—	—	—	1.2	—	—	—	1.2
Total comprehensive income	**—**	**—**	**—**	**—**	**1.2**	**—**	**—**	**22.7**	**23.9**
Issue of ordinary share capital	11.1	1.7	752.0	—	—	—	—	—	764.8
Transaction costs for share issue	—	—	—	—	—	—	—	(2.1)	(2.1)
Release of shares	—	—	—	—	—	—	4.7	(4.7)	—
Share-based payments	—	—	—	—	—	—	—	6.2	6.2
Equity dividends paid	—	—	—	—	—	—	—	(93.3)	(93.3)
At 1 May 2016	**38.6**	**261.0**	**752.0**	**2.5**	**—**	**93.9**	**(0.2)**	**257.9**	**1,405.7**
Profit for the period	—	—	—	—	—	—	—	70.2	70.2
Other comprehensive income:									
Cash flow hedges – loss taken to equity	—	—	—	—	—	—	—	—	—
Total comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**70.2**	**70.2**
Issue of ordinary share capital	0.1	0.7	—	—	—	—	—	—	0.8
Purchase of shares	—	—	—	—	—	—	(1.6)	—	(1.6)
Release of shares	—	—	—	—	—	—	1.6	(1.6)	—
Share-based payments	—	—	—	—	—	—	—	(0.4)	(0.4)
Equity dividends paid	—	—	—	—	—	—	—	(100.1)	(100.1)
At 30 April 2017	**38.7**	**261.7**	**752.0**	**2.5**	**—**	**93.9**	**(0.2)**	**226.0**	**1,374.6**

Notes to the company accounts

For the fifty-two weeks ended 30 April 2017

34 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.

The company has taken advantage of the following disclosure exemptions under FRS 101:

– the requirements of IAS 7 Statement of Cash Flows;

– the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; to disclose IFRSs issued but not effective;

– the requirements of IFRS 2 Share-based Payments;

– the requirements of IFRS 7 Financial Instruments: Disclosures;

– the requirements of IFRS 13 Fair Value Measurements;

– the requirements of IAS 24 Related Party Disclosures, to present key management personnel compensation and intragroup transactions including wholly owned subsidiaries;

– the requirements of IAS 1 Presentation of Financial Statements, to present certain comparative information and capital management disclosures; and

– the requirements of IFRS 1 to present an opening statement of financial position when adopting FRS 101 for the first time.

The basis for all of the above exemptions is because equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

Greene King plc is a public company limited by shares incorporated and domiciled in England and Wales. The company's shares are listed on the London Stock Exchange.

Investments

Investments in subsidiaries are recorded at cost less impairment and held as fixed assets on the balance sheet. The carrying value of investments is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. On transition to FRS 101, the previous GAAP carrying amount at the date of transition was regarded as deemed cost.

Taxation

Corporation tax payable is provided on taxable profits using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Financial instruments

Financial instruments are recognised when the company becomes party to the contractual provisions of the instrument and are derecognised when the company no longer controls the contractual rights that comprise the financial instrument, normally through sale or when all cash flows attributable to the instrument are passed to an independent third party.

Borrowings

All loans and borrowings are initially recognised at fair value of the consideration received, net of issue costs. After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method.

Derivative financial instruments and hedge accounting

The company uses interest rate swaps to hedge its exposure to interest rate fluctuations on its variable rate borrowings.

Interest rate swaps are initially measured at fair value, if any, and carried on the balance sheet as an asset or liability. Subsequent measurement is at fair value determined by reference to market values for similar instruments. If a derivative does not qualify for hedge accounting the gain or loss arising on the movement in fair value is recognised in the profit and loss account.

Hedge accounting

To qualify for hedge accounting the hedge relationship must be designated and documented at inception. Documentation must include the company's risk management objective and strategy for undertaking the hedge and formal allocation to the item or transaction being hedged. The company also documents how it will assess the effectiveness of the hedge and carries out assessments on a regular basis to determine whether it has been, and is likely to continue to be, highly effective.

Hedges can be classified as either fair value (hedging exposure to changes in fair value of an asset or liability), or cash flow (hedging the variability in cash flows attributable to an asset, liability or forecast transaction). The company uses its interest rate swaps as cash flow hedges.

For these cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the profit and loss account when the hedged transaction affects the income statement.

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

Notes to the company accounts continued

For the fifty-two weeks ended 30 April 2017

34 Accounting policies continued

Own shares

Own shares consist of treasury shares and shares held within an employee benefit trust. The company has an employee benefit trust for the granting of shares to applicable employees.

Own shares are recognised at cost as a deduction from equity shareholders' funds. Subsequent consideration received for the sale of such shares is also recognised in equity, with any difference between the sale proceeds and the original cost being taken to retained earnings. No gain or loss is recognised in the performance statements on transactions in treasury shares.

Share-based payments

Certain employees and directors receive equity-settled remuneration, whereby they render services in exchange for shares or rights over shares. The fair value of the shares and options granted is measured using a Black-Scholes model, at the date at which they were granted. No account is taken in the fair value calculation of any vesting conditions (service and performance), other than market conditions (performance linked to the price of the shares of the company). Any other conditions that are required to be met in order for an employee to become fully entitled to an award are considered non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value. The fair value of shares and options granted is recognised as an employee expense with a corresponding increase in equity spread over the period in which the vesting conditions are fulfilled ending on the relevant vesting date. The cumulative amount recognised as an expense reflects the extent to which the vesting period has expired, adjusted for the estimated number of shares and options that are ultimately expected to vest. The periodic charge or credit is the movement in the cumulative position from beginning to end of that period.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Significant accounting judgments and estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions in the application of accounting policies that affect reported amounts of assets and liabilities, income and expense. The company bases its estimates and judgments on historical experience and other factors deemed reasonable under the circumstances, including any expectations of future events. Actual results may differ from these estimates. No estimates or judgments were considered to be significant.

35 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 £70.2m (2016: £22.7m).

36 Auditor's remuneration

Auditor's remuneration in respect of the company audit was £16,500 (2016: £16,500). The figures for auditor's remuneration for the company required by regulation 5(1)(b) of the Companies Regulations 2008 are not presented here as the group accounts comply with this regulation on a consolidated basis.

37 Directors' remuneration and employee costs

Details of directors' remuneration are contained in the directors' remuneration report on pages 61 to 67. 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.

38 Investments

	Investments in subsidiaries £m	Loans to subsidiaries £m	Total £m
Cost at 3 May 2015	1,582.9	1,038.2	2,621.1
Additions	777.8	—	777.8
Share-based payment awards to employees of subsidiaries	6.2	—	6.2
Cost at 1 May 2016	2,366.9	1,038.2	3,405.1
Additions	—	112.0	112.0
Share-based payment awards to employees of subsidiaries	(0.4)	—	(0.4)
Cost at 30 April 2017	**2,366.5**	**1,150.2**	**3,516.7**
Impairment at 3 May 2015 and 1 May 2016	(23.2)	—	(23.2)
Impairment at 30 April 2017	**(23.2)**	**—**	**(23.2)**
NBV at 30 April 2017	**2,343.3**	**1,150.2**	**3,493.5**
NBV at 1 May 2016	2,343.7	1,038.2	3,381.9
NBV at 3 May 2015	1,559.7	1,038.2	2,597.9

Principal subsidiaries

For a full list of all subsidiaries see note 16.

Interest on amounts owed to and from group undertakings accrues at a rate of LIBOR + 1.0% and is receivable at interim and year-end dates.

39 Other creditors

	2017 £m	2016 £m
Accruals	**2.0**	2.3
Amounts owed to subsidiaries	**2,453.8**	1,918.8
	2,455.8	1,921.1

Interest on amounts owed to and from group undertakings accrues at a rate of LIBOR + 1.0% and is payable at interim and year-end dates.

40 Borrowings

	2017			2016		
	Within one year £m	**After one year £m**	**Total £m**	Within one year £m	After one year £m	Total £m
Bank loans – floating rate	**—**	**168.3**	**168.3**	—	315.0	315.0

At 30 April 2017 the company held no (2016: 1) interest rate swap contracts to hedge cash flow interest rate risk related to floating rate debt. At the end of the prior period the swap had a nominal value of £40m and was held on the balance sheet as a net fair value liability of £nil.

Bank loans due after 1 year are repayable as follows:

	2017 £m	2016 £m
Due between 2 and 5 years	**168.3**	315.0

Although the draw-down is repayable within 12 months of the balance sheet date, immediate renewal is available until October 2021 (2016: June 2018) for the facility.

41 Allotted and issued share capital

Allotted, called up and fully paid	**2017 £m**	2016 £m
Ordinary shares of 12.5p each		
309.9m shares (2016: 309.2m)	**38.7**	38.6

Further information on share capital is given in note 26. Details of options granted and outstanding are included in note 8.

Notes to the company accounts continued

For the fifty-two weeks ended 30 April 2017

42 Reserves

Share premium account

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

Merger reserve

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

Other reserve

The other reserve consists of a £3.3m (2016: £3.3m) capital redemption reserve arising from the purchase of own share capital and £90.6m (2016: £90.6m) arising from the transfer of revalued assets to other group companies and will only be realised when the related assets are disposed of by the group.

Hedging reserve

Hedging reserve adjustments arise from the movement in fair value of the company's derivative instruments used as an effective hedge, in line with the accounting policy disclosed in note 34.

Own shares

Own shares relate to shares held in treasury and by the employee benefit trust. Movement in own shares is described in note 27.

43 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.

44 Post balance sheet events

Final dividend

A final dividend of 24.4p per share (2016: 23.6p) amounting to a dividend of £75.6m (2016: £72.9m) was proposed by the directors at their meeting on 28 June 2017. These financial statements do not reflect the dividend payable.

Glossary – alternative performance measures

The performance of the group is assessed using a number of alternative performance measures (APMs).

The group's results are presented both before and after exceptional and non-underlying items. Adjusted profitability measures are presented excluding exceptional and non-underlying items as we believe this provides both management and investors with useful additional information about the group's performance and aids a more effective comparison of the group's trading performance from 1 period to the next and with similar businesses. Adjusted profitability measures are reconciled to unadjusted IFRS results on the face of the income statement with details of exceptional and non-underlying items provided in note 5.

In addition, the group's results are described using certain other measures that are not defined under IFRS and are therefore considered to be APMs. These measures are used by management to monitor ongoing business performance against both shorter-term budgets and forecast but also against the group's longer-term strategic plans. The definition of each APM presented in this report and, also, where a reconciliation to the nearest measure prepared in accordance with IFRS can be found is shown below.

APMs used to explain and monitor group performance:

Measure	Definition	Location of reconciliation to GAAP measure
Group EBITDA	Earnings before interest, tax, depreciation, amortisation 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 items and non-underlying items	Group operating profit excluding exceptional and non-underlying items.	Group income statement
Operating profit margin	Operating profit margin is calculated by dividing operating profit before exceptional and non-underlying items by revenue.	
Net interest before exceptional items	Group finance costs excluding exceptional and non-underlying items.	Note 7 to the financial statements
Profit before tax and exceptional 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 12 to the financial statements
ROI	Return on investment across all our core pub businesses. Calculated as the average incremental increase in pub EBITDA post-investment divided by the total core capex invested in completed developments.	Note A on page 129
Net debt : EBITDA	Net debt as disclosed on the group balance sheet divided by annualised EBITDA. Pro-forma net debt : EBITDA, disclosed for the 2016 financial year, includes pro-forma 7 weeks' pre-acquisition Spirit EBITDA.	Note B on page 129
Free cash flow	EBITDA less working capital and non-cash movements (excluding exceptional items), tax payments (excluding amounts paid in respect of settlements of historical tax positions and adjusted for the impact of HMRC payment regime changes), interest payments (excluding payment of interest in respect of tax settlements), core capex, dividends and other non-cash movements.	Note C on page 129
Fixed charge cover	Calculated by dividing EBITDAR less maintenance capex by the sum of interest paid and rental costs.	Note D on page 130
ROCE	Return on capital employed. Calculated by dividing annualised pre-exceptional operating profit by periodic average capital employed. Capital employed is defined as total net assets excluding deferred tax balances, derivatives, post-employment liabilities and net debt.	Note E on page 130
Core capex	Capital expenditure excluding amounts relating to the group's brand swap programme, Spirit integration, other acquisitions and new build sites.	Note F on page 130
Non-returning capex	Pub investment not expected to generate incremental revenues for the group.	Note F on page 130

Glossary – alternative performance measures continued

APMs used to explain and monitor the performance of the group business segments:

Measure	Definition	Location of reconciliation to GAAP measure
Pub Company like-for-like (LFL) sales growth	Pub Company LFL sales include revenue from the sale of drink, food and accommodation but exclude machine income. LFL sales performance is calculated against a comparable 52-week period in the prior year for pubs that were trading for the entirety of both 52-week periods. The calculations include figures for acquired Spirit pubs for a comparable 52-week period in both the current and comparative financial years.	Note G on page 131
Pub Company operating profit before exceptional and non-underlying items	Pub Company operating profit excluding exceptional and non-underlying items.	Note 2 to the financial statements
Pub Company EBITDA	Pub Company earnings before interest, tax, depreciation, amortisation and exceptional and non-underlying items.	Note 2 to the financial statements
Pub Company EBITDA per pub	Calculated by dividing Pub Company EBITDA by the average number of pubs trading in a financial period.	
Pub Partners LFL net profit growth	Pub Partners LFL profit includes pub operating profit and central overheads but excludes exceptional items. LFL profit performance is calculated against a comparable 52-week period in the prior year for pubs that were trading for the entirety of both 52-week periods. The calculation includes figures for acquired Spirit pubs for a comparable 52-week period in both the current and comparative financial years.	Note H on page 131
Pub Partners EBITDA	Pub Partners earnings before interest, tax, depreciation, amortisation and exceptional and non-underlying items.	Note 2 to the financial statements
Pub Partners EBITDA per pub	Calculated by dividing Pub Partners EBITDA by the average number of pubs trading in a financial period.	
Pub Partners operating profit before exceptional items	Pub Partners operating profit excluding exceptional and non-underlying items.	Note 2 to the financial statements
Brewing & Brands operating profit before exceptional items	Brewing & Brands operating profit excluding exceptional and non-underlying items.	Note 2 to the financial statements

In addition the group uses the following non-financial KPIs to assess performance against its strategic objectives:

Measure	Definition
Brewing & Brands OBV growth (%)	Year-on-year growth in the volume of sales of beer brewed at our Greene King and Belhaven breweries.
Pub Company net promoter score (NPS)	Calculated by asking customers how likely they are to recommend the pub on a scale of 0–10 (10 being the most favourable). The percentage of responses where the score is 0–6 (brand detractors) is subtracted from the percentage of responses where the score is 9 or 10 (brand promoters) to give the NPS. Scores of 7 or 8 (passive responses) are ignored.
Team turnover	The percentage of leavers against the average headcount over a rolling annual period, excluding any student leavers.
Team engagement	The proportion of respondents who agreed with the following statement: 'I would recommend Greene King as a great place to work to others'.

APM reconciliations

A Return on investment

Return on investment is calculated by dividing the total annualised uplift in EBITDA from all 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 on page 131.

	Source	**2017 £m**	2016 £m
Incremental annualised EBITDA	Non-GAAP	**11.8**	18.9
Total core capital investment in completed schemes	Non-GAAP	**48.2**	67.9
Return on investment		**24.5%**	27.8%

B Net debt : EBITDA

For the period ended 1 May 2016 a pro-forma net debt : EBITDA calculation was presented to take account of the EBITDA of Spirit for the period prior to acquisition. The calculation of pro-forma EBITDA is shown below.

	Source	**2017 £m**	2016 £m
Net debt	Group balance sheet	**2,074.5**	2,048.4
EBITDA	Cash flow statement	**524.1**	496.9
Pre-acquisition Spirit EBITDA	Non-GAAP	**—**	22.4
EBITDA – pro-forma		**524.1**	519.3
Net debt : EBITDA		**4.0x**	3.9x

C Free cash flow

	Source	**2017 £m**	2016 £m
EBITDA	Cash flow statement	**524.1**	496.9
Working capital and other movements	Note 28	**(29.2)**	(75.1)
Add back: exceptional items	Note 28	**14.4**	25.0
		509.3	446.8
Tax payments	Cash flow statement	**(48.6)**	(45.7)
Add back: exceptional tax payments and impact of changes to payment regimes	Non-GAAP	**20.6**	12.8
		(28.0)	(32.9)
Interest received	Cash flow statement	**1.0**	1.5
Interest paid	Cash flow statement	**(148.1)**	(132.8)
Add back: exceptional interest paid	Non-GAAP	**12.2**	—
		(134.9)	(131.3)
Core capex	Note F below	**(126.0)**	(137.5)
Advance of trade loans	Cash flow statement	**(6.1)**	(4.1)
Repayment of trade loans	Cash flow statement	**6.3**	4.8
		0.2	0.7
Equity dividends paid		**(100.1)**	(93.3)
Other non-cash movements	Note 29	**(0.9)**	(2.3)
Free cash flow		**119.6**	50.2

Glossary – alternative performance measures continued

APM reconciliations continued

D Fixed charge cover

	Source	2017 £m	2016 £m
EBITDA	Cash flow statement	**524.1**	496.9
Operating lease rentals	Note 3	**79.9**	71.9
Add back: off-market lease liability utilised in the period		**19.3**	23.0
Add back: other property provisions utilised in the period	Note 25	**1.9**	0.4
Non-returning capex	Note F below	**(75.7)**	(66.7)
		549.5	525.5
Interest received	Cash flow statement	**(1.0)**	(1.5)
Interest paid	Cash flow statement	**148.1**	132.8
Add back: exceptional interest paid	Non-GAAP	**(12.2)**	—
Operating lease rentals	Note 3	**79.9**	71.9
Add back: off-market lease liability utilised in the period		**19.3**	23.0
Add back: other property provisions utilised in the period	Note 25	**1.9**	0.4
		236.0	226.6
Fixed charge cover		**2.3x**	2.3x

E Return on capital employed

	Source	2017 £m	2016 £m
Operating profit before exceptional and non-underlying items	Income statement	**411.5**	392.2
Average capital employed:			
Net assets	Group balance sheet	**1,944.2**	1,873.6
Add back:			
Deferred tax assets	Group balance sheet	**(63.1)**	(78.7)
Deferred tax liabilities	Group balance sheet	**9.8**	17.9
Post-employment liabilities	Group balance sheet	**11.2**	53.6
Derivatives	Group balance sheet	**344.8**	440.9
Net debt	Group balance sheet	**2,074.5**	2,048.4
Capital employed		**4,321.4**	4,355.7
Timing adjustment	Non-GAAP	**75.2**	(176.6)
Average capital employed		**4,396.6**	4,179.1
ROCE		**9.4%**	9.4%

The timing adjustment included in the calculation above is the aggregate adjustment required to reconcile closing capital employed at the balance sheet date and the monthly average capital employed calculated throughout the year. The large negative adjustment for the 2016 year end is as a result of the timing of the Spirit acquisition part way through the year.

F Capital investment

	Source	2017 £m	2016 £m
Non-returning capex[1]	Non-GAAP	**75.7**	66.7
Development capex	Non-GAAP	**50.3**	70.8
Core capex	Non-GAAP	**126.0**	137.5
Brand swap and new site investment	Non-GAAP	**68.9**	56.6
Purchase of property, plant and equipment	Cash flow statement	**194.9**	194.1

1. Non-returning capex also referred to as 'maintenance capex'.

APM reconciliations continued

G Pub Company LFL sales

2017 calculations	Source	**2017 £m**	2016 £m	YoY%
Reported revenue	Note 2	**1,817.4**	1,688.2	+7.7%
Add: Spirit pre-acquisition LFL sales	Non-GAAP	**—**	98.3	
Less: non-LFL revenue	Non-GAAP	**(119.8)**	(113.4)	
LFL sales	Non-GAAP	**1,697.6**	1,673.1	+1.5%

2016 calculations	Source	2016 £m	2015 £m	YoY%
Reported revenue	Note 2	1,688.2	1,000.7	+68.7%
Add: Spirit pre-acquisition LFL sales	Non-GAAP	97.4	678.0	
Less: non-LFL revenue	Non-GAAP	(144.0)	(61.3)	
LFL sales	Non-GAAP	1,641.6	1,617.4	+1.5%

Non-LFL revenue includes all machine income and the sales from pubs that have not traded for two full financial years. For pubs disposed of in each of the financial years these amounts include all sales prior to disposal; for new pubs acquired or opened during the 2-year period these amounts include all post-acquisition sales.

The group LFL sales figures quoted take account of the sales performance of Spirit pubs that have been owned and operated within the Spirit business for the full 2-year period under review. Therefore to arrive at the LFL sales figure for 2016 LFL sales for the 7-week period pre-acquisition have been included and for the 2015 LFL sales calculation a full year of pre-acquisition LFL sales have been included.

H Pub Partners LFL net profit

2017 calculations	Source	**2017 £m**	2016 £m	YoY%
Reported operating profit	Note 2	**92.8**	85.3	+8.8%
Add: Spirit pre-acquisition LFL sales	Non-GAAP	**—**	4.6	
Less: other non-LFL adjustments	Non-GAAP	**(7.5)**	(8.7)	
LFL net profit	Non-GAAP	**85.3**	81.2	+5.0%

2016 calculations	Source	2016 £m	2015 £m	YoY%
Reported operating profit	Note 2	85.3	54.0	+58.0%
Add: Spirit pre-acquisition LFL sales	Non-GAAP	4.6	33.9	
Less: other non-LFL adjustments	Non-GAAP	(7.4)	(8.9)	
LFL net profit	Non-GAAP	82.5	79.0	+4.4%

Non-LFL profit adjustments are in respect of pre-disposal net profit from pubs that were disposed of in the current or prior year.

The LFL profit figures quoted take account of the profit performance of Spirit pubs that have been owned and operated within the Spirit tenanted and leased business for the full 2-year period under review. Therefore to arrive at the LFL net profit figure for 2016 LFL sales for the 7-week period pre-acquisition have been included and for the 2015 LFL net profit calculation a full year of pre-acquisition LFL net profit has been included.

Shareholder information

Financial calendar

Ex-dividend date	10 August 2017
Record date for final dividend	11 August 2017
Annual general meeting	8 September 2017
Payment of final dividend	15 September 2017
Announcement of interim results	30 November 2017
Payment of interim dividend	January 2018
Preliminary announcement of the 2017/18 results	June 2018

Registrars

Capita Asset Services

The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Telephone: 0871 664 0300[1]
Fax: 01484 601512
Email: shareholder.services@capita.co.uk
Website: www.capitaassetservices.com

1. Calls cost 10p per minute plus network extras; lines are open 8.30am to 5.30pm, Monday to Friday.

E-communications

To register to receive shareholder communications from the company electronically, visit www.greeneking-shares.com and either log in or click on 'register new user' and follow the instructions.

By registering your email address you will receive emails with a web link to information posted on the company's website, including the report and accounts, notice of meetings and other information communicated to shareholders.

Indirect investors' information rights

Beneficial owners of shares held on their behalf by a different registered holder now have certain information rights regarding Greene King. They have the right to ask their registered holder to nominate them to receive all non-personalised information distributed to shareholders, in accordance with the provisions of section 146 of the Companies Act 2006.

Should you wish to be nominated to receive information from Greene King directly, please contact your registered holder, who will need to notify our registrars, Capita Asset Services, accordingly. Please note that, once nominated, beneficial owners of shares must continue to direct all communications regarding those shares to the registered holder of those shares rather than to the registrars or to Greene King directly.

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

Moseley's Farm Offices
Fornham All Saints
Bury St Edmunds
Suffolk IP28 6JY

Telephone: 01284 723 761

Capita Share Dealing Services

Telephone: +44 (0)371 664 0445[1]
Website: www.capitadeal.com

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

Capital gains tax

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

Shareholder vouchers

We are pleased to offer shareholders with 100 or more shares in the company a booklet of discount vouchers for use across our retail pubs and restaurants. Those holding shares in their own name will receive the vouchers directly. If you hold shares in a nominee account please contact your nominee provider to obtain a set of vouchers. Unfortunately, we are not able to deal with individual requests for vouchers from underlying beneficiaries. Please visit www.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 their website (www.fca.org.uk) or contacting them on 0800 111 6768. The FCA advises that if it sounds too good to be true, it probably is.

Corporate advisers

Financial advisers

Lazard & Co. Limited
50 Stratton Street
London W1J 8LL

Joint stockbrokers

Deutsche Bank AG London
Winchester House
1 Great Winchester Street
London EC2N 3EQ

Citigroup Global Markets Limited
Citigroup Centre
33 Canada Square
Canary Wharf
London E14 5LB

Auditor

Ernst & Young LLP
1 More London Place
London SE1 2AF

Solicitors

Linklaters
One Silk Street
London EC2Y 8HQ

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Greene King plc
Registered in England No. 24511

Registered office
Westgate Brewery
Bury St Edmunds
Suffolk
IP33 1QT

Telephone: 01284 763222
www.greeneking.co.uk