THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in CK Asset Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

CK ASSET HOLDINGS LIMITED
長江實業集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1113)

MAJOR TRANSACTION

PROPOSED RECOMMENDED CASH ACQUISITION BY BIDCO OF THE ENTIRE ISSUED AND TO BE ISSUED SHARE CAPITAL OF GREENE KING PLC WHICH IS LISTED ON THE LONDON STOCK EXCHANGE

A letter from the Board is set out on pages 11 to 26 of this circular.

A notice convening the EGM to be held at the Grand Ballroom, 1st Floor, Harbour Grand Hong Kong, 23 Oil Street, North Point, Hong Kong on Wednesday, 9 October 2019 at 11:00 a.m. (Hong Kong time) (or, in the event that a black rainstorm warning signal or tropical cyclone warning signal no. 8 or above is in force in Hong Kong at 9:00 a.m. (Hong Kong time) on that day, at the same time and place on Thursday, 10 October 2019 (Hong Kong time)) is set out on pages N-1 to N-4 of this circular. A form of proxy for use at the EGM is also enclosed. Whether or not you are able to attend the EGM or any adjournment thereof in person, you are requested to complete, sign and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit it to the Company's principal place of business in Hong Kong at 7th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong as soon as practicable and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or at any adjournment thereof if you so wish.

In the case of inconsistency between the Chinese version and the English version of this circular, the English version will prevail.

17 September 2019
(Hong Kong time)

CONTENTS

Expected timetable of principal events

1 Overview

The following indicative timetable sets out expected dates for the implementation of the Scheme.

Event	**Time and/or date**(1)
Announcement of the Acquisition	19 August 2019 (Hong Kong time)
Publication of the Scheme Document	16 September 2019
Despatch of this circular	17 September 2019 (Hong Kong time)
Latest time for lodging forms of proxy in respect of the EGM	**11:00 a.m. on 7 October 2019 (Hong Kong time)**(2)
Voting Record Time	6:30 p.m. on 7 October 2019(3)
EGM	**11:00 a.m. on 9 October 2019 (Hong Kong time)**
Court Meeting	**10:00 a.m. on 9 October 2019**
Target General Meeting	**10:15 a.m. on 9 October 2019**(4)
Announcement on the results of the EGM published on the Hong Kong Stock Exchange's website	**9 October 2019 (Hong Kong time)**
Effective Date of the Scheme	**anticipated to be Q4 2019**

2 Principal events

The following dates and times associated with the Scheme are subject to change and will depend on, among other things, the date on which the Conditions to the Scheme are satisfied or waived, and on the date on which the Court sanctions the Scheme. The Target will give adequate notice of all of these dates and times, when known, by issuing an announcement through a Regulatory Information Service. Further updates and changes to these times will, at the Target's discretion, be notified in the same way. See also note (1) below.

Sanction Hearing	D (a date which is expected to be not later than 14 days after the satisfaction of the Regulatory Condition)(5)
Date on which the Court makes its order sanctioning the Scheme	D

Last day of dealings in, and for registration of transfers of, and disablement in CREST of, Target Shares	D+1 Business Day
Scheme Record Time	6:30 p.m. on D+1 Business Day
Scheme Effective Time	**after 6:30 p.m. on D+1 Business Day[(6)]**
Suspension of trading in Target Shares	before markets open on D+2 Business Days
Cancellation of the listing of the Target Shares on the Official List and termination of the Target ADR programme	by 8:00 a.m. on D+2 Business Days
Despatch of cheques and crediting of CREST accounts with cash due	within 14 days of the Effective Date
Long Stop Date	**31 March 2020[(7)]**

Notes:

(1) **The dates and times given are indicative only and are based on current expectations and may be subject to change (including as a result of changes to the regulatory timetable).** References to times are London time, unless otherwise stated. If any of the times and/or dates regarding the Scheme above change, the revised times and/or dates will be announced via a Regulatory Information Service.

(2) To be valid, the proxy form together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority must be deposited at the Company's principal place of business in Hong Kong at 7th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong as soon as practicable and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be).

(3) If either of the Target Meetings is adjourned, the Voting Record Time for the adjourned Target Meeting will be 6:30 p.m. on the date which is two days (excluding any part of a day that is not a working day) before the date of the adjourned Target Meeting.

(4) To commence at the time fixed or, if later, immediately after the conclusion or adjournment of the Court Meeting.

(5) The "Regulatory Condition" is the Condition set out in paragraph 3(b) of Part A of Appendix I of this circular. If the Conditions have all been satisfied or waived (where applicable) prior to the date of the Target Meetings, then this date is expected to be a date not later than 14 days after the date of the Target Meetings.

(6) The "Scheme Effective Time" of the Scheme is the date and time at which the Scheme becomes effective pursuant to its terms and will be on delivery of the Court Order to the UK Registrar of Companies. The Court Order is expected to be delivered to the UK Registrar of Companies following the Scheme Record Time on the Business Day immediately after the date on which the Court makes its order sanctioning the Scheme, at which time the Scheme will become Effective. The events which are stated as occurring on subsequent dates, including the crediting of CREST accounts, are conditional on the Scheme Effective Time and operate by reference to this time.

(7) This is the latest date by which the Scheme may become Effective. However, the Long Stop Date may be extended to such later date as Bidco and Target may, with the consent of the UK Panel, agree and, if required, the Court may allow.

In this circular, the following expressions have the following meanings unless the context otherwise requires:

"2.7 Announcement"	the announcement made by Bidco and Target through a Regulatory Information Service dated 19 August 2019 detailing the terms and conditions of the Acquisition made under Rule 2.7 of the UK Takeover Code
"2017 Target Annual Report"	the annual report and audited accounts of the Target Group for the 52 weeks ended 30 April 2017
"2018 Target Annual Report"	the annual report and audited accounts of the Target Group for the 52 weeks ended 29 April 2018
"2019 Target Annual Report"	the annual report and audited accounts of the Target Group for the 52 weeks ended 28 April 2019
"Acquisition"	the proposed recommended cash acquisition by Bidco of the entire issued and to be issued share capital of Target not already owned by or on behalf of the Group by means of the Scheme (and other matters to be considered at the Target Meetings), or should Bidco so elect, by means of a Takeover Offer
"Announcement"	the announcement of the Company dated 19 August 2019 regarding the Acquisition
"associated undertaking"	shall be construed in accordance with paragraph 19 of Schedule 6 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) but for this purpose ignoring paragraph 19(1)(b) of Schedule 6 to those regulations
"Authorisations"	regulatory authorisations, orders, grants, recognitions, confirmations, consents, licences, clearances, certificates, permissions or approvals
"Bidco"	CK Noble (UK) Limited, an indirect wholly-owned subsidiary of the Company and a private company incorporated under the laws of England and Wales with limited liability
"Board"	the board of Directors
"Business Day"	a day, not being a public holiday, Saturday or Sunday, on which clearing banks in London are open for normal business

"Cash Consideration"	has the meaning ascribed to it under the section headed "*2.2.2 Consideration for the Target Shares*" in the Letter from the Board
"CMA"	the Competition and Markets Authority of the UK
"Companies Act"	the Companies Act 2006 of the UK, as amended from time to time
"Company"	CK Asset Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 1113)
"Company Board Recommendation"	a unanimous and unconditional recommendation from the Board that the Shareholders vote in favour of the resolution to approve and implement the Acquisition at the EGM
"Company Board Recommendation Change"	if the Board withdraw, qualify or adversely modify: (i) prior to publication of this circular, their intention to give the Company Board Recommendation in this circular so that it is not given in this circular; or (ii) following publication of this circular, the Company Board Recommendation
"Condition(s)"	the condition(s) to the implementation of the Acquisition (including the Scheme) which are set out in the 2.7 Announcement and Appendix I to this circular
"connected person"	has the meaning ascribed to such term in the Listing Rules
"Cooperation Agreement"	the cooperation agreement dated 19 August 2019 made between the Company, Bidco and Target
"Council Regulation"	Council Regulation (EC) 139/2004/EC
"Court"	the High Court of Justice in England and Wales
"Court Meeting"	the meeting of Scheme Shareholders to be convened at the direction of the Court pursuant to Part 26 of the Companies Act at which a resolution will be proposed to approve the Scheme, including any adjournment thereof
"Court Order"	the order of the Court sanctioning the Scheme under Part 26 of the Companies Act

"Director(s)"	the director(s) of the Company
"Disclosed"	the information disclosed by or on behalf of Target: (i) in the 2018 Target Annual Report; (ii) in the 2019 Target Annual Report; (iii) in the 2.7 Announcement; (iv) in any other announcement to a Regulatory Information Service prior to the date of the 2.7 Announcement; (v) in filings made with, and made publicly available online by, the UK Registrar of Companies within the last two years; (vi) on Target's website at www.greeneking.co.uk; or (vii) fairly disclosed prior to the date of the 2.7 Announcement to the Company, Bidco or their respective advisers (in their capacity as such)
"DT1"	The Li Ka-Shing Unity Discretionary Trust, of which Mr. Li Ka-shing is the settlor and, among others, Mr. Li Tzar Kuoi, Victor is a discretionary beneficiary, and the trustee of which is TDT1
"DT2"	a discretionary trust of which Mr. Li Ka-shing is the settlor and, among others, Mr. Li Tzar Kuoi, Victor is a discretionary beneficiary, and the trustee of which is TDT2
"DT3"	a discretionary trust of which Mr. Li Ka-shing is the settlor and, among others, Mr. Li Tzar Kuoi, Victor is a discretionary beneficiary, and the trustee of which is TDT3
"DT4"	a discretionary trust of which Mr. Li Ka-shing is the settlor and, among others, Mr. Li Tzar Kuoi, Victor is a discretionary beneficiary, and the trustee of which is TDT4
"EBITDA"	earnings before interest, tax, depreciation, amortisation and exceptional and non-underlying items
"Effective"	in the context of the Acquisition: (i) if the Acquisition is implemented by way of the Scheme, the Scheme having become effective pursuant to its terms; or (ii) if the Acquisition is implemented by way of a Takeover Offer, the Takeover Offer having been declared or having become unconditional in all respects in accordance with the requirements of the UK Takeover Code

"Effective Date"	the date on which the Scheme becomes effective pursuant to its terms
"EGM"	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, pass the resolution to approve the Acquisition, including any adjournments thereof
"Enlarged Group"	the Group as enlarged by the Acquisition
"Excluded Shares"	any Target Shares which are registered in the name of, or beneficially owned by, Bidco or any other member of the Group immediately prior to the Scheme Record Time or held by the Company in treasury at the relevant date or time
"FCA"	Financial Conduct Authority of the United Kingdom or its successor from time to time
"Final Dividend"	has the meaning ascribed to it under the section headed "*2.2.2 Consideration for the Target Shares*" in the Letter from the Board
"FSMA"	the Financial Services and Markets Act 2000 of the UK, as amended from time to time
"GBP", "£", "pence" or "p"	Pound Sterling, the lawful currency of the United Kingdom
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IFRS"	the International Financial Reporting Standards
"Latest Practicable Date"	13 September 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Letter from the Board"	the letter from the Board contained in this circular

"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"London Stock Exchange"	the London Stock Exchange plc or its successor
"Long Stop Date"	31 March 2020 (or such later date Bidco and Target may, with the consent of the UK Panel, agree and, if required the Court may allow)
"Notice of EGM"	the notice convening the EGM, as set out on pages N-1 to N-4 of this circular
"Official List"	the Official List of the FCA
"percentage ratios"	shall have the meaning ascribed to such term in Chapter 14 of the Listing Rules
"Phase 2 CMA Reference"	a reference of the Acquisition to the chair of the CMA for the constitution of a group under Schedule 4 to the Enterprise and Regulatory Reform Act 2013
"Regulatory Information Service"	a regulatory information service as defined in the FCA's Handbook of rules and guidance as amended from time to time
"Relevant Pension Plan"	has the meaning ascribed to it under the section headed "*No material transactions, claims or changes in the conduct of the business of the Target Group*" in Appendix I to this circular
"Sanction Hearing"	the Court hearing to sanction the Scheme
"Scheme"	the proposed scheme of arrangement under Part 26 of the Companies Act between Target and the holders of the Scheme Shares in the form set out in Appendix II to this circular, with or subject to any modification, addition or condition approved or imposed by the Court and agreed by Target and Bidco
"Scheme Document"	the document sent or to be sent to Target Shareholders on or around the date of this circular and persons with information rights containing, amongst other things, the Scheme and notices of the Target Meetings and proxy forms in respect of the Target Meetings
"Scheme Record Time"	6:30 p.m. (London time) on the Business Day immediately after the date on which the Court makes its order sanctioning the Scheme

"Scheme Shareholders"	holders of Scheme Shares
"Scheme Shares"	the Target Shares (i) in issue at the date of the Scheme Document; (ii) (if any) issued after the date of the Scheme Document and before the Voting Record Time; (iii) (if any) issued at or after the Voting Record Time and before the Scheme Record Time on terms that the holder thereof shall be bound by the Scheme or in respect of which the original or any subsequent holders thereof are, or have agreed in writing to be, bound by the Scheme, and, in each case, which remain in issue at the Scheme Record Time, but excluding, in any case, any Excluded Shares
"Shareholders"	holders of Shares
"Shares"	ordinary shares in the capital of the Company with a nominal value of HK$1.00 each
"subsidiary" and "subsidiary undertaking"	shall be construed in accordance with the Companies Act
"substantial shareholder"	has the meaning ascribed to such term in the Listing Rules
"Takeover Offer"	subject to the consent of the UK Panel, should the Acquisition be implemented by way of a takeover offer as defined in Chapter 3 of Part 28 of the Companies Act, the offer to be made by or on behalf of Bidco to acquire the entire issued and to be issued share capital of Target, other than Target Shares held by the Group and, where the context admits, any subsequent revision, variation, extension or renewal of such offer
"Target"	Greene King plc
"Target Adverse Recommendation Change"	if the Target Directors: (i) do not include the Target Board Recommendation in the Scheme Document; (ii) withdraw, qualify or adversely modify the Target Board Recommendation; or (iii) prior to publication of the Scheme Document, withdraw, qualify or adversely modify their intention to give the Target Board Recommendation in the Scheme Document
"Target Board Recommendation"	a unanimous and unconditional recommendation from Target Directors that Target Shareholders vote in favour of the Scheme at the Court Meeting and the resolutions relating to the Acquisition at the Target General Meeting, or, if Bidco proceeds by way of a Takeover Offer, to accept the Takeover Offer, as the case may be

"Target Directors"	the directors of Target
"Target's Financial Advisors"	Citigroup Global Markets Limited and N. M. Rothschild and Sons Limited
"Target General Meeting"	the general meeting of Target Shareholders to be convened to consider and, if thought fit, pass, inter alia, the special resolution in relation to the implementation of the Scheme and certain amendments to be made to the articles of association of Target, including any adjournments thereof
"Target Group"	Target and its subsidiary undertakings and where the context permits, each of them
"Target Meetings"	the Court Meeting and the Target General Meeting
"Target Share Plans"	the Greene King plc Performance Share Plan 2013, the Greene King plc 2016 Restricted Share Plan, the Greene King Sharesave Scheme 2015, the Greene King Free4All Employee Profit Share Scheme, the Greene King Save4Shares Scheme 2005 and the Spirit Share Incentive Plan
"Target Share(s)"	the existing unconditionally allotted or issued and fully paid ordinary shares of 12.5 pence each in the capital of Target and any further shares which are unconditionally allotted or issued before the Scheme becomes Effective but excluding in both cases any such shares held or which become held in treasury
"Target Shareholder(s)"	registered holders of Target Shares
"TDT1"	Li Ka-Shing Unity Trustee Corporation Limited, a company incorporated in the Cayman Islands, which is the trustee of DT1
"TDT2"	Li Ka-Shing Unity Trustcorp Limited, a company incorporated in the Cayman Islands, which is the trustee of DT2
"TDT3"	Li Ka-Shing Castle Trustee Corporation Limited, a company incorporated in the Cayman Islands, which is trustee of DT3
"TDT4"	Li Ka-Shing Castle Trustcorp Limited, a company incorporated in the Cayman Islands, which is the trustee of DT4

"Third Party"	has the meaning ascribed to it under the section headed "*Other Third Party clearances*" in Appendix I to this circular
"Trust"	DT1, DT2, DT3, DT4, UT1 and UT3, and where the context requires, any of them
"UK Panel"	the Panel on Takeovers and Mergers of the UK
"UK Registrar of Companies"	the Registrar of Companies in England and Wales
"UK Takeover Code"	the City Code on Takeovers and Mergers issued by the UK Panel, as amended from time to time
"UK" or "United Kingdom"	United Kingdom of Great Britain and Northern Ireland
"UK Listing Rules"	the listing rules, made by the FCA under Part 6 FSMA, as amended from time to time
"UT1"	The Li Ka-Shing Unity Trust
"UT3"	The Li Ka-Shing Castle Trust
"Voting Record Time"	the time and date specified in the Scheme Document by reference to which entitlement to vote on the Scheme of the Target Meetings will be determined
"Wider CKA Group"	the Group and associated undertakings and any other body corporate, partnership, joint venture or person in which the Company and such undertakings (aggregating their interests) have an interest of more than 20% of the voting or equity capital or the equivalent
"Wider Target Group"	Target and associated undertakings and any other body corporate, partnership, joint venture or person in which Target and such undertakings (aggregating their interests) have an interest of more than 20% of the voting or equity capital or the equivalent
"%"	per cent.

Note: Unless otherwise stated, the figures in "GBP" are converted into HK$ at the rate of GBP1.00: HK$9.50 (being the exchange rate used in the Announcement) throughout this circular for indicative purposes only, and should not be construed as a representation that any amount has been, could have been or may be, exchanged at this or any other rate.

CK ASSET HOLDINGS LIMITED
長江實業集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1113)

Registered Office: PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
Principal Place of Business: 7th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong

Board of Directors

Executive Directors
LI Tzar Kuoi, Victor *Chairman and Managing Director*
KAM Hing Lam *Deputy Managing Director*
IP Tak Chuen, Edmond *Deputy Managing Director*
CHUNG Sun Keung, Davy
CHIU Kwok Hung, Justin
CHOW Wai Kam, Raymond
PAU Yee Wan, Ezra
WOO Chia Ching, Grace

Independent Non-executive Directors
CHEONG Ying Chew, Henry
CHOW Nin Mow, Albert
HUNG Siu-lin, Katherine
Colin Stevens RUSSEL
Donald Jeffrey ROBERTS

Company Secretary
Eirene YEUNG

17 September 2019

Dear Shareholder(s),

MAJOR TRANSACTION

PROPOSED RECOMMENDED CASH ACQUISITION BY BIDCO OF THE ENTIRE ISSUED AND TO BE ISSUED SHARE CAPITAL OF GREENE KING PLC WHICH IS LISTED ON THE LONDON STOCK EXCHANGE

1. INTRODUCTION

Reference is made to the Announcement of the Company on 19 August 2019 in relation to the Acquisition.

As stated in the Announcement, on 19 August 2019, Bidco and Target have reached agreement on the terms of a recommended cash offer to be made by Bidco for the entire issued and to be issued share capital of Target (whose shares are listed on the Official List and traded on the Main Market of the London Stock Exchange) not already owned by or on behalf of the Group. It is intended that the Acquisition will be implemented by way of a Court-sanctioned scheme of arrangement under the Companies Act. Under the terms of the Acquisition, upon the Scheme becoming effective, Cash Consideration of 850 pence (equivalent to approximately HK$80.8) per Target Share will be paid to the Target Shareholders whose names appear on the register of members of the Target at the Scheme Record Time. The Cash Consideration under the terms of the Acquisition values the entire issued and to be issued share capital of Target at approximately GBP2.7 billion (equivalent to approximately HK$25.2 billion) on a fully diluted basis. In addition, the Acquisition allows for the distribution of the Final Dividend paid to Target Shareholders.

The purpose of this circular is to:

(i) provide you with further information regarding details of the Acquisition;

(ii) give Shareholders the Notice of EGM at which the Shareholders' approval in respect of the Acquisition will be sought; and

(iii) provide Shareholders with other information required under the Listing Rules in connection with the Acquisition, including but not limited to audited financial information on the Target Group for the 52 weeks ended 30 April 2017, 29 April 2018 and 28 April 2019, and certain unaudited pro forma financial information of the Enlarged Group.

2. THE ACQUISITION

2.1 The 2.7 Announcement

On 19 August 2019, Bidco and Target jointly announced that they have agreed the terms of a recommended cash offer by Bidco for the entire issued and to be issued share capital of Target, not already owned by or on behalf of the Group. The 2.7 Announcement was jointly made by Bidco and Target on the same date in accordance with the requirements of the UK Takeover Code.

It is intended that the Acquisition will be implemented by way of a Court-sanctioned scheme of arrangement under Part 26 of the Companies Act (although Bidco reserves the right to effect the Acquisition by way of a Takeover Offer, subject to the consent of the UK Panel).

2.2 Implementation of the Acquisition and the Scheme

The terms and conditions of the Acquisition and the Scheme are summarised below and further set out in Appendix I and Appendix II to this circular.

2.2.1 Target Shares

The Acquisition will extend to any Target Shares which are unconditionally allotted or issued at or before the Scheme Record Time, including those allotted or issued to satisfy the exercise of options or vesting of awards under the Target Share Plans, but excluding Target Shares which are already owned by or on behalf of the Group.

The Scheme will not extend to Target Shares issued after the Scheme Record Time. However, it is proposed to amend Target's articles of association at the Target General Meeting to provide that, if the Acquisition becomes Effective, any Target Shares issued to any person other than Bidco or its nominees after the Scheme Record Time (including in satisfaction of an option exercised under one of the Target Share Plans) will be automatically transferred to Bidco in consideration for the payment by Bidco to such persons of an amount equal to the Cash Consideration for each Target Share so transferred.

2.2.2 Consideration for the Target Shares

The Acquisition will be made on the following basis:

For each Target Share	**850 pence (equivalent to approximately HK$80.8) in cash (the "Cash Consideration")**

The Cash Consideration has been arrived at after commercial negotiation between the Group and Target, taking into account market comparables, Target's market position and long-term profitability. The Cash Consideration under the terms of the Acquisition values the entire issued and to be issued share capital of Target at approximately GBP2.7 billion (equivalent to approximately HK$25.2 billion) on a fully diluted basis. The Cash Consideration represents an enterprise value multiple of approximately 9.5x the Target's EBITDA of GBP482 million (equivalent to approximately HK$4,579 million) for the 52-week period to 28 April 2019, or 10x including the fair value of interest rate swap liabilities as at 28 April 2019.

In addition, the Acquisition allows for the distribution of the previously announced final dividend for the 52 weeks ended 28 April 2019 of 24.4 pence (equivalent to approximately HK$2.3) per Target Share paid on 13 September 2019 to Target Shareholders on the register as at the close of business on 9 August 2019 (the "**Final Dividend**").

If, on or after the date of the 2.7 Announcement and before the Effective Date, any dividend and/or other distribution and/or return of capital (other than the Final Dividend) is declared, made or paid or becomes payable in respect of the Target Shares, Bidco reserves the right to reduce the Cash Consideration payable under the terms of the Acquisition for the Target Shares by an amount up to the amount of such dividend and/or other distribution and/or return of capital, in which case any reference in the 2.7 Announcement or in the Scheme Document to the Cash Consideration payable under the terms of the Acquisition will be deemed to be a reference to the Cash Consideration as so reduced.

The Cash Consideration payable by Bidco pursuant to the Acquisition will be funded from the Group's existing cash resources.

2.2.3 Scheme process

To become Effective, the Scheme requires, among other things, the approval of a majority in number representing 75% or more in value of the relevant Scheme Shareholders present and voting in person or by proxy at the Court Meeting, which is convened by order of the Court, and the passing of the special resolution necessary to implement the Acquisition at the Target General Meeting (which will require the approval of Target Shareholders representing at least 75% of the votes cast at the Target General Meeting either in person or by proxy). The Scheme must also be sanctioned by the Court and, following such sanction, a copy of the Court Order must be delivered to the UK Registrar of Companies.

The Scheme Document, containing further information about the Acquisition and notices of the Target Meetings, together with the associated forms of proxy, has been or will be posted to Target Shareholders on or around the date of this circular and the Target Meetings are expected to be held shortly after the EGM.

Once the necessary approvals from the Target Shareholders and the Shareholders and the required decision(s) from the European Commission have been obtained and the other Conditions have been satisfied or (where applicable) waived and the Scheme has been sanctioned by the Court, the Scheme will become effective upon delivery of a copy of the Court Order to the UK Registrar of Companies. Subject to the satisfaction of the Conditions, the Scheme is expected to become effective in the fourth quarter of 2019.

2.3 Conditions to and further terms of the Acquisition and the Scheme

The Acquisition will be conditional upon the Scheme becoming unconditional and effective, subject to the provisions of the UK Takeover Code, by no later than 11:59 p.m. (London time) on the Long Stop Date. The Acquisition and the Scheme will be subject to the Conditions as set out in Appendix I to this circular. The Conditions include, amongst others:

(a) (i) the approval of the Scheme by a majority in number of the relevant Scheme Shareholders who are present and voting, whether in person or by proxy, at the Court Meeting and at any separate class meeting which may be required (or any adjournment thereof), and who represent 75% or more in value of the Scheme Shares voted by these Scheme Shareholders; and (ii) such Court Meeting being held on or before 31 October 2019 (or such later date as may be agreed between Bidco and Target (and that the Court may allow));

(b) (i) the special resolution required to implement the Scheme being duly passed at the Target General Meeting (or any adjournment thereof); and (ii) such Target General Meeting being held on or before 31 October 2019 (or such later date as may be agreed between Bidco and Target (and that the Court may allow));

(c) (i) the sanction of the Scheme by the Court (with or without modification (but subject to such modification being acceptable to Bidco and Target)) and the delivery of a copy of the Court Order to the UK Registrar of Companies; and (ii) the Sanction Hearing being held on or before the 22nd day after the expected date of the Sanction Hearing set out in the Scheme Document (or such later date as may be agreed between Bidco and Target (and that the Court may allow));

(d) the passing at the EGM (or any adjournment thereof) of such resolution as is necessary to approve, implement and effect the Acquisition (as such resolution is set out in this circular); and

(e) in so far as the Acquisition constitutes a concentration with a community dimension within the scope of the Council Regulation, the receipt of the required decision(s) from the European Commission under the relevant provisions of the Council Regulation.

Subject to the requirements of the UK Panel in accordance with the UK Takeover Code, Bidco reserves the right to waive, in whole or in part, all or any of the Conditions in Part A of Appendix I to this circular, except the Conditions set out in paragraphs 2(a)(i), 2(b)(i), 2(c)(i) and 3(a) which cannot be waived. Under the UK Takeover Code, Bidco may not invoke a Condition so as to cause the Acquisition not to proceed, to lapse or to be withdrawn unless the circumstances which give rise to the right to invoke the Condition are of material significance to Bidco in the context of the Acquisition.

If any Condition is not capable of being satisfied by the date specified in such Condition, Bidco shall make an announcement through a Regulatory Information Service as soon as practicable and, in any event, by not later than 8:00 a.m. (London time) on the Business Day following the date so specified, stating whether Bidco has invoked that Condition, (where applicable) waived that Condition or, with the agreement of Target, specified a new date by which that Condition must be satisfied.

The Acquisition will lapse if (i) there is a Phase 2 CMA Reference; or (ii) the European Commission initiates proceedings under Article 6(1)(c) of the Council Regulation, in each case before the Target Meetings. In such event, Target will not be bound by the terms of the Scheme.

Bidco reserves the right to elect to implement the Acquisition by way of a Takeover Offer as an alternative to the Scheme with the consent of the UK Panel. In such event, the Acquisition will be implemented on the same terms (subject to appropriate amendments including (without limitation) the inclusion of an acceptance condition set at 75% (or such other percentage (being more than 50%) as the UK Panel may require or Bidco may, subject to the rules of the UK Takeover Code, decide) of the shares to which the Takeover Offer relates and those required by, or deemed appropriate by, Bidco under applicable law, so far as applicable) as those which would apply to the Scheme. Further, if sufficient acceptances of such offer are received and/or sufficient Target Shares are otherwise acquired, it is the intention of Bidco to apply the provisions of the Companies Act to acquire compulsorily any outstanding Target Shares to which such Takeover Offer relates.

For further details about the terms and conditions of the Acquisition, please refer to Appendix I to this circular.

2.4 Delisting of Target, cancellation of trading of Target Shares and re-registration of Target

It is intended that applications will be made to the London Stock Exchange and the FCA respectively to cancel trading in Target Shares on the London Stock Exchange's Main Market for listed securities and the listing of the Target Shares on the Official List respectively in each case to take effect on or shortly after the Effective Date.

It is intended that Target be re-registered as a private limited company as soon as practicable on or following the Effective Date and that Target shall become a wholly-owned subsidiary of the Group.

2.5 Recommendation by and voting intentions of Target Directors

As stated in the 2.7 Announcement and the Scheme Document, the Target Directors, who have been so advised by Target's Financial Advisors as to the financial terms of the Acquisition, consider the terms of the Acquisition to be fair and reasonable. In providing their advice to the Target Directors, Target's Financial Advisors have taken into account the commercial assessments of the Target Directors.

Accordingly, the Target Directors unanimously recommend that Target Shareholders vote in favour of the Scheme at the Court Meeting and the special resolution relating to the Acquisition at the Target General Meeting as the Target Directors who hold Target Shares have irrevocably undertaken to do in respect of their own beneficial holdings totalling 155,026 Target Shares (representing approximately 0.050% of the existing issued ordinary share capital of Target) as at the Latest Practicable Date, such undertaking to lapse if, among other things, there is a Company Board Recommendation Change.

3. COOPERATION AGREEMENT

3.1 Principal terms of the Cooperation Agreement

On 19 August 2019, the Company, Bidco and Target entered into the Cooperation Agreement which sets out obligations in relation to the implementation of the Acquisition. The principal terms of the Cooperation Agreement are summarised as follows:

(a) the Company and Bidco have agreed to use all reasonable efforts to satisfy the antitrust condition in Condition 3(b) set out in Appendix I to this circular and Target has agreed to cooperate for the purposes of ensuring the satisfaction of such condition;

(b) each of the Company and Bidco has agreed to provide Target with certain information for the purposes of the Scheme Document and to otherwise assist with the preparation of the Scheme Document;

(c) Target has agreed to provide the Company with certain information for the purposes of preparing this circular and to otherwise assist with the preparation of this circular; and

(d) the Company, Bidco and Target have agreed provisions that will apply in respect of the Target Share Plans and certain other employee incentive arrangements.

3.2 Termination events

The Cooperation Agreement will terminate in certain circumstances, including (subject to certain exceptions):

(a) at the Company and Bidco's election if:

  (i) the Target Directors make a Target Adverse Recommendation Change;

  (ii) a third party announces a firm intention to make an offer for Target which is recommended by the Target Directors;

  (iii) Target announces that it will not convene the Target General Meeting or Court Meeting or it does not intend to publish the Scheme Document; or

  (iv) once published, the date set out in the Scheme Document for the Target General Meeting and Court Meeting is more than 28 days after the date of the Scheme Document, unless such later date is to ensure the Target Meetings are held later than, but on the same date as, the EGM;

(b) at Target's election if there is a Company Board Recommendation Change;

(c) if a competing proposal becomes effective or is declared or becomes unconditional in all respects;

(d) if the Acquisition lapses, terminates or is withdrawn on or prior to the Long Stop Date, including where a Condition has not been satisfied and has been successfully invoked by Bidco;

(e) at the election of the Company, Bidco or Target following the occurrence of a break fee event (as described below); and

(f) as otherwise agreed between the Company, Bidco and Target.

3.3 Break fee

The Company has undertaken to pay a break fee to Target of GBP53.1 million (equivalent to approximately HK$504.5 million) if:

(1) both of the following events occur:

(a) the Company fails to procure that, not later than five Business Days after this circular has been despatched to the Shareholders, the relevant trustees of the Trust provide to Target an irrevocable undertaking to vote in favour of the resolution(s) relating to the Acquisition at the EGM, or the relevant trustees of the Trust to vote their Shares in favour of such resolution(s) at the EGM in accordance with such undertaking; AND

(b) with a vote having been held on the resolution(s) relating to the Acquisition at the EGM, the resolution(s) are not passed by the Shareholders; or

(2) the Company fails to include the Company Board Recommendation in this circular or there is a Company Board Recommendation Change prior to the EGM; AND

either:

(a) the EGM is not held in sufficient time to enable completion of the Acquisition to occur by the Long Stop Date; or

(b) with a vote having been held on the resolution(s) relating to the Acquisition at the EGM, the resolution(s) are not passed by the Shareholders; or

(3) any of the Directors or directors of Bidco, Mr. Li Ka-shing or any of the members of the executive committee of the Company make a public statement at or prior to the EGM which is reasonably likely to have an

adverse effect on the passing of the resolution(s) relating to the Acquisition at the EGM AND with a vote having been held on the resolution(s) relating to the Acquisition, the resolution(s) are not passed by the Shareholders.

However, no break fee will be payable if (i) at the time of the relevant break fee event the Cooperation Agreement has already been terminated; (ii) the relevant break fee event has been caused by Target's material breach of its obligations under certain provisions of the Cooperation Agreement; or (iii) prior to the time of the relevant break fee event, there has been a Target Adverse Recommendation Change.

4. INFORMATION ON THE TARGET GROUP

Target is the United Kingdom's leading integrated brewer and pub retailer operating over 2,700 pubs, restaurants and hotels across England, Wales and Scotland, and its three main trading divisions are "Pub Company", "Pub Partners" and "Brewing & Brands". It is stated in the Scheme Document that (1) as at 30 April 2019, Target had a trading property estate of 2,730 properties, of which 2,722 properties were valued at an aggregate value of GBP4,453.1 million. Of these 2,722 properties, approximately 71% had been valued by independent external valuers, Christie & Co ("**Christie**"), as at 26 September 2018. Almost all of the remaining 29% of the property portfolio had been valued by Colliers International ("**Colliers**"), as at 30 April 2019; (2) as at 18 August 2019, the updated aggregate property valuation was GBP4,441.9 million, reflecting movement (acquisitions and disposals) of properties within the estate and uses site valuation as at their last respective valuation date as conducted by Colliers and Christie on 30 April 2019 and 26 September 2018 respectively; and (3) Colliers and Christie, having reviewed the latest available trading data of the properties, which the Target Directors collectively confirm is an accurate and appropriate base, and the external market environment, have confirmed that, other than for movements (acquisitions and disposals) of properties, the valuations are not materially different.

Based on the restated audited financial statements for the 52 weeks ended 29 April 2018 contained in the 2019 Target Annual Report, for the 52 weeks ended 29 April 2018, the Target Group's revenue was GBP2,177 million (equivalent to approximately HK$20,679 million) and its operating profit before exceptional and non-underlying items was GBP373 million (equivalent to approximately HK$3,544 million). Profit before tax and exceptional and non-underlying items was GBP243 million (equivalent to approximately HK$2,309 million), while adjusted basic earnings per share were 62.7 pence (equivalent to approximately HK$6.0). Net profit before tax was GBP198 million (equivalent to approximately HK$1,876 million), net profit after tax was GBP183 million (equivalent to approximately HK$1,741 million) and net assets were GBP2,073 million (equivalent to approximately HK$19,694 million).

Based on the 2019 Target Annual Report, for the 52 weeks ended 28 April 2019, the Target Group's revenue was GBP2,217 million (equivalent to approximately HK$21,061 million) and its operating profit before exceptional and non-underlying items was GBP368 million (equivalent to approximately HK$3,498 million). Profit before tax and exceptional and non-underlying items was GBP247 million (equivalent to approximately HK$2,346 million), while adjusted basic earnings per share were

64.5 pence (equivalent to approximately HK$6.1). Net profit before tax was GBP173 million (equivalent to approximately HK$1,642 million), net profit after tax was GBP120 million (equivalent to approximately HK$1,144 million) and net assets were GBP2,108 million (equivalent to approximately HK$20,025 million).

Appendix IV to this circular sets out further financial information about the Target Group.

The Company has an indirect interest in 8,990,182 Target Shares, held via a wholly-owned subsidiary of the Company, representing approximately 2.9% of Target's issued share capital as at the Latest Practicable Date.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, Target and its ultimate beneficial owners are third parties independent of the Company and connected persons of the Company under the Listing Rules.

5. INFORMATION ON BIDCO AND ON THE GROUP

Bidco is a newly incorporated indirect wholly-owned subsidiary of the Company. Bidco is a private limited company incorporated under the laws of England and Wales.

The Group is a leading multinational corporation and has diverse capabilities with activities encompassing property development and investment, hotel and serviced suite operation, property and project management, investment in infrastructure and utility asset operation and aircraft leasing.

6. REASONS FOR, AND BENEFITS OF, THE ACQUISITION

The Group is a long-term and strategic investor in stable, profitable and cash flow generating businesses that benefit from real estate backing. The Company believes that the United Kingdom pub and brewing sector shares these characteristics and that pubs will continue to be an important part of British culture and the eating and drinking out market. The Group has invested in the United Kingdom pub sector and owns a small portfolio of freehold pubs, all of which are leased to Target Group. The Acquisition represents a significant additional investment in the sector.

The specific attractions of Target include its: established position in the United Kingdom pub and brewing market; freehold and long leasehold backed property estate; and resilient financial profile.

The Directors believe that the Group would benefit from the Acquisition as it represents an attractive investment opportunity for the Company's investors. The Acquisition is consistent with the Group's global diversification policy and is in accordance with the Group's investment criteria. Upon the Acquisition becoming Effective, the Group is expected to benefit from being able to extend its reach to other business areas and the stable recurrent income generated from such reach, and from consolidating its holdings in and through the United Kingdom.

The Group's strategic philosophy is to support management teams to develop and implement plans which create long-term value. This is underpinned by access to strong financial backing. The Group believes that it has the financial resources to invest capital in new initiatives, where appropriate, to improve the sustainability, profitability and competitiveness of Target.

The Group looks forward to working with all stakeholders of Target's business, including its management, employees and tenants, to enhance Target's long term value and market position.

For the above reasons, the Directors believe that the terms of the Acquisition are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

7. FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

As set out in the Target Group's audited financial statements for the 52 weeks ended 28 April 2019, the net profit after tax of the Target Group was GBP120 million (equivalent to approximately HK$1,144 million). On this basis, the Directors expect that the Acquisition would have a positive impact on the Group's earnings following completion of the Acquisition.

Appendix V to this circular sets out certain unaudited pro forma financial information of the Enlarged Group, which illustrates the financial effects of the Acquisition on the assets and liabilities of the Group assuming completion of the Acquisition had taken place on 30 June 2019.

As set out in Appendix V to this circular, had completion of the Acquisition taken place on 30 June 2019:

(i) the total assets of the Group as at 30 June 2019 would have increased from approximately HK$476,572 million to approximately HK$510,653 million for the Enlarged Group; and

(ii) the total liabilities of the Group as at 30 June 2019 would have increased from approximately HK$126,379 million to approximately HK$160,950 million for the Enlarged Group.

The Directors are of the view that the Acquisition is not expected to have any material adverse impact on the financial position of the Group.

In addition, as set out in the section headed "*3. Working Capital*" in Appendix III to this circular, the Directors are of the opinion that the Enlarged Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this circular.

Shareholders should note that the earnings contribution from the Target Group after completion of the Acquisition will depend on the future performance of the Target Group, and the actual effect of the Acquisition on the assets and liabilities of the Group will depend on the financial position of the Target Group as of the date of completion of the Acquisition, which cannot be quantified as of the Latest Practicable Date. The unaudited pro forma financial information of the Enlarged Group set out in Appendix V to this circular has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group and the Enlarged Group at any future date.

8. IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratio based on the total consideration and the transaction costs of the Acquisition exceeds 25% but are all less than 100%, the Acquisition constitutes a major transaction for the Company and is subject to the Company's compliance with the announcement, notification and shareholders' approval requirements under Chapter 14 of the Listing Rules.

9. WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Pursuant to Rule 14.67(6)(a)(i) of the Listing Rules, the Company is required to include in this circular an accountants' report on the Target Group prepared in accordance with Chapter 4 of the Listing Rules. The accountants' report on the Target Group must include the financial information of the Target Group for each of the 52 weeks ended 30 April 2017, 29 April 2018 and 28 April 2019 prepared using accounting policies which should be materially consistent with those adopted by the Group.

As elaborated below, the Company is of the view that the published financial information in relation to the Target Group as reproduced in this circular, when taken together with the related management discussion and analysis, the Supplemental Financial Information and the Reconciliation (as defined below), will afford Shareholders with all material information necessary to assess the financial performance/financial position of the Target Group throughout the periods presented, such information being broadly commensurate in all material respects to the disclosure that would otherwise have been provided if an accountants' report on the Target Group had been produced under Rule 14.67(6)(a)(i) of the Listing Rules. Therefore, the Company applied for and the Hong Kong Stock Exchange has granted a waiver from strict compliance with Rule 14.67(6)(a)(i) of the Listing Rules on the basis that:

(a) The Target Group's audited annual financial statements are already audited to a standard commensurate with the requirements under the Listing Rules and published on an appropriate forum.

Target is a company listed on the London Stock Exchange with its annual financial statements audited and published on the relevant forum in accordance with the UK Companies Act and the relevant UK regulatory requirements. The Target Group's audited annual financial statements are prepared in accordance with the requirements of the UK Companies Act and with the International Financial Reporting Standards as adopted by the European Union ("**IFRS EU**"). The Target Group's annual financial statements for the 52 weeks ended 30 April 2017, 29 April 2018 and 28 April 2019 have been audited by its auditors and have been published on its website.

The Target Group's auditors are Ernst & Young LLP ("**EY UK**"). EY UK is a firm with international repute and is registered under the applicable laws of the UK and is a member of The Institute of Chartered Accountants in England and Wales (ICAEW), which is a member of the International Federation of Accountants, a global organisation for the accountancy profession. Target adopts a 52-week or 53-week period ended late April or early May (e.g. 28 April 2019, 29 April 2018 and 30 April 2017) as its accounting reference period.

On the other hand, the Company's consolidated financial statements are prepared in accordance with the IFRS and the Company's auditors are Deloitte Touche Tohmatsu ("**Deloitte Hong Kong**"). The Company has a 31 December financial year end.

As Target is listed on the London Stock Exchange, the Target Group already published audited financial reports in accordance with the requirements under the UK Listing Rules and the Disclosure Guidance and Transparency Rules published by the FCA and which comply with IFRS EU. It would be appropriate for the same set of audited financial reports on the Target Group which have been provided to Target Shareholders to be provided to the Shareholders of the Company.

(b) There are no material differences between the accounting policies adopted by the Group and the Target Group.

The Group has early adopted IFRS 9 "Financial Instruments" in the preparation of the consolidated financial statements for the year ended 31 December 2017, while Target adopted IFRS 9 for accounting periods commencing on or after 30 April 2018. Target has completed an assessment of the impact of the adoption of IFRS 9 on its consolidated financial statements and disclosed in its 2019 Target Annual Report that the adoption of IFRS 9 has had no material impact on the measurement of financial assets and financial liabilities, and IFRS 9 has been adopted without restating comparative information. The Company's auditors, Deloitte Hong Kong, has confirmed that, save for the foregoing, there are no material differences between accounting policies adopted by the Group under IFRS and accounting policies adopted by Target under IFRS EU.

(c) There will be adverse timing and cost implications for both the Company and the Target Group if the accountants' report requirement is strictly applied.

Strict compliance with the requirements of Rule 14.67(6)(a)(i) would require an accountants' report on the financial information of the Target Group to be prepared in relation to the 52 weeks ended 30 April 2017, 29 April 2018 and

28 April 2019. The Company has been advised by the Company's auditor, Deloitte Hong Kong, that, based on Deloitte Hong Kong's preliminary estimation, it would take approximately four to six weeks for such an accountants' report to be prepared. This would have timing and cost implications for the Company.

While, as stated in the Announcement, it is expected that this circular will be despatched more than 15 business days after the publication of the Announcement, there is little flexibility in the date of despatch of this circular. The Company scheduled to despatch this circular to the Shareholders on or about 17 September 2019 (Hong Kong time), which is the same date as the expected date of despatch by Target of the Scheme Document to Target Shareholders (16 September 2019, London time). As the Company understands, the UK Takeover Code provides that Target must, except with the consent of the UK Panel, ensure that the Scheme Document is sent to Target Shareholders within 28 days of the 2.7 Announcement. In practice, this 28-day time limit is adhered to in most cases. If the requirements relating to accountants' report on the Target Group are strictly applied without relaxation, it will be practicably very difficult, if not impossible, for the preparation of the accountants' report (and thus this circular) to be completed in time for issuance on the same date as the scheduled date of despatch by Target of the Scheme Document to Target Shareholders.

The parties consider it highly desirable for this circular of the Company and the Scheme Document of Target to be issued on the same date, for consideration of equality in information dissemination. If the accountants' report requirements in relation to this circular was strictly applied, it would be difficult for the preparation of this circular to be completed for despatch according to the original timing, and it would be unduly onerous both on the part of the Company and Target and their respective shareholders for the publication of both this circular and the Scheme Document to be delayed.

In replacement of an accountants' report on the Target Group, the Company has included the following information in this circular:

(a) the audited financial information on the Target Group for the 52 weeks ended 30 April 2017, 29 April 2018 and 28 April 2019 prepared in accordance with IFRS EU, including the management discussion and analysis, as extracted from the annual reports of the Target Group published on its website. In addition, this circular includes a quantitative line-by-line reconciliation of the group income statements and group balance sheets of the Target Group for the 52 weeks ended 30 April 2017, 29 April 2018 and 28 April 2019 to address any difference in the Target Group financial information had it been prepared in accordance with the Group's accounting policies (the "**Reconciliation**"). The Reconciliation is reported by Deloitte Hong Kong in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) (HKSAE 3000 (Revised)). It is not expected that there are any significant impact on the group income statements and group balance sheets of the Target Group being prepared under IFRS EU for the above financial periods had they been prepared in accordance with IFRS; and

(b) an ageing analysis of accounts payable as required under Rule 4.05(2)(b) of the Listing Rules, being the supplemental financial information of the Target Group for the 52 weeks ended 30 April 2017, 29 April 2018 and 28 April 2019 (the "**Supplemental Financial Information**") which is required for an accountants' report under the Listing Rules but not disclosed in the published financial information of the Target Group, excluding the information required under Rule 4.08(3) of the Listing Rules (which requires the accountants' report to state that it has been prepared in accordance with the Hong Kong Standard on Investment Circular Reporting Engagements 200 – Accountants' Reports on Historical Financial Information in Investment Circulars (HKSIR 200) issued by the Hong Kong Institute of Certified Public Accountants).

10. EGM AND VOTING

The Company will convene the EGM for the Shareholders to consider and, if thought fit, pass an ordinary resolution to approve the Acquisition.

A notice convening the EGM to be held at the Grand Ballroom, 1st Floor, Harbour Grand Hong Kong, 23 Oil Street, North Point, Hong Kong on Wednesday, 9 October 2019 at 11:00 a.m. (Hong Kong time) is set out on pages N-1 to N-4 of this circular. Pursuant to the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. The chairman of the forthcoming EGM will therefore put the ordinary resolution to be proposed at the EGM to be voted by way of a poll pursuant to Article 81 of the Amended and Restated Articles of Association of the Company. After the conclusion of the EGM, the results of the poll will be released on the website of the Hong Kong Stock Exchange at *www.hkexnews.hk* and the Company's website at *www.ckah.com*.

All Shareholders who have a material interest in the Acquisition will be required to abstain from voting on the ordinary resolution to approve the Acquisition at the EGM. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder has a material interest in the Acquisition. As such, no Shareholder is required to abstain from voting under the Listing Rules at the EGM on the resolution to approve the Acquisition.

A proxy form for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM or any adjourned meeting in person, you are requested to complete, sign and return the enclosed proxy form in accordance with the instructions printed thereon to the Company's principal place of business in Hong Kong at 7th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong as soon as practicable and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and, in such event, the proxy form shall be deemed to be revoked.

11. RECOMMENDATIONS

Having taken into account the reasons for and the benefits of the Acquisition as more particularly described under the section headed "*6. Reasons for, and benefits of, the Acquisition*" of this circular, the Directors (including the independent non-executive Directors) unanimously recommend the Shareholders to vote in favour of the resolution for the approval of the Acquisition.

Each Director (including the independent non-executive Directors) who has a personal interest in any Shares in the Company has provided an irrevocable undertaking to vote such Shares in favour of the resolution to approve and implement the Acquisition at the EGM, such undertaking to lapse if, among other things, there is a Target Adverse Recommendation Change.

In addition, the Company has agreed to procure that the relevant trustees of the Trust provide to Target an irrevocable undertaking to vote in favour of, or procure that the registered holders vote in favour of, the resolution relating to the Acquisition at the EGM in respect of the 1,160,195,710 Shares which they hold directly or indirectly (representing approximately 31.41% of the existing issued share capital of the Company as at the date of the Cooperation Agreement), not later than five Business Days following the despatch of this circular to the Shareholders.

12. FURTHER INFORMATION

As completion of the Acquisition is conditional on the satisfaction (or, where applicable, waiver) of certain terms and conditions, including the approval by the Shareholders at the EGM, the requisite approval by the relevant Scheme Shareholders and Target Shareholders at the Court Meeting and the Target General Meeting respectively, the receipt of the required decision(s) from the European Commission and the sanction of the Scheme by the Court, there remains the possibility that the Acquisition may not proceed. Please refer to the details of the Conditions and any further information set out in this circular. Shareholders and potential investors should exercise caution when dealing in the Shares and other securities of the Company.

Yours faithfully,

For and on behalf of the Board of
CK ASSET HOLDINGS LIMITED
Victor T K LI
Chairman and Managing Director

Part A: Conditions to the Scheme and the Acquisition

1. The Acquisition is conditional upon the Scheme becoming unconditional and effective, subject to the provisions of the UK Takeover Code, by no later than 11:59 p.m. on the Long Stop Date.

Scheme approval

2. The Scheme is subject to the following Conditions:

   (a) (i) its approval by a majority in number of the Scheme Shareholders who are present and voting, whether in person or by proxy, at the Court Meeting and at any separate class meeting which may be required (or any adjournment thereof) and who represent 75% or more in value of the Scheme Shares voted by those Scheme Shareholders; and (ii) such Court Meeting being held on or before 31 October 2019 (or such later date as may be agreed between Bidco and Target (and that the Court may allow));

   (b) (i) the resolutions required to implement the Scheme being duly passed at the Target General Meeting (or any adjournment thereof); and (ii) such Target General Meeting being held on or before 31 October 2019 (or such later date as may be agreed between Bidco and Target (and that the Court may allow)); and

   (c) (i) the sanction of the Scheme by the Court (with or without modification (but subject to such modification being acceptable to Bidco and Target)) and the delivery of a copy of the Court Order to the UK Registrar of Companies; and (ii) the Sanction Hearing being held on or before the 22nd day after the expected date of the Sanction Hearing (or such later date as may be agreed between Bidco and Target (and that the Court may allow)).

Other conditions

3. The Acquisition is also conditional upon the following conditions and, accordingly, the necessary actions to make the Scheme effective will not be taken unless the following Conditions (as amended if appropriate) have been satisfied or, where capable of waiver, waived:

Shareholder approval

(a) the passing at the EGM (or any adjournment thereof) of such resolution or resolutions as are necessary to approve, implement and effect the Acquisition (as such resolutions may be set out in this circular);

Antitrust

(b) in so far as the Acquisition constitutes a concentration with a Community dimension within the scope of Council Regulation, the European Commission:

(i) taking a decision (or being deemed to have taken such a decision or one with equivalent effect) under Article 6(1)(b) of the Council Regulation declaring the Acquisition compatible with the common market, in terms reasonably satisfactory to Bidco (including, for the avoidance of doubt, where such a decision is taken on or after the date of withdrawal of the United Kingdom from the European Union as set out in the European Union (Withdrawal Act) 2018 (as amended from time to time) or where the European Commission indicates it will not take such a decision due to the withdrawal of the United Kingdom from the European Union and that withdrawal has occurred); or

(ii) taking a decision (or being deemed to have taken a decision) to refer the Acquisition to the competent authorities of one or more member states under Article 9(3) or Article 4(4) of the Council Regulation;

Other Third Party clearances

(c) other than in respect of Condition 3(b) or the CMA, no central bank, government or governmental, quasi-governmental, supranational, statutory, regulatory, environmental, administrative, fiscal or investigative body, court, trade agency, association, institution, environmental body, employee representative body or any other body or person whatsoever in any jurisdiction (each a "**Third Party**") having given notice of a decision to take, institute, implement or threaten any action, proceeding, suit, investigation, enquiry or reference (and in each case, not having withdrawn the same), or having required any action to be taken or otherwise having done anything or having enacted, made or proposed any statute, regulation, decision, order or change to published practice (and in each case, not having withdrawn the same) and there not continuing to be outstanding any statute, regulation, decision or order which would or might reasonably be expected to:

(i) make the Acquisition, its implementation or the acquisition or proposed acquisition of any shares or other securities in, or control or management of, any member of the Wider Target Group by any member of the Wider CKA Group void, voidable, illegal and/or unenforceable under the laws of any relevant jurisdiction, or otherwise directly or indirectly prevent, prohibit, or materially restrain, restrict, impede, challenge, delay or otherwise materially interfere with the approval or implementation of, or impose additional material conditions or obligations with respect to, the Acquisition or any matter arising from the proposed acquisition of any shares or other securities in, or control or management of, any member of the Wider Target Group by any member of the Wider CKA Group;

(ii) require, prevent or materially delay the divestiture or materially alter the terms envisaged for such divestiture by any member of the Wider CKA Group or by any member of the Wider Target Group of all or any material part of their businesses, assets or property or impose any limitation on the ability of all or any of them to conduct their businesses (or any part thereof) or to own, control or manage any of their assets or properties (or any part thereof) to an extent which is material in the context of the Wider Target Group taken as a whole or the Wider CKA Group taken as a whole;

(iii) impose any material limitation on, or result in a material delay in, the ability of any member of the Wider CKA Group directly or indirectly to acquire or hold or to exercise effectively all or any rights of ownership in respect of shares or other securities in Target (or any member of the Wider Target Group) or on the ability of any member of the Wider Target Group or any member of the Wider CKA Group directly or indirectly to hold or exercise effectively any rights of ownership in respect of shares or other securities (or the equivalent) in, or to exercise management control over, any member of the Wider Target Group to an extent which is material in the context of the Wider Target Group taken as a whole or the Wider CKA Group taken as a whole;

(iv) other than pursuant to the implementation of the Scheme, require any member of the Wider CKA Group or the Wider Target Group to acquire or offer to acquire any shares, other securities (or the equivalent) or interest in any member of the Wider Target Group or any asset owned by any third party which is material in the context of the Wider Target Group or the Wider CKA Group, in either case taken as a whole;

(v) require, prevent or materially delay a divestiture by any member of the Wider CKA Group of any shares or other securities (or the equivalent) in any member of the Wider Target Group;

(vi) result in any member of the Wider Target Group ceasing to be able to carry on business under any name under which it presently carries on business to an extent which is material in the context of the Wider Target Group taken as a whole;

(vii) impose any material limitation on the ability of any member of the Wider CKA Group or any member of the Wider Target Group to conduct, integrate or co-ordinate all or any part of their respective businesses with all or any part of the business of any other member of the Wider CKA Group and/or the Wider Target Group in a manner which is adverse to the Wider CKA Group and/or the Wider Target Group, in either case, taken as a whole; or

(viii) except as Disclosed, otherwise affect the business, assets, value, profits, prospects or operational performance of any member of the Wider Target Group or any member of the Wider CKA Group in each case in a manner which is adverse to and material in the context of the Wider Target Group taken as a whole or of the obligations of any members of the Wider CKA Group taken as a whole;

and all applicable waiting and other time periods (including any extensions thereof) during which any such Third Party could decide to take, institute, implement or threaten any such action, proceeding, suit, investigation, enquiry or reference or take any other step under the laws of any jurisdiction in respect of the Acquisition or proposed acquisition of any Target Shares or otherwise intervene having expired, lapsed, or been terminated;

(d) other than a notification or filing to the CMA, all notifications, filings or applications which are deemed by Bidco to be necessary or appropriate having been made in connection with the Acquisition and all necessary waiting and other time periods (including any extensions thereof) under any applicable legislation or regulation of any jurisdiction having expired, lapsed or been terminated (as appropriate) and all statutory and regulatory obligations in any jurisdiction having been complied with in each case in respect of the Acquisition and all Authorisations which are deemed by Bidco to be necessary or appropriate in any jurisdiction for or in respect of the Acquisition or the proposed acquisition of any shares or other securities in, or control of, Target by any member of the Wider CKA Group having been obtained in terms and in a form reasonably satisfactory to Bidco from all appropriate Third Parties or (without prejudice to the generality of the foregoing) from any person or bodies with whom any member of the Wider Target Group or the Wider CKA Group has entered into contractual arrangements and all such Authorisations which are deemed by Bidco to be necessary or appropriate to carry on the business of any member of the Wider Target Group in any jurisdiction having been obtained in each case where the direct consequence of a failure to make such notification or filing or to wait for the expiry, lapse or termination of any such waiting or other time period or to comply with such obligation or obtain such Authorisation would be unlawful in any relevant jurisdiction or have a material adverse effect on the Wider Target Group, any member of the Wider CKA Group or the ability of Bidco to implement the Scheme and all such Authorisations remaining in full force and effect at the time at which the Scheme becomes otherwise unconditional in all respects and there being no notice or intimation of an intention to revoke, suspend, restrict, modify or not to renew such Authorisations;

Confirmation of absence of adverse circumstances

(e) except as Disclosed, there being no provision of any arrangement, agreement, licence, permit, franchise, lease or other instrument to which any member of the Wider Target Group is a party or by or to which any such member or any of its assets is or may be bound, entitled or be subject or any event or circumstance which, as a consequence of the Acquisition or the proposed acquisition by any member of the Wider CKA Group of any shares or other securities in Target or because of a change in the control or management of any member of the Wider Target Group or otherwise, would or might reasonably be expected to result in, and in each case to an extent which is material in the context of the Wider Target Group taken as a whole:

(i) any monies borrowed by, or any other indebtedness, actual or contingent of, or any grant available to, any member of the Wider Target Group being or becoming repayable, or capable of being declared repayable, immediately or prior to its or their stated maturity date or repayment date, or the ability of any such member to borrow monies or incur any indebtedness being withdrawn or inhibited or being capable of becoming or being withdrawn or inhibited;

(ii) the rights, liabilities, obligations, interests or business of any member of the Wider Target Group or any member of the Wider CKA Group under any such arrangement, agreement, licence, permit, lease or instrument or the interests or business of any member of the Wider Target Group or any member of the Wider CKA Group in or with any other firm or company or body or person (or any agreement or arrangement relating to any such business or interests) being or becoming capable of being terminated or adversely modified or affected or any onerous obligation or liability arising or any adverse action being taken thereunder;

(iii) any member of the Wider Target Group ceasing to be able to carry on business under any name under which it presently carries on business;

(iv) any assets or interests of, or any asset the use of which is enjoyed by, any member of the Wider Target Group being or falling to be disposed of or charged or any right arising under which any such asset or interest could be required to be disposed of or charged or could cease to be available to any member of the Wider Target Group otherwise than in the ordinary course of business;

(v) the creation, save in the ordinary and usual course of business, or enforcement of any mortgage, charge or other security interest over the whole or any part of the business, property or assets of any member of the Wider Target Group or any such mortgage, charge or other security interest (whenever created, arising or having arisen), becoming enforceable;

(vi) the business, assets, value, financial or trading position, profits, prospects or operational performance of any member of the Wider Target Group being prejudiced or adversely affected;

(vii) the creation or acceleration of any liability (actual or contingent) by any member of the Wider Target Group other than trade creditors or other liabilities incurred in the ordinary course of business; or

(viii) any liability of any member of the Wider Target Group to make any severance, termination, bonus or other payment to any of its directors or other officers;

No material transactions, claims or changes in the conduct of the business of the Target Group

(f) except as Disclosed, no member of the Wider Target Group having since 28 April 2019:

(i) save as between Target and its wholly-owned subsidiaries or between such wholly-owned subsidiaries and save for the issue or transfer out of treasury of Target Shares on the exercise of options or vesting of awards granted in the ordinary course under the Target Share Plans, issued or agreed to issue or authorised or proposed or announced its intention to authorise or propose the issue of additional shares of any class, or securities or securities convertible into, or exchangeable for, or rights, warrants or options to subscribe for or acquire, any such shares or convertible securities or transferred or sold or agreed to transfer or sell or authorised or proposed the transfer or sale of Target Shares out of treasury;

(ii) save for the Final Dividend, recommended, declared, paid or made or proposed to recommend, declare, pay or make any bonus issue, dividend or other distribution (whether payable in cash or otherwise) other than to Target or one of its wholly-owned subsidiaries;

(iii) save as between Target and its wholly-owned subsidiaries or between such wholly-owned subsidiaries, merged with (by statutory merger or otherwise) or demerged from or acquired any body corporate, partnership or business or acquired or disposed of, or, other than in the ordinary course of business, transferred, mortgaged or charged or created any security interest over, any material assets or any right, title or material interest in any asset (including shares and trade investments) or authorised, proposed or announced any intention to do so;

(iv) save as between Target and its wholly-owned subsidiaries or between such wholly-owned subsidiaries, made, authorised, proposed or announced an intention to propose any change in its loan capital;

(v) issued, authorised or proposed or announced an intention to authorise or propose the issue of, or made any change in or to the terms of, any debentures or (save in the ordinary course of business and save as between Target and its wholly-owned subsidiaries or between such wholly-owned subsidiaries) incurred or increased any indebtedness or become subject to any contingent liability to an extent which is material in the context of the Wider Target Group taken as a whole;

(vi) entered into, varied, authorised or proposed entry into or variation of, or announced its intention to enter into or vary, any material contract, transaction, arrangement or commitment (whether in respect of capital expenditure or otherwise) (otherwise than in the ordinary course of business) which is of a long term, unusual or onerous nature, or which involves or could reasonably be expected to involve an obligation of a nature or magnitude which is, in any such case, material in the context of the Target Group or in the context of the Acquisition, or which is or is reasonably likely to be restrictive on the business of any member of the Wider Target Group to an extent which is or is likely to be material to the Wider Target Group taken as a whole;

(vii) entered into any licence or other disposal of intellectual property rights of any member of the Wider Target Group which are material in the context of the Wider Target Group taken as a whole and outside the normal course of business;

(viii) entered into, varied, authorised or proposed entry into or variation of, or announced its intention to enter into or vary the terms of or made any offer (which remains open for acceptance) to enter into or vary to a material extent the terms of, any contract, commitment, arrangement or any service agreement with any director or senior executive of the Wider Target Group save for salary increases, bonuses or variations of terms in the ordinary course;

(ix) proposed, agreed to provide or modified the terms of any share option scheme, incentive scheme, or other benefit relating to the employment or termination of employment of any employee of the Wider Target Group which, taken as a whole, are material in the context of the Wider Target Group taken as a whole;

(x) (I) proposed, made or agreed to any significant change to: (a) the terms of the trust deeds, rules, policy or other governing documents constituting any pension scheme or other retirement or death benefit arrangement established for the directors, former directors, employees or former employees of any entity in the Wider Target Group or their dependants (a "**Relevant Pension Plan**"); (b) the basis on which benefits accrue, pensions which are payable or the persons entitled to accrue or be paid benefits, under any Relevant Pension Plan; (c) the basis on which the liabilities of any Relevant Pension Plan are funded or valued; (d) the manner in which the assets of any Relevant Pension Plan are invested; (e) the basis or rate of employer contribution to a Relevant Pension Plan; or (II) enter into or propose to enter into one or more bulk annuity contracts in relation to any Relevant Pension Plan; or (III) carry out any act: (a) which would or could reasonably be expected to lead to the commencement of the winding up of any Relevant Pension Plan; (b) which would or might create a material debt owed by an employer to any Relevant Pension Plan; (c) which would or might accelerate any obligation on any employer to fund or pay additional contributions to any Relevant Pension Plan; or (d) which would or might give rise directly or indirectly to a liability in respect of a Relevant Pension Plan arising out of the operation of sections 38 to 56 inclusive of the UK Pensions Act 2004 in relation to the scheme;

(xi) changed the trustee or trustee directors or other fiduciary of any Relevant Pension Plan;

(xii) entered into, implemented or effected, or authorised, proposed or announced its intention to implement or effect, any joint venture, asset or profit sharing arrangement, partnership, composition, assignment, reconstruction, amalgamation, commitment, scheme or other transaction or arrangement (other than the Scheme) otherwise than in the ordinary course of business which is material in the context of the Wider Target Group taken as a whole;

(xiii) purchased, redeemed or repaid or announced any proposal to purchase, redeem or repay any of its own shares or other securities or reduced or, save in respect of the matters mentioned in sub-paragraph (i) above, made any other change to any part of its share capital to an extent which (other than in the case of Target) is material in the context of the Wider Target Group taken as a whole;

(xiv) other than with respect to claims between Target and its wholly owned subsidiaries (or between such subsidiaries), waived, compromised or settled any claim otherwise than in the ordinary course of business which is material in the context of the Wider Target Group taken as a whole;

(xv) made any material alteration to its articles of association or other constitutional documents (in each case, other than in connection with the Scheme);

(xvi) (other than in respect of a member of the Wider Target Group which is dormant and was solvent at the relevant time) taken or proposed any steps, corporate action or had any legal proceedings instituted or threatened against it in relation to the suspension of payments, a moratorium of any indebtedness, its winding-up (voluntary or otherwise), dissolution, reorganisation or for the appointment of any administrator, receiver, manager, administrative receiver, trustee or similar officer of all or any material part of its assets or revenues or any analogous proceedings in any jurisdiction or appointed any analogous person in any jurisdiction or had any such person appointed;

(xvii) been unable, or admitted in writing that it is unable, to pay its debts or commenced negotiations with one or more of its creditors with a view to rescheduling or restructuring any of its indebtedness, or having stopped or suspended (or threatened to stop or suspend) payment of its debts generally or ceased or threatened to cease carrying on all or a substantial part of its business which is material in the context of the Wider Target Group taken as a whole;

(xviii) entered into any contract, commitment, agreement or arrangement otherwise than in the ordinary course of business or passed any resolution or made any offer (which remains open for acceptance) with respect to or announced an intention to, or to propose to, effect any of the transactions, matters or events referred to in this condition;

(xix) terminated or varied the terms of any agreement or arrangement between any member of the Wider Target Group and any other person in a manner which would or might be expected to have a material adverse effect on the financial position of the Wider Target Group taken as a whole; or

(xx) having taken (or agreed or proposed to take) any action which requires, or would require, the consent of the UK Panel or the approval of Target Shareholders in a general meeting in accordance with, or as contemplated by, Rule 21.1 of the UK Takeover Code;

No material adverse change

(g) since 28 April 2019, and except as Disclosed, there having been:

(i) no adverse change and no circumstance having arisen which would be expected to result in any adverse change or deterioration in the business, assets, value, financial or trading position, profits, prospects or operational performance of any member of the Wider Target Group to an extent which is material to the Wider Target Group taken as a whole;

(ii) no litigation, arbitration proceedings, prosecution or other legal proceedings including, without limitation, with regard to intellectual property rights used by the Wider Target Group having been threatened, announced or instituted by or against or remaining outstanding against any member of the Wider Target Group or to which any member of the Wider Target Group is or may become a party (whether as claimant or defendant or otherwise) and no enquiry, review, investigation or enforcement proceedings by, or complaint or reference to, any Third Party against or in respect of any member of the Wider Target Group having been threatened, announced or instituted by or against, or remaining outstanding in respect of, any member of the Wider Target Group which, in any such case, might reasonably be expected to have a material adverse effect on the Wider Target Group taken as a whole;

(iii) no contingent or other liability having arisen, increased or become apparent other than in the ordinary course of business which is reasonably likely to adversely affect the business, assets, financial or trading position, profits, prospects or operational performance of any member of the Wider Target Group to an extent which is material to the Target Group taken as a whole; and

(iv) no steps having been taken and no omissions having been made which are reasonably likely to result in the withdrawal, cancellation, termination or modification of any licence held by any member of the Wider Target Group, which is necessary for the proper carrying on of its business and the withdrawal, cancellation, termination or modification of which is material and likely to have an adverse effect on the Target Group taken as a whole;

(h) since 28 April 2019, and except as Disclosed, Bidco not having discovered:

(i) that any financial, business or other information concerning the Wider Target Group publicly announced prior to the date of the 2.7 Announcement or disclosed to any member of the Wider CKA Group prior to the date of the 2.7 Announcement by or on behalf of any member of the Wider Target Group or to any of their advisers is misleading, contains a misrepresentation of fact or omits to state a fact necessary to make that information not misleading and which is, in any case, material in the context of the Wider Target Group taken as a whole;

(ii) that any member of the Wider Target Group is subject to any liability, contingent or otherwise, which is material in the context of the Wider Target Group taken as a whole; or

(iii) any information which affects the import of any information disclosed to Bidco at any time by or on behalf of any member of the Wider Target Group which is material in the context of the Wider Target Group;

Environmental liabilities

(i) except as Disclosed, Bidco not having discovered that:

(i) any past or present member of the Wider Target Group has not complied in any material respect with all applicable legislation or regulations, notices or other requirements of any jurisdiction or any Third Party or any Authorisations relating to the use, treatment, storage, carriage, disposal, discharge, spillage, release, leak or emission of any waste or hazardous substance or greenhouse gas, or any substance likely to impair the environment (including property) or harm the health of humans, animals or other living organisms or eco-systems or otherwise relating to environmental matters or the health and safety of humans, which non-compliance would be likely to give rise to any material liability including any penalty for non-compliance (whether actual or contingent) on the part of any member of the Wider Target Group taken as a whole; or

(ii) there has been a material disposal, discharge, spillage, accumulation, leak, emission, release or the migration, production, supply, treatment, storage, transport or use of any waste or hazardous substance or greenhouse gas or any substance likely to impair the environment (including any property) or harm human health which (whether or not giving rise to non-compliance with any law or regulation) would be likely to give rise to any liability (whether actual or contingent) on the part of any member of the Wider Target Group taken as a whole; or

(iii) there is or is likely to be any material obligation or liability (whether actual or contingent) or requirement to make good, remediate, repair, re-instate or clean up any property, asset currently or previously owned, occupied or made use of by any past or present member of the Wider Target Group (or on its behalf), or in which any such member may have or previously have had or be deemed to have had an interest, or other elements of the environment (including any controlled waters) under any environmental legislation, common law, regulation, notice, circular, Authorisation, other legally binding requirement or order of any Third Party or to contribute to the cost thereof or associated therewith or indemnify any person in relation thereto in any such case to an extent which is material in the context of the Wider Target Group taken as a whole; or

(iv) circumstances exist (whether as a result of the Acquisition or otherwise):

(I) which would be likely to lead to any Third Party instituting; or

(II) whereby any member of the Wider CKA Group or any member of the Wider Target Group would be likely to be required to institute,

an environmental audit or take any other steps which would in any such case be likely to result in any liability (whether actual or contingent) to improve, modify existing or install new plant, machinery or equipment or carry out changes in the processes currently carried out or make good, remediate, repair, re-instate or clean up any land or other asset currently or previously owned, occupied or made use of by any past or present member of the Wider Target Group (or on its behalf) or by any person for which a member of the Wider Target Group is or has been responsible, or in which any such member may have or previously have had or be deemed to have had an interest which is material in the context of the Wider Target Group taken as a whole; or

(v) circumstances exist whereby a person or class of persons would be likely to have any claim or claims in respect of any product or process of manufacture or materials used therein currently or previously manufactured, sold or carried out by any past or present member of the Wider Target Group which claim or claims would be likely to affect any member of the Wider Target Group and which is material in the context of the Wider Target Group taken as a whole;

Intellectual Property

(j) no circumstance having arisen or event having occurred in relation to any intellectual property owned or used by any member of the Wider Target Group which would have a material adverse effect on the Wider Target Group taken as a whole or is otherwise material in the context of the Acquisition, including:

(i) any member of the Wider Target Group losing its title to any intellectual property material to its business, or any intellectual property owned by the Wider Target Group and material to its business being revoked, cancelled or declared invalid;

(ii) any claim being asserted in writing or threatened in writing by any person challenging the ownership of any member of the Wider Target Group to, or the validity or effectiveness of, any of its intellectual property; or

(iii) any agreement regarding the use of any intellectual property licensed to or by any member of the Wider Target Group being terminated or varied;

Anti-corruption and sanctions

(k) except as Disclosed, Bidco not having discovered that:

(i) any past or present member of the Wider Target Group or any person that performs or has performed services for or on behalf of any such company is or has at any time engaged in any activity, practice or conduct (or omitted to take any action) in contravention of the UK Bribery Act 2010, the US Foreign Corrupt Practices Act of 1977, as amended or any other applicable anti-corruption legislation;

(ii) any member of the Wider Target Group is ineligible to be awarded any contract or business under section 23 of the Public Contracts Regulations 2006 of the UK or section 26 of the UK Utilities Contracts Regulations 2006 of the UK (each as amended);

(iii) any past or present member of the Wider Target Group has engaged in any activity or business with, or made any investments in, or made any payments to any government, entity or individual covered by any of the economic sanctions administered by the United Nations or the European Union (or any of their respective member states) or the United States Office of Foreign Assets Control or any other governmental or supranational body or authority in any jurisdiction; or

(iv) a member of the Target Group has engaged in a transaction which would cause the Group to be in breach of any law or regulation on completion of the Acquisition, including the economic sanctions administered by the United States Office of Foreign Assets Control or HM Treasury & Customs or any government, entity or individual targeted by any of the economic sanctions of the United Nations, United States or the European Union or any of its member states;

No criminal property

(l) except as Disclosed, Bidco not having discovered that any asset of any member of the Wider Target Group constitutes criminal property as defined by section 340(3) of the UK Proceeds of Crime Act 2002 (but disregarding paragraph (b) of that definition).

Part B: Further terms of the Acquisition

1. Subject to the requirements of the UK Panel in accordance with the UK Takeover Code, Bidco reserves the right to waive, in whole or in part, all or any of the Conditions in Part A above, except Conditions 2(a)(i), 2(b)(i), 2(c)(i) and 3(a), which cannot be waived.

2. Bidco shall be under no obligation to waive or treat as satisfied any of the Conditions that it is entitled (with the consent of the UK Panel) to invoke, by a date earlier than the latest date for the fulfilment or waiver of that Condition, notwithstanding that the other Conditions may at such earlier date have been waived or fulfilled and that there are at such earlier date no circumstances indicating that any of such Conditions may not be capable of fulfilment.

3. If Bidco is required by the UK Panel to make an offer for Target Shares under the provisions of Rule 9 of the UK Takeover Code, Bidco may make such alterations to any of the above Conditions as are necessary to comply with the provisions of that Rule.

4. Under Rule 13.5(a) of the UK Takeover Code, Bidco may not invoke a Condition so as to cause the Acquisition not to proceed, to lapse or to be withdrawn unless the circumstances which give rise to the right to invoke the Condition are of material significance to Bidco in the context of the Acquisition. The Conditions contained in paragraphs 2 and 3(a) above and, if applicable, any acceptance condition if the Acquisition is implemented by means of a Takeover Offer, are not subject to this provision of the UK Takeover Code.

5. Bidco reserves the right to elect to implement the Acquisition by way of a Takeover Offer as an alternative to the Scheme, with the consent of the UK Panel. In such event, the Acquisition will be implemented on the same terms (subject to appropriate amendments including (without limitation) the inclusion of an acceptance condition set at 75% (or such other percentage (being more than 50%) as the UK Panel may require or Bidco may, subject to the rules of the UK Takeover Code, decide) of the shares to which the Takeover Offer relates and those required by, or deemed appropriate by, Bidco under applicable law, so far as applicable) as those which would apply to the Scheme. Further, if sufficient acceptances of such offer are received and/or sufficient Target Shares are otherwise acquired, it is the intention of Bidco to apply the provisions of the Companies Act to acquire compulsorily any outstanding Target Shares to which such Takeover Offer relates.

6. The Acquisition will lapse if there is a Phase 2 CMA Reference before the Court Meeting and the Target General Meeting. In such event, Target will not be bound by the terms of the Scheme.

7. The Acquisition will lapse if the European Commission initiates proceedings under Article 6(1)(c) of the Council Regulation before the Court Meeting and the Target General Meeting. In such event, Target will not be bound by the terms of the Scheme.

8. The Acquisition is governed by English law, is subject to the jurisdiction of the English courts and to the Conditions and further terms of the Scheme and the Acquisition set out in the Scheme Document. The Scheme is subject to the applicable requirements of the UK Takeover Code, the UK Panel, the London Stock Exchange, the UK Listing Rules, the FCA and the UK Registrar of Companies.

9. Each of the Conditions shall be regarded as a separate Condition and shall not be limited by reference to any other Condition.

10. The Target Shares will be acquired pursuant to the Acquisition with full title guarantee, fully paid and free from all liens, charges, equities, encumbrances, rights of pre-emption and any other interests of any nature whatsoever and together with all rights now or hereafter attaching thereto, including without limitation voting rights and the right to receive and retain in full all dividends and other distributions (if any) announced, declared, made or paid or any other return of value on or after the Effective Date (other than the Final Dividend).

11. If, on or after the date of the 2.7 Announcement and before the Effective Date, any dividend and/or other distribution and/or return of capital is declared, made or paid or becomes payable in respect of the Target Shares (other than the Final Dividend), Bidco reserves the right to reduce the Cash Consideration payable under the terms of the Acquisition for the Target Shares by an amount up to the amount of such dividend and/or other distribution and/or return of capital, in which case any reference in the 2.7 Announcement or in the Scheme Document to the Cash Consideration payable under the terms of the Acquisition will be deemed to be a reference to the Cash Consideration as so reduced. In such circumstances, the relevant Target Shareholder will be entitled to receive and retain such dividend and/or other distribution and/or return of capital.

12. The Acquisition is subject, inter alia, to the Conditions and certain further terms which are set out in this Appendix I and those terms which are set out in the Scheme Document and such further terms as may be required to comply with the UK Listing Rules and the provisions of the UK Takeover Code.

13. The availability of the Acquisition to persons not resident in the United Kingdom may be affected by the laws of the relevant jurisdiction. Any persons who are subject to the laws of any jurisdiction other than the United Kingdom should inform themselves about and observe any applicable requirements.

14. The Acquisition is not being made, directly or indirectly, in, into or from, or by use of the mails of, or by any means of instrumentality (including, but not limited to, facsimile, e-mail or other electronic transmission, telex or telephone) of interstate or foreign commerce of, or of any facility of a national, state or other securities exchange of, any jurisdiction where to do so would violate the laws of that jurisdiction.

The following is the text of the Scheme.

IN THE HIGH COURT OF JUSTICE
BUSINESS AND PROPERTY COURTS
OF ENGLAND AND WALES
COMPANIES COURT (ChD)

CR-2019-005629

IN THE MATTER OF GREENE KING PLC

– and –

IN THE MATTER OF THE COMPANIES ACT 2006

SCHEME OF ARRANGEMENT
(under Part 26 of the Companies Act 2006)

BETWEEN
GREENE KING PLC
AND
ITS
SCHEME SHAREHOLDERS
(as hereinafter defined)

PRELIMINARY

(A) In this Scheme, unless inconsistent with the subject or context, the following expressions have the following meanings:

"Act"	the Companies Act 2006 (as amended)
"Business Day"	a day on which London Stock Exchange plc is open for the transaction of business
"certificated" or **"in certificated form"**	not in uncertificated form (that is, not in CREST)
"CK Bidco"	CK Noble (UK) Limited, a private limited liability company incorporated in England and Wales with registered number 12149330

"CKA"	CK Asset Holdings Limited, a company incorporated in the Cayman Islands with limited liability, whose registered office is at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
"CKA Group"	CKA and its subsidiary undertakings
"Company"	Greene King plc, incorporated in England and Wales with registered number 00024511
"Court"	the High Court of Justice in England and Wales
"Court Meeting"	the meeting of the Scheme Shareholders convened pursuant to an order of the Court under section 896 of the Act to consider and, if thought fit, approve this Scheme, including any adjournment thereof
"CREST"	the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by Euroclear in accordance with the Uncertificated Securities Regulations 2001 (SI 2001/3755) (as amended)
"Euroclear"	Euroclear UK & Ireland Limited, incorporated in England and Wales with registered number 02878738
"Excluded Shares"	any Ordinary Shares which are registered in the name of or beneficially owned by CK Bidco or any member of the CKA Group or held by the Company in treasury at any relevant date or time
"holder"	a registered holder and includes a person entitled by transmission
"members"	members of the Company on the register of members at any relevant date or time
"Ordinary Shares"	ordinary shares of 12.5 pence each in the capital of the Company
"Registrar of Companies"	the Registrar of Companies in England and Wales

"Scheme"	this scheme of arrangement in its present form or with or subject to any modification, addition or condition approved or imposed by the Court and agreed to by the Company and CK Bidco
"Scheme Effective Time"	the time and date at which this Scheme becomes effective in accordance with Clause 6
"Scheme Record Time"	6:30 p.m. on the Business Day immediately after the date on which the Court makes its order sanctioning this Scheme
"Scheme Shareholder"	a holder of Scheme Shares at any relevant date or time
"Scheme Shares"	(i) the Ordinary Shares in issue at the date of this Scheme; (ii) the Ordinary Shares (if any) issued after the date of this Scheme and before the Voting Record Time; and (iii) the Ordinary Shares (if any) issued at or after the Voting Record Time and before the Scheme Record Time on terms that the holder thereof shall be bound by this Scheme, or in respect of which the original or any subsequent holders thereof shall have agreed in writing to be bound by this Scheme, and in each case (where the context requires) remaining in issue at the Scheme Record Time, but excluding any Excluded Shares
"Share Plans"	the employee share option and award schemes of the Company in place at the Scheme Record Time
"subsidiary" and **"subsidiary undertaking"**	have the meanings given in the Act
"UK"	the United Kingdom of Great Britain and Northern Ireland
"uncertificated" or **"in uncertificated form"**	recorded on the relevant register as being held in uncertificated form in CREST and title to which may be transferred by means of CREST

"Voting Record Time" 6:30 p.m. on the day which is two days before the date of the Court Meeting or, if the Court Meeting is adjourned, 6:30 p.m. on the day which is two days before the date of such adjourned meeting, in each case excluding any part of a day that is not a working day

References to Clauses are to clauses of this Scheme, and references to time are to London time.

(B) The issued share capital of the Company as at the close of business on 13 September 2019 (being the latest practicable date prior to the date of this Scheme) was £38,751,929 divided into 310,015,430 Ordinary Shares of 12.5 pence each, all of which were credited as fully paid and none of which were held in treasury.

(C) As at the close of business on 13 September 2019 (being the latest practicable date prior to the date of this Scheme) 8,990,182 Ordinary Shares were registered in the name of or beneficially owned by CKA or other members of the CKA Group.

(D) CK Bidco has agreed to appear by counsel at the hearing to sanction this Scheme and to submit to be bound by and to undertake to the Court to be bound by this Scheme and to execute and do or procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by it for the purpose of giving effect to this Scheme.

THE SCHEME

1 Transfer of the Scheme Shares

1.1 At the Scheme Effective Time, CK Bidco (and/or its nominee(s)) shall acquire all of the Scheme Shares fully paid, with full title guarantee, free from all liens, equities, charges, encumbrances, options, rights of pre-emption and any other third party rights or other interests, and together with all rights attached thereto including voting rights and the right to receive all dividends and other distributions declared, paid or made by the Company by reference to a record date on or after the Scheme Effective Time.

1.2 For the purposes of such acquisition, the Scheme Shares shall be transferred to CK Bidco and/or its nominee(s) and such transfer shall be effected by means of a form or forms of transfer or other instrument or instruction of transfer, or by means of CREST, and any person may be appointed by the Company or CK Bidco as attorney or agent and shall be authorised as such attorney or agent on behalf of the holder concerned to execute and deliver as transferor such form of transfer or other instrument or instruction of transfer, or procure the transfer by means of CREST, of such Scheme Shares and every form, instrument or instruction of transfer so executed shall be as effective as if it had been executed by the holder or holders of the Scheme Shares thereby transferred. Any such form, instrument or instruction of transfer shall be deemed to be the principal instrument of transfer.

2 Consideration for the transfer of the Scheme Shares

2.1 In consideration for the transfer of the Scheme Shares, CK Bidco shall (subject to Clause 2.2) pay or procure that there will be paid to or for the account or benefit of each Scheme Shareholder (as appearing in the register of members of the Company at the Scheme Record Time):

For each Scheme Share **850 pence in cash**

2.2 If any dividend and/or other distribution and/or return of capital is declared, made or paid or becomes payable in respect of an Ordinary Share during the period from the date of this Scheme until the Scheme Effective Time, CK Bidco shall be entitled to reduce the amount of consideration for each Scheme Share by an amount per Scheme Share up to the amount of such dividend and/or other distribution and/or return of capital. In such circumstances, Scheme Shareholders shall be entitled to retain any such dividend and/or other distribution and/or return of capital.

3 Settlement of consideration

3.1 As soon as practicable after the Scheme Effective Time, and in any event no later than 14 days after the Scheme Effective Time (unless the Panel consents otherwise), CK Bidco shall satisfy the consideration due to Scheme Shareholders pursuant to Clause 2 as follows:

3.1.1 subject to Clause 3.1.3, in the case of Scheme Shares which at the Scheme Record Time are in certificated form, procure the despatch to the persons entitled thereto of cheques for the sums payable to them respectively;

3.1.2 subject to Clause 3.1.3, in the case of Scheme Shares which at the Scheme Record Time are in uncertificated form, procure that Euroclear is instructed to create an assured payment obligation in favour of the payment bank of the persons entitled thereto in accordance with the CREST assured payment arrangements for the sums payable to them respectively, provided that CK Bidco reserves the right to make payment of the said sums by cheque as set out in Clause 3.1.1 if, for reasons outside its reasonable control, it is not able to effect settlement in accordance with this Clause 3.1.3 or to do so would incur material additional costs; and

3.1.3 in the case of Scheme Shares issued or transferred pursuant to the Share Plans after the Court makes its order sanctioning this Scheme and prior to the Scheme Record Time, pay the amount due in respect of such Scheme

Shares to the Company or any of its subsidiaries or subsidiary undertakings or otherwise at its or their discretion as soon as practicable and in any event within such 14 day period (unless the Panel consents otherwise) by such method as may be agreed with the Company, and the Company shall then procure that payments are made to the relevant Scheme Shareholders via payment to the relevant individual's bank account (into which the Greene King Group salary or wages are or were most recently paid, or in the case of participants in the Greene King plc Performance Share Plan 2013 who are no longer employed with the Greene King Group, into such account as they may specify) as soon as practicable, subject to the deduction of any applicable exercise price, income taxes and social security contributions.

3.2 As from the Scheme Record Time, each holding of Scheme Shares credited to any stock account in CREST shall be disabled and all Scheme Shares shall be removed from CREST in due course.

3.3 All deliveries of cheques pursuant to this Scheme shall be effected by sending the same by first class post (or international standard post or airmail, if overseas) in prepaid envelopes addressed to the persons entitled thereto at their respective addresses as appearing in the register of members of the Company or, in the case of joint holders, at the address of that one of the joint holders whose name stands first in such register in respect of such joint holding at the Scheme Record Time, and none of the Company, CK Bidco or their respective agents shall be responsible for any loss or delay in the transmission or delivery of any cheques sent in accordance with this Clause 3.3 which shall be sent at the risk of the person(s) entitled thereto.

3.4 All cheques shall be in sterling drawn on a UK clearing bank and shall be made payable to the persons respectively entitled to the monies represented thereby (except that, in the case of joint holders, CK Bidco reserves the right to make such cheques payable to that one of the joint holders whose name stands first in the register of members of the Company in respect of such joint holding at the Scheme Record Time), and the encashment of any such cheque or the creation of any such assured payment obligation in accordance with Clause 3.1.2 shall be a complete discharge of CK Bidco's obligations under this Scheme to pay the monies represented thereby.

3.5 If any Scheme Shareholders have not encashed the cheques within six months of the Scheme Effective Time, CK Bidco and the Company shall procure that the cash consideration due to such Scheme Shareholders under this Scheme shall be held on trust for such Scheme Shareholders for a period of 12 years from the Scheme Effective Time, and such Scheme Shareholders may claim the consideration due to them (plus any interest accrued thereon, but net of any expenses or taxes) by written notice to the Company in a form which the Company determines evidences their entitlement to such consideration at any time during the period of 12 years from the Scheme Effective Time.

3.6 The provisions of this Clause 3 shall be subject to any condition or prohibition imposed by law.

4 Share certificates and transfer of entitlements

With effect from, or as soon as practicable after, the Scheme Effective Time:

4.1 all certificates representing Scheme Shares shall immediately cease to have effect as documents of title to the Scheme Shares comprised therein and every Scheme Shareholder shall be bound at the request of the Company to deliver up their share certificate(s) to the Company (or any person appointed by the Company to receive the same) or to destroy the same;

4.2 Euroclear shall be instructed to cancel or transfer the entitlements of Scheme Shareholders to Scheme Shares in uncertificated form and (if necessary) that entitlements to such Scheme Shares are rematerialised; and

4.3 subject to delivery of such form of transfer or other instrument or instruction of transfer as may be required by Clause 1.2, and the payment of any stamp duty thereon, the Company shall procure that appropriate entries are made in the register of members of the Company to reflect the transfer of the Scheme Shares.

5 Authority pending registration of transfer

With effect from the Scheme Effective Time and until the register of members of the Company is updated to reflect the transfer of the Scheme Shares to CK Bidco (and/or its nominee(s)) pursuant to Clause 1.2:

5.1 CK Bidco (and/or its nominee(s)) or its agents shall be entitled to direct the exercise of any votes and any or all other rights and privileges (including the right to requisition the convening of a general meeting of the Company or of any class of its shareholders) attaching to any Scheme Shares;

5.2 each Scheme Shareholder authorises the Company and/or its agents to send any notice, circular, warrant, document or other communication which may be required to be sent to such Scheme Shareholder as a member of the Company in respect of their Scheme Shares (including any share certificate(s) or other document(s) of title issued as a result of conversion of their Scheme Shares into certificated form) to CK Bidco and/or its nominee(s) at its registered office;

5.3 each Scheme Shareholder irrevocably appoints CK Bidco and/or any one or more of its nominee(s), directors or agents to sign on behalf of such Scheme Shareholder such documents, and do such things, as may in the opinion of CK Bidco and/or any one or more of its directors or agents be necessary or desirable in connection with the exercise of any votes or other rights or privileges attaching to the relevant Scheme Shares (including without limitation, an authority to sign any consent to short notice of a general or separate class meeting of the Company as attorney or agent for, and on behalf of, such Scheme Shareholder and/or to attend and/or execute a form of proxy in respect of such Scheme Shares appointing any person nominated by CK Bidco and/or any one or more of its nominee(s), directors or agents to attend general and separate class meetings of the Company (or any adjournment thereof) and to exercise or refrain from exercising the votes attaching to the Scheme Shares on such Scheme Shareholder's behalf); and

5.4 each Scheme Shareholder irrevocably undertakes: (i) not to exercise any votes or any other rights attaching to the relevant Scheme Shares without the consent of CK Bidco; and (ii) not to appoint a proxy or representative for or to attend any general meeting or separate class meeting of the Company.

6 Scheme Effective Time

6.1 This Scheme shall become effective as soon as a copy of the order of the Court sanctioning this Scheme under section 899 of the Act shall have been delivered to the Registrar of Companies.

6.2 Unless this Scheme shall have become effective on or before 31 March 2020, or such later date, if any, as the Company and CK Bidco may agree and the Court may allow, this Scheme shall never become effective.

7 Modification

The Company and CK Bidco may jointly consent on behalf of all concerned to any modification of, or addition to, this Scheme or to any condition which the Court may approve or impose.

8 Governing law

This Scheme is governed by the laws of England and Wales and is subject to the exclusive jurisdiction of the English Courts.

Dated 16 September 2019

1. FINANCIAL INFORMATION OF THE GROUP FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2016, 2017 AND 2018 AND THE SIX MONTHS ENDED 30 JUNE 2019

Financial information of the Group for each of the three years ended 31 December 2016, 2017 and 2018, and the six months ended 30 June 2019, are disclosed in the following documents which have been published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (http://www.ckah.com) and can be accessed at the website addresses below:

(i) annual report of the Company for the year ended 31 December 2016 (https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0405/ltn201704051352.pdf)

(ii) annual report of the Company for the year ended 31 December 2017 (https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0406/ltn20180406599.pdf)

(iii) annual report of the Company for the year ended 31 December 2018 (https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0409/ltn20190409588.pdf)

(iv) interim report of the Company for the six months ended 30 June 2019 (https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0815/ltn20190815342.pdf)

2. INDEBTEDNESS

As at 31 July 2019 and 18 August 2019*, being the latest practicable date of the Group and the Target Group respectively, for the purpose of this statement of indebtedness, the Group and the Target Group had the following outstanding indebtedness:

(a) Borrowings

(i) As at 31 July 2019, the Group had total bank and other borrowings of HK$61,005 million, of which HK$4,946 million were secured and HK$56,059 million were unsecured; and

(ii) As at 18 August 2019, the Target Group had total bank and other borrowings of GBP1,991 million (equivalent to approximately HK$18,915 million), of which GBP1,807 million (equivalent to approximately HK$17,167 million) were secured and GBP184 million (equivalent to approximately HK$1,748 million) were unsecured.

* 18 August 2019 is a management financial information reporting period end date of the Target Group. Based on the information provided by Target, the Company understands that the Target Group adopts a total of 13 management financial information reporting periods of four-week each in its financial year (with the exception of one five-week reporting period in a 53-week financial year).

(b) Charge on Assets

(i) As at 31 July 2019, the Group had properties amounting to HK$18,663 million charged to secure bank loans arranged for property development projects on the Mainland; and

(ii) As at 18 August 2019, the Target Group had properties amounting to GBP2,813 million (equivalent to approximately HK$26,726 million) charged to the secured creditors under two securitisation financing structures.

(c) Contingent Liabilities

(i) As at 31 July 2019, the Group provided guarantees amounting to HK$3,101 million; and

(ii) As at 18 August 2019, the Target Group had no material contingent liabilities and guarantees on a group consolidated basis.

Save as disclosed above and apart from intra-group liabilities and guarantees, the Group as of the close of business on 31 July 2019 and the Target Group as of the close of business on 18 August 2019, did not have any issued and outstanding debt securities, authorised or otherwise created but unissued debt securities, loan capital, bank overdrafts, loans, mortgages, charges or other similar indebtedness, hire purchase commitments, liabilities under acceptances or acceptance credits, guarantees or other material contingent liabilities.

(d) Lease Liabilities

(i) As at 31 July 2019, the Group did not have any material lease liabilities; and

(ii) As at 18 August 2019, the Target Group had lease liabilities (excluding lease liabilities owing to the Group) of GBP689 million (equivalent to approximately HK$6,550 million). These lease liabilities were unsecured and unguaranteed.

3. WORKING CAPITAL

The Directors are of the opinion that, following completion of the Acquisition and in the absence of unforeseeable circumstances, after taking into account the Enlarged Group's business prospects, internal resources and available credit facilities, the Enlarged Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS

The Group's results for the first half of 2019 were in line with expectations, reflecting solid performance by its businesses. By adhering to its prudent strategy of achieving asset growth through improving quality earnings, the Group continued to enhance its property business and explore global opportunities to strengthen the recurrent income base by further expansion of its local and overseas business portfolio. Ample liquidity and solid financial fundamentals allow the Group to maintain strategic flexibility and to pursue quality investments to generate stable returns for its shareholders.

The macro economic and political environment remained challenging during the first half of 2019. Through diversification and globalisation, the Group has enhanced the quality of its portfolio and remained resilient to market volatility.

The Group has ample cash on hand with a debt ratio of approximately 0.5% as at 30 June 2019, and its operating and financial positions remain strong. The Group maintained "A/Stable" and "A2 Stable" credit ratings from Standard & Poor's and Moody's respectively. Based on the Group's solid foundations of strong financial fundamentals and a diversified global business portfolio, the Group is resilient to market challenges.

"Advancing without forgoing stability" will continue to be the Group's motto. The Group will continue to adopt a prudent investment strategy to improve the quality of earnings and enhance the recurrent income base, while achieving asset growth through continual strengthening of the Group's existing property businesses and portfolio and through geographical diversification. The Group will focus on pursuing quality investments and increasing the recurrent income base over time in order to create long-term sustainable value for its shareholders. The Group remains cautiously optimistic about the Group's future prospects.

5. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group have been made up.

A. PUBLISHED FINANCIAL INFORMATION OF THE TARGET GROUP FOR THE 52 WEEKS ENDED 30 APRIL 2017, 29 APRIL 2018 AND 28 APRIL 2019

For the purpose of this section only, unless the context requires otherwise, references to the "Company", "we", "us" and "our" refer to Target.

1. The following is an extract of the audited financial statements of the Target Group for the 52 weeks ended 30 April 2017, which were prepared in accordance with the IFRS as adopted by the European Union, from the 2017 Target Annual Report issued on 3 August 2017.

GROUP INCOME STATEMENT

For the fifty-two weeks ended 30 April 2017

		2017			2016		
		Before exceptional and non-underlying items	Exceptional and non-underlying items (note 5)	Total	Before exceptional and non-underlying items	Exceptional and non-underlying items (note 5)	Total
	Note	*£m*	*£m*	*£m*	*£m*	*£m*	*£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

		2017		2016	
	Note	**Before exceptional items**	**Total**	**Before exceptional items**	**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)

	Note	As at 30 April 2017 £m	As at 1 May 2016 £m
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*.

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.

* The strategic report is included in the 2017 Target Annual Report.

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.

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.

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.

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.

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.

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.

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.

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.

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	2016
	£m	*£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	Exceptional and non-underlying items	Total	Before exceptional and non-underlying items	Exceptional and non-underlying items	Total
	£m	*£m*	*£m*	*£m*	*£m*	*£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	2016
	£m	*£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

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.

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	Exceptional and non-underlying items	Total	Before exceptional and non-underlying items	Exceptional and non-underlying items	Total
	£m	*£m*	*£m*	*£m*	*£m*	*£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*.

7 FINANCE (COSTS)/INCOME

	2017			2016		
	Before exceptional and non-underlying items	Exceptional and non-underlying items	Total	Before exceptional and non-underlying items	Exceptional and non-underlying items	Total
	£m	£m	£m	£m	£m	£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)

* The directors' remuneration report is included in the 2017 Target Annual Report.

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*. 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	**2016**
	SAYE	*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.

* The directors' remuneration report is included in the 2017 Target Annual Report.

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

	Number of options		Weighted average exercise price	
ESOS	**2017**	**2016**	**2017**	**2016**
	m	*m*	*p*	*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	–	–	–	–

	Number of options		Weighted average exercise price	
SAYE	**2017**	**2016**	**2017**	**2016**
	m	*m*	*p*	*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

	Number of shares	
LTIP	**2017**	**2016**
	m	*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).

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	**2016**
	£m	*£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		Post-employment benefits	
	2017	2016	2017	2016
	£m	£m	£m	£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)

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

	Pension assets		Pension liabilities		Net pension liability	
	2017	2016	2017	2016	2017	2016
	£m	£m	£m	£m	£m	£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	**2016**
	£m	*£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	**2016**
	£m	*£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	**2016**
	£m	*£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).

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**	**2016**
	£m	*£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	**2016**
	£m	*£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)

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	2016
	£m	*£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	1 May 2016
	£m	*£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	**Exceptional and non-underlying items**	**Total**	**Before exceptional and non-underlying items**	**Exceptional and non-underlying items**	**Total**
	£m	*£m*	*£m*	*£m*	*£m*	*£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)

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

Deferred tax liabilities	**Accelerated capital allowances**	**Rolled over gains and property revaluation**	**Operating leases**	**Other temporary differences**	**Total**
	£m	*£m*	*£m*	*£m*	*£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	Other temporary differences	Derivatives	Share-based payments	Off-market contract liability	Capital losses carried forward	Trading losses carried forward	Total
	£m	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£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	**2016**
	£m	*£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**	**2016**	**2017**	**2016**	**2017**	**2016**
	£m	*£m*	*p*	*p*	*p*	*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	Operating lease intangibles	Total other intangibles	Goodwill
	£m	*£m*	*£m*	*£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	**2016**
	£m	*£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.

	2017	**2016**
	£m	*£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

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	2016
	£m	*£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	2016
	£m	*£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	Reversal of impairment	Net impairment	Impairment	Reversal of impairment	Net impairment
	£m	*£m*	*£m*	*£m*	*£m*	*£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.

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

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

Sensitivity to changes in assumptions

The level of impairment is predominantly dependent upon judgments used in arriving at fair values, future growth rates and the discount rate applied to cash flow projections. The net impact on the impairment charge of applying different assumptions to fair values, the growth rates used to calculate cash flow projections and in the pre-tax discount rates would be as follows:

	A 10% reduction in fair value less cost of disposal		A 1% increase in discount rate		A 1% reduction in growth rate	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Increased net impairment resulting from:						
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	**2016**
	£m	*£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**	**2016**
	£m	*£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%

Subsidiary undertakings	Principal activity	Country of incorporation	Held by	Holding	Proportion of voting rights and ownership
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%
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%

Subsidiary undertakings	Principal activity	Country of incorporation	Held by	Holding	Proportion of voting rights and ownership
Spirit Group Retail (South) Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Group Retail Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
				Preference shares	100%
Spirit Group Retail Pensions Limited[1]	Pension trustee	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Intermediate Holdings Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Managed Funding Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
				Preference shares	100%
Spirit Managed Holdings Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Managed Inns Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Parent Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Derwent) Limited[1]	Pub retailing	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Holdco) Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Investments) Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Leased) Limited[1]	Leasing of public houses	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Managed) Limited[1]	Pub retailing	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Services) Limited[1]	Administration	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (SGE) Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Supply) Limited[1]	Procurement	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Trent) Limited[1]	Pub retailing	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pubs Debenture Holdings Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pubs Parent Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Retail Bidco Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Springtarn Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
The Chef & Brewer Group Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
The Nice Pub Company Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Tom Cobleigh Group Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Tom Cobleigh Holdings Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Tom Cobleigh Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Whitegate Taverns Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%

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

2 Registered office: 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.

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.

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	2016
	£m	*£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	2016
	£m	*£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	2016
	£m	*£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	2016
	£m	*£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	2016
	£m	*£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	2016
	£m	*£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**	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
		£m	*£m*	*£m*	*£m*	*£m*	*£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.

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	Carrying value (£m)[1] 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.

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		2016	
	Minimum lease payments *£m*	Present value of future obligations *£m*	Minimum lease payments *£m*	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

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	1–2 years	2–5 years	>5 years	Total
	£m	*£m*	*£m*	*£m*	*£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

Period ended 1 May 2016	Within 1 year	1–2 years	2–5 years	>5 years	Total
	£m	*£m*	*£m*	*£m*	*£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).

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	Carrying value 2017	Fair value 2016	Carrying value 2016
		£m	*£m*	*£m*	*£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).

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	**Property leases**	**Indirect tax provisions**	**Total provisions**
	£m	*£m*	*£m*	*£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	Property leases	Indirect tax provisions	Total	Off-market liabilities	Property leases	Indirect tax provisions	Total
	£m	£m	£m	£m	£m	£m	£m	£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).

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	**Share capital**	**Number of issued shares**	**Share capital**
	m	*£m*	*m*	*£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	**2016**
	£m	*£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	**2016**
	£m	*£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	2016
	£m	*£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)

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	2016
	£m	*£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	**2016**
	£m	*£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	**2016**
	£m	*£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 ACCOUNT
For the 52 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.

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*. 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.

* The directors' remuneration report is included in the 2017 Target Annual Report.

40 BORROWINGS

	2017			2016		
	Within one year	**After one year**	**Total**	**Within one year**	**After one year**	**Total**
	£m	*£m*	*£m*	*£m*	*£m*	*£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	2016
	£m	*£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**	**2016**
	£m	*£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.

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.

2. The following is an extract of the audited financial statements of the Target Group for the 52 weeks ended 29 April 2018, which were prepared in accordance with the IFRS as adopted by the European Union, from the 2018 Target Annual Report issued on 8 August 2018.

GROUP INCOME STATEMENT
for the fifty-two weeks ended 29 April 2018

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

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

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the fifty-two weeks ended 29 April 2018

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

GROUP BALANCE SHEET
as at 29 April 2018

	Note	As at 29 April 2018 £m	As at 30 April 2017 (note 9) £m
Non-current assets			
Property, plant and equipment	14	3,589.2	3,621.9
Intangibles	13	124.7	163.7
Goodwill	13	1,089.7	1,108.8
Financial assets	15	13.2	16.3
Derivative financial instruments	23	1.5	–
Deferred tax assets	10	29.7	63.1
Post-employment assets	9	13.6	16.8
Prepayments		0.2	0.2
Trade and other receivables	18	0.1	0.1
		4,861.9	4,990.9
Current assets			
Inventories	17	47.7	45.0
Financial assets	15	10.5	10.1
Income tax receivable	10	10.2	–
Trade and other receivables	18	87.5	93.3
Prepayments		26.3	27.6
Cash and cash equivalents	19	168.5	443.0
		350.7	619.0
Property, plant and equipment held for sale	20	8.6	5.1
		359.3	624.1
Total assets		5,221.2	5,615.0
Current liabilities			
Borrowings	22	(54.6)	(219.7)
Derivative financial instruments	23	(20.6)	(30.9)
Trade and other payables	21	(420.0)	(429.3)
Off-market contract liabilities	24	(17.9)	(21.3)
Income tax payable	10	—	(12.6)
Provisions	24	(29.5)	(26.9)
		(542.6)	(740.7)

	Note	As at 29 April 2018 £m	As at 30 April 2017 (note 9) £m
Non-current liabilities			
Borrowings	22	(2,146.2)	(2,297.8)
Trade and other payables	21	(1.8)	(1.9)
Off-market contract liabilities	24	(228.6)	(264.1)
Derivative financial instruments	23	(222.0)	(313.9)
Deferred tax liabilities	10	–	(9.8)
Post-employment liabilities	9	–	(28.0)
Provisions	24	(23.1)	(14.6)
		(2,621.7)	(2,930.1)
Total liabilities		(3,164.3)	(3,670.8)
Total net assets		2,056.9	1,944.2
Issued capital and reserves			
Share capital	25	38.7	38.7
Share premium	26	262.0	261.7
Merger reserve	26	752.0	752.0
Capital redemption reserve	26	3.3	3.3
Hedging reserve	26	(158.1)	(192.2)
Own shares	26	(0.5)	(0.2)
Retained earnings		1,159.5	1,080.9
Total equity		2,056.9	1,944.2
Net debt	28	2,032.3	2,074.5

Signed on behalf of the board on 27 June 2018

P E Yea
Director

R Anand
Director

GROUP CASH FLOW STATEMENT

for the fifty-two weeks ended 29 April 2018

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

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

GROUP STATEMENT OF CHANGES IN EQUITY

for the fifty-two weeks ended 29 April 2018

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

NOTES TO THE ACCOUNTS

for the fifty-two weeks ended 29 April 2018

1 ACCOUNTING POLICIES

Corporate information

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

Statement of compliance

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

Basis of preparation

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Greene King plc, its subsidiaries and its related parties, Greene King Finance plc and Spirit Issuer plc. Greene King Finance plc and Spirit Issuer plc are structured entities set up to raise bond finance for the group. As Greene King plc has full control over both entities they are fully consolidated. The financial statements of subsidiaries are prepared for the same reporting year end as the parent company with adjustments made to their financial statements to bring their accounting policies in line with those used by the group.

The results of subsidiaries are consolidated from the date of acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases. Intercompany transactions, balances, income and expenses are eliminated on consolidation.

Going concern

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

Changes in accounting policies

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

* The directors' report and the strategic report are included in the 2018 Target Annual Report.

Those standards and interpretations include:

– Amendments to IAS 7: Statement of Cash Flows on the Disclosures in Financial Statements

– Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

– Amendments to IFRS 12: Disclosure of Interests in Other Entities: Clarification of the Scope of Disclosure Requirement in IFRS 12

Significant accounting policies

Property, plant and equipment

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

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

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

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

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

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

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

Intangible assets

Operating lease intangibles

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

Brand intangibles

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

Business combinations and goodwill

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

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

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

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

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

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

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

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

Impairment

Property, plant and equipment

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

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

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

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

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

Goodwill

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

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

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

Financial instruments

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

Financial assets

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

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

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

Trade and other receivables

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

Inventories

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

Cash and cash equivalents

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

Property, plant and equipment held for sale

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

Interest-bearing loans and borrowings

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

Finance costs and income

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

Derivative financial instruments and hedge accounting

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

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

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

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

Hedge accounting

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

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

Cash flow hedge accounting

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

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

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

Trade payables

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

Provisions

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

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

Off-market contract liabilities

Off-market contract liabilities are recognised where contracts are at unfavourable terms relative to current market terms on acquisition. For leases where the current rentals are below market terms, the related asset is considered to be recognised as an operating lease in intangible assets. For other acquired pubs an off-market liability has been calculated as the difference between the present value of future contracted rentals and the present value of future market rate rentals.

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

Pensions and other post-employment benefits

Defined benefit pension schemes

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

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

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

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

Defined contribution pension schemes

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

Share-based payments

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

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

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

Own shares

Own shares consist of treasury shares and shares held within an employee benefit trust. The group has an employee benefit trust to satisfy the exercise of share options that have vested under the group's share option schemes.

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

Revenue

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

Supplier rebates

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

Operating leases

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

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

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

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

Finance leases

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

Merger reserve

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

Taxes

Income tax

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

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

Deferred tax

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

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

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

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

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

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

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

Uncertain tax positions

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

Exceptional and non-underlying items and adjusted profitability measures

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

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

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

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

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

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

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

Exceptional items:

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

- costs incurred in association with business combinations, such as legal and professional fees and stamp duty, that are excluded from the fair value of the consideration of the business combination;

- one-off restructuring and integration costs that are incurred either following a business combination or following a restructuring of the group's support functions. These costs can be significant and would prevent year-on-year comparability of the group's trading if not separately identified;

- impairment charges/reversals in respect of tangible and intangible assets as a result of restructuring, business closure, underperformance of sites or fire damage;

- finance costs or income resulting from gains or losses upon the settlement of interest rate swap and bond liabilities. These amounts may be significant and are separately identified as the instruments they relate to would no longer form part of the group's ongoing capital structure;

- fair value gains and losses on the ineffective element of cash flow hedges and fair value movements in respect of derivatives held at fair value through profit and loss. Such items are separately presented as movements may be both significant and volatile; and

- significant and/or one-off tax settlements in respect of prior years (including any related interest), and the tax impact of the items identified above and movements on the licensed estate are included as exceptional items. These items are separately identified to allow management and investors to separately understand tax charges relating to in-year ongoing activity and what relates to prior years.

Non-underlying items may include:

- costs incurred in relation to group refinancing activities and defending uncertain tax positions;

- profit or loss on the disposal of property, plant and equipment, where the group disposes of properties that it no longer considers meet the ongoing needs of the business. These profits or losses could be significant and volatile and are not reflective of the group's ongoing trading results;

- costs associated with property lease reversions and onerous leases. The group may incur costs and recognise liabilities in respect of leasehold properties where the terms of the lease make them onerous or leases that have previously been disposed of but revert to the group under privity of contract. Such costs may occur infrequently or could be significant and are not reflective of the group's ongoing trade;

- significant credits to the income statement resulting from the reversal of share-based payment charges recognised in prior year's performance following the reassessment of expected scheme;

- gains or losses resulting from the settlement of liabilities in respect of the group's pension schemes;

- finance costs or income includes the recycling to the income statement of cumulative gains or losses relating to settled swaps previously taken to the hedging reserve;

- the impact of changes in the statutory tax rates;

- the impact of changes to the tax base cost of group's licensed estate and indexation; and

- other adjustments in respect of prior years' tax arising from finalising the tax returns for earlier years and rolled over gains on the licensed estate.

New standards and interpretations not applied

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

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was issued in July 2014 and replaces of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 covers the classification and measurement of financial assets and financial liabilities, together with a new hedge accounting model and the new expected credit loss model for calculating impairment.

The new standard is effective for accounting periods beginning on or after 1 January 2018, and will be adopted by the group on 30 April 2018 using a modified retrospective assessment approach. The group has assessed the impact and determined that the adoption of IFRS 9 will not have a material impact on its consolidated results and financial position.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 Revenue from Contracts with Customers in May 2014, and amended it in April 2016. The new standard provides a single, five-step revenue recognition model, applicable to all sales contracts, which is based upon the principle that revenue is recognised when the control of goods or services is transferred to the customer.

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

IFRS 16 Leases

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

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

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

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

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

IFRIC 23 Uncertainty over Income Tax Treatments

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

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

– Amendments to IFRS 2: Clarifications of Classification and Measurement of Share-based Payment Transactions

– IFRS 17 Insurance Contracts

– Amendments to IAS 40: Transfers of Investment Property

Significant accounting judgments and estimates

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

Taxation

Judgment is required when determining the provision for taxes as the tax treatment of some transactions cannot be finally determined until a formal resolution has been reached with the tax authorities. Assumptions are also made around the assets which qualify for capital allowances and the level of disallowable expenses and this affects the income tax calculation. Provisions are also made for uncertain exposures which can have an impact on both deferred and current tax. Tax benefits are not recognised unless it is probable that the benefit will be obtained and tax provisions are made if it is probable that a liability will arise. The final resolution of these transactions may give rise to material adjustments to the income statement and/or cash flow in future periods. The group reviews each significant tax liability or benefit each period to assess the appropriate accounting treatment. Refer to notes 5, 10 and 24 for further details.

Share-based payments

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

Pension assets and liabilities

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

The present values of pension liabilities are determined on an actuarial basis and depend on a number of actuarial assumptions which are disclosed in note 9. Any change in these assumptions will impact on the carrying amount of pension liabilities.

Impairment of goodwill

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

Impairment of property, plant and equipment and intangible assets

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

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

Residual values and useful lives

Residual values of property are determined with reference to current market property trends. If residual values were lower than estimated, an impairment of asset value and reassessment of future depreciation charge may be required. In line with its accounting policy, the residual value of the group's freehold buildings was reviewed in the year and increased to reflect recent external valuations. This increase had no material impact on the pre-tax group's consolidated results or financial position, or is anticipated to have a material impact in future periods. The taxation impact is reported in note 5. Useful lives are reassessed annually which may lead to an increase or reduction in depreciation accordingly.

Property provisions

The group provides for its onerous obligations under operating leases where the property is closed or vacant and for properties where rental expense is in excess of income. The estimated timings and amounts of cash flows are determined using the experience of internal and external property experts. However, changes to the expected method of exiting from the obligation could lead to changes in the level of provision recorded. See note 24 for details.

2 SEGMENT INFORMATION

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

Pub Company: Managed pubs and restaurants
Pub Partners: Tenanted and leased pubs
Brewing & Brands: Brewing, marketing and selling beer

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

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

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

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

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

2 Unallocated assets/liabilities comprise cash, borrowings, pensions, net deferred tax, net current tax, derivatives and indirect tax provisions. The 2017 comparative has been restated to reflect the grossing up of pension assets and liabilities for the separate defined benefit schemes.

Management reporting and controlling systems

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

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

3 REVENUE

Revenue is analysed as follows:	**2018**	**2017**
	£m	*£m*
Goods	2,032.4	2,069.1
Services	144.3	147.4
	2,176.7	2,216.5

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

4 OPERATING COSTS

Operating profit is stated after charging/(crediting):

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

Fees paid to the auditor during the year consisted of:	**2018**	**2017**
	£m	*£m*
Audit of the consolidated financial statements	0.4	0.4
Audit of subsidiaries	0.1	0.2
Non-audit services	0.1	–
Included in other operating charges	0.6	0.6

5 EXCEPTIONAL AND NON-UNDERLYING ITEMS

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

Exceptional operating costs

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

During the period to 29 April 2018 the group has recognised a net impairment loss of £70.4m (2017: £58.6m). This is comprised of an impairment charge relating to properties of £76.1m (2017: £77.7m) and reversal of previously recognised impairment losses of £12.8m (2017: £19.1m). £39.3m impairment has been recognised in respect of a small number of pubs and is driven by changes in the local competitive and trading environment at the respective sites, and £24.0m due to a decision taken to exit some sites during the financial year. Impairment reversals have been recognised following an improvement in trading performance and an increase in amounts of estimated future cash flows for previously impaired sites or increases to fair value less costs of disposal. In addition an impairment charge of £7.1m (2017: £nil) was recognised in relation to intangible assets during the year.

Non-underlying operating costs

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

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

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

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

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

Exceptional and non-underlying finance costs

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

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

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

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

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

Exceptional tax

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

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

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

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

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

Non-underlying tax

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

The Finance Act 2016 reduced the rate of corporation tax from 19% to 17% from 1 April 2020. The rate reduction was substantively enacted at the balance sheet date and is therefore included in these accounts. The net deferred tax asset has been calculated using the rates at which each temporary difference is expected to reverse.

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

6 EMPLOYMENT COSTS

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

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

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

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

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

Details of directors' emoluments are shown in the directors' remuneration report*.

* The directors' remuneration report is included in the 2018 Target Annual Report.

7 FINANCE (COSTS)/INCOME

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

8 SHARE-BASED PAYMENT PLANS

The group operates three types of share-based payment arrangements: a senior management long-term incentive plan (LTIP/growth LTIP), a deferred share scheme for other management and a general employee share option plan (SAYE).

The general terms of the LTIP/growth LTIP are detailed in the directors' remuneration report*. All are equity settled.

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

The fair value of the LTIP/growth LTIP issued since 2015 is considered to be equal to the share price on the date of issue. For the awards granted in 2018 the fair value was 558p and 573p (2017: 805p) per share option. Future dividend payments have not been factored into the valuation as participants are entitled to dividend payments.

* The directors' remuneration report is included in the 2018 Target Annual Report.

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

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

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

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

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

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

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

The options and shares granted under the LTIP are at nil cost; therefore, the weighted average exercise price for rights outstanding at the beginning and end of the year, and granted, forfeited and exercised during the year is £nil (2017: £nil).

SAYE and LTIP

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

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

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

9 PENSIONS

Defined contribution pension schemes

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

Member funds for the defined contribution schemes are held and administered by the Friends Life Group. The total cost recognised in operating profit for the year was £7.2m (2017: £7.5m).

Defined benefit pension schemes and post-employment benefits

The group maintains two defined benefit schemes: the Greene King Pension Scheme and the Spirit (Legacy) Pension Scheme which are closed to new entrants and are closed to future accrual. Only administrative costs and deficit recovery contributions are incurred going forward. Both schemes were last valued as at April 2015 and are undergoing a full actuarial valuation as at 29 April 2018. Member funds for the defined benefit schemes are held in separate funds independently of the group's finances and are administered by pension trustees. Pension benefits are related to members' final salary at the earlier of retirement or closure to future accrual and their length of service.

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

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

Net interest on net defined liability:

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

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

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

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

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

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

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

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

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

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

Presented in the balance sheet as follows:

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

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

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

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

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

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

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

10 TAXATION

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

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

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

Reconciliation of income tax expense for the year

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

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

Deferred tax

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

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

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

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

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

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

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

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

Deferred tax assets	Post-employment liabilities	Derivatives	Share-based payments	Off-market contract liability	Capital losses carried forward	Trading losses carried forward	Total
	£m	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
At 1 May 2016	(9.7)	(79.4)	(1.6)	(53.7)	(11.7)	(2.5)	(158.6)
Charge/(credit) to equity/ comprehensive income	7.4	0.4	(0.5)	–	–	–	7.3
Charge to the income statement	0.3	3.3	2.0	5.3	6.2	1.5	18.6
At 30 April 2017	(2.0)	(75.7)	(0.1)	(48.4)	(5.5)	(1.0)	(132.7)
Charge to equity/comprehensive income	3.6	7.0	0.3	–	–	–	10.9
Charge/(credit) to the income statement	0.6	14.1	(0.3)	6.6	5.5	–	26.5
Transfer to deferred tax liabilities	(2.2)	–	–	–	–	–	(2.2)
At 29 April 2018	–	(54.6)	(0.1)	(41.8)	–	(1.0)	(97.5)

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

At 29 April 2018, the group had unused trading losses of £5.3m (2017: £5.3m) and unused capital losses of £805.9m (2017: £809.7m). A deferred tax asset of £1.0m (2017: £1.0m) has been recognised in respect of trading losses and no deferred tax asset (2017: £5.5m) in respect of capital losses where tax losses are expected to be utilised against future profits and gains. Current legislation allows all of the group's tax losses to be carried forward for an unlimited period.

Factors that may affect future tax charges

The Finance Act 2016 reduced the rate of corporation tax from 19% to 17% from 1 April 2020. The rate was substantively enacted at the balance sheet date and is therefore included in these accounts. The net deferred tax asset has been calculated using the rates at which each temporary difference is expected to reverse.

11 DIVIDENDS PAID AND PROPOSED

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

Dividends on own shares have been waived.

12 EARNINGS PER SHARE

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

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

Adjusted earnings per share excludes the effect of exceptional and non-underlying items and is presented to show the underlying performance of the group on both a basic and diluted basis.

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

13 GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

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

All goodwill was recognised as part of business combinations.

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

The carrying amount of goodwill is allocated as follows:

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

Goodwill disposed of in the year

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

Goodwill impairment testing

The recoverable amount of each segment was determined on a value-in-use basis, using cash flow projections based on one-year budgets approved by the board, and in all cases exceeded the carrying amount.

The key assumptions used in the value-in-use calculations are budgeted EBITDA, the pre-tax discount rate and the growth rate used to extrapolate cash flows beyond the budgeted period.

Budgeted EBITDA, which is based on the group's latest three-year strategic plan, reflecting a growth rate of 1.15% in Pub Company (2017: 1.75%), 1.09% in Pub Partners (2017: 2.50%) and 1.00% in Brewing & Brands (2017: 1.00%), has been used to extrapolate cash flows. The growth rate is below the long-term average growth rate for the operating segments and reflects anticipated trends in future trading performance.

Cash flows are discounted at 7.50% (2017: 8.65%) which is used as an approximation for the risk-adjusted discount rate of the relevant operating segment. The discount rate has been based on external valuations. As risk factors are considered to be similar in each of the group's operating segments the same level of discount rate is applied to all.

Sensitivity to changes in assumptions

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

14 PROPERTY, PLANT AND EQUIPMENT

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

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

The net book value of land and buildings comprises:

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

Review of property, plant and equipment

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

Valuation

The licensed estate properties were valued by the group's own professionally qualified chartered surveyors, as at 20 December 2003, on the basis of existing use value, in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards. A representative sample of properties was also valued by external valuers, Gerald Eve Chartered Surveyors and Property Consultants, who confirmed that the values were consistent with their appraisal. Frozen revaluation has been taken as deemed cost on the transition to IFRS, therefore no historic cost analysis is provided.

Up to 1999 the brewery and depots were valued at depreciated replacement cost and other properties at open market value. These valuations have been retained but they have not been updated. Subsequent additions have been included at cost or, in the case of acquisitions, at fair value.

Charges over assets

Included in land and buildings are properties with a group net book value of £1,334.1m (2017: £1,368.7m) and £1,008.3m (2017: £1,246.1m) over which there is a first charge in favour of the securitised debt holders of the Greene King secured financing vehicle and the Spirit secured financing vehicle respectively. See details in note 23.

Assets held under finance leases

The group leases various licensed properties, offices and other commercial properties and other assets under finance leases. The leases have various terms, escalation clauses and renewal rights. Included in property, plant and equipment above are properties held under finance leases with a net book value of £21.7m (2017: £21.4m).

Future capital expenditure

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

Impairment of property, plant and equipment

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

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

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

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

The group estimates value in use using a discounted cash flow model. The key assumptions used are expected cash flow projections for the next year, the discount rate applied to those cash flows of 7.50% (2017: 8.65%) and the projected cash flows extrapolated using an average growth rate of 1.15% in Pub Company (2017: 1.75%) and 1.09% in Pub Partners (2017: 2.50%) which are below the long-term average growth rate for the operating segments and reflects anticipated trends in future trading performance. As risk factors are considered to be similar in each of the group's operating segments the same level of discount rate is applied to all.

Cash flow projections relating to individual CGUs have been made based on historic trends adjusted for management's estimates of medium-term trading prospects.

Estimates of fair value less costs of disposal are based on both internal and external valuations, with the latest external valuation being performed in May 2018. The valuation considers assumptions such as current and future projected income levels, which take account of the location and quality of the pub. In addition recent market transactions in the sector and potential alternative use values have been considered.

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

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

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

Sensitivity to changes in assumptions

The level of impairment is predominantly dependent upon judgments used in arriving at fair values, future growth rates and the discount rate applied to cash flow projections. The net impact on the impairment charge of applying different assumptions to fair values, the growth rates used to calculate cash flow projections and in the pre-tax discount rates would be as follows:

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

15 FINANCIAL ASSETS

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

Trade loans are net of provisions of £5.1m (2017: £5.1m). During the year £0.2m (2017: £0.3m) of the provision was utilised and £0.2m (2017: £0.3m) of new provision was created. All trade loans that are neither past due nor impaired are expected to be fully recoverable. All significant overdue balances are fully provided for.

Trade loans are advanced to customers on terms linked to supply terms such that returns are greater than interest income. The fixed rate trade loans amounted to £17.2m (2017: £18.8m) and variable rate trade loans amounted to £11.3m (2017: £12.2m). Included in fixed rate loans are £16.2m of loans with settlement related to purchase levels (2017: £15.7m). The write-down of these loans has been taken on a straight-line basis over the remaining term of the loan as an approximation of the settlement.

The fixed rate trade loans had a weighted average interest rate of 0.2% (2017: 0.3%) and a weighted average period of 2.92 years (2017: 3.30 years). Interest rates on variable rate trade loans are linked to base rate.

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

16 SUBSIDIARY UNDERTAKINGS

The subsidiary undertakings are:

Subsidiary undertakings	Principal activity	Country of incorporation	Held by	Holding	Proportion of voting rights and ownership
Directly held by Greene King plc					
Greene King Developments Limited [1]	Property	England & Wales	Parent	Ordinary shares	100%
Greene King EBT Investment (Jersey) Limited [2]	Holding company	Jersey	Parent	Ordinary shares	100%
Greene King GP Limited [1]	Dormant	England & Wales	Parent	Ordinary shares	100%
Greene King Investments Limited [1]	Holding company	England & Wales	Parent	Ordinary shares	100%
Greene King Pension Scheme Limited [1]	Pension trustee	England & Wales	Parent	Ordinary shares	100%
Greene King Properties Limited [1]	Property	England & Wales	Parent	Ordinary shares	100%
Greene King Pubs Limited [1]	Property	England & Wales	Parent	Ordinary shares	100%
Greene King Retailing Parent Limited [1]	Holding company	England & Wales	Parent	Ordinary shares	100%
Norman Limited [3]	Holding company	Guernsey	Parent	Ordinary shares	100%
Realpubs Limited [1]	Financing	England & Wales	Parent	Ordinary shares	100%
Rushmere Sports Club Limited [1]	Financing	England & Wales	Parent	Ordinary shares	100%
Spirit Pub Company Limited [1]	Holding company	England & Wales	Parent	Ordinary shares	100%
The Capital Pub Company Limited [1]	Holding company	England & Wales	Parent	Ordinary shares	100%
Indirectly held by Greene King plc					
Allied Kunick Entertainments Limited [1]	Property	England & Wales	Subsidiary	Ordinary shares	100%
Ashes Investment LP [1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Aspect Ventures Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
AVL (Pubs) No.1 Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
AVL (Pubs) No.2 Limited [1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Belhaven Brewery Company Limited [4]	Financing	Scotland	Subsidiary	Ordinary shares	100%
Belhaven Finance Limited [4]	Financing	Scotland	Subsidiary	Ordinary shares	100%
Belhaven Pubs Limited [4]	Financing	Scotland	Subsidiary	Ordinary shares	100%
Capital Pub Company Trading Limited [1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
				Preference shares	100%
Chef & Brewer Limited [1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
City Limits Limited [1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Cleveland Place Holdings Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Cloverleaf Restaurants Limited [1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
CPH Palladium Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Dearg Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%

Subsidiary undertakings	Principal activity	Country of incorporation	Held by	Holding	Proportion of voting rights and ownership
Freshwild Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
G.K. Holdings No.1 Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Acquisitions (No.3) Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Acquisitions No.2 Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Brewing and Retailing Limited [1]	Brewing and retailing	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Leasing No.1 Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Leasing No.2 Limited [1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Neighbourhood Estate Pubs Limited [1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Retail Services Limited [1]	Employment	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Retailing Limited [1]	Pub retailing	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Services Limited [1]	Employment	England & Wales	Subsidiary	Ordinary shares	100%
Hardys & Hansons Limited [1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Huggins and Company Limited [1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
LFR Group Limited [4]	Financing	Scotland	Subsidiary	Ordinary shares	100%
Mountloop Limited [1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Narnain [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
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 [4]	Retailing	Scotland	Subsidiary	Ordinary shares	100%
R.V. Goodhew Limited [1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
				Deferred ordinary shares	100%
Realpubs Developments Limited [1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Realpubs II Limited [1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Sapphire Food North East No.1 Limited [1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Sapphire Food North West No.3 Limited [1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Sapphire Food South East No.4 Limited [1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Sapphire Food South West No.2 Limited [1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Sapphire Rural Destination No.5 Limited [1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Spirit (AKE Holdings) Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit (Faith) Limited [1]	Property	England & Wales	Subsidiary	Ordinary shares	100%
Spirit (Legacy) Pension Trustee Limited [1]	Pension trustee	England & Wales	Subsidiary	Ordinary shares	100%
Spirit (PSC) Limited [1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Spirit (Redwood Bidco) Limited [1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Spirit (SGL) Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Acquisition Properties Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Acquisitions Guarantee Limited [1,6]	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 [5]	Non-trading	Cayman Islands	Subsidiary	Ordinary shares	100%
Spirit Funding Limited [5]	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%

Subsidiary undertakings	Principal activity	Country of incorporation	Held by	Holding	Proportion of voting rights and ownership
Spirit Group Parent Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Group Pension Trustee Limited [1]	Pension trustee	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Group Retail (Northampton) Limited [1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
				Preference shares	100%
Spirit Group Retail (South) Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Group Retail Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
				Preference shares	100%
Spirit Group Retail Pensions Limited [1]	Pension trustee	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Intermediate Holdings Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Managed Funding Limited [1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
				Preference shares	100%
Spirit Managed Holdings Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Managed Inns Limited [1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Parent Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Derwent) Limited [1]	Pub retailing	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Holdco) Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Investments) Limited [1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Leased) Limited [1]	Leasing of public houses	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Managed) Limited [1]	Pub retailing	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Services) Limited [1]	Administration	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (SGE) Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Supply) Limited [1]	Procurement	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Trent) Limited [1]	Pub retailing	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pubs Debenture Holdings Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pubs Parent Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Retail Bidco Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Springtarn Limited [1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
The Chef & Brewer Group Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
The Nice Pub Company Limited [1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Tom Cobleigh Group Limited [1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Tom Cobleigh Holdings Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Tom Cobleigh Limited [1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Whitegate Taverns Limited [1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%

1 Registered office: Westgate Brewery, Bury St Edmunds, Suffolk, IP33 1QT
2 Registered office: 18 Esplanade, St Helier, Jersey JE4 8RT
3 Registered office: Hambro House, St Julian's Avenue, St Peter Port, Guernsey GY1 3AE
4 Registered office: Belhaven Brewery, Brewery Lane, Dunbar, East Lothian, EH42 1PE
5 Registered office: PO Box 309, Ugland House, Grand Cayman, KY1-1004
6 Company is limited by guarantee

17 INVENTORIES

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

18 TRADE AND OTHER RECEIVABLES

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

Trade and other receivables are non-interest bearing.

The ageing analysis of trade receivables is as follows:

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

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

19 CASH AND CASH EQUIVALENTS

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

Included within cash at bank and in hand and short-term deposits is £74.6m (2017: £112.0m) and £90.4m (2017: £88.9m) held within securitised bank accounts which are only available for use by the Greene King secured financing vehicle and the Spirit secured financing vehicle respectively.

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

The Greene King secured financing vehicle's liquidity facility reserve was fully repaid during the year as explained in note 22.

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

20 PROPERTY, PLANT AND EQUIPMENT HELD FOR SALE

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

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

21 TRADE AND OTHER PAYABLES

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

Trade payables and other payables are non-interest bearing. Interest payable is mainly settled monthly, quarterly or semi-annually throughout the year, in accordance with the terms of the related financial instrument. Interest payable in 2017 also includes interest on uncertain tax positions.

22 BORROWINGS

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

Bank overdrafts

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

Bank loans – unsecured

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

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

Any amounts drawn down bear interest at a margin above LIBOR and the group is charged a utilisation fee based on the proportion of each facility drawn. Commitment interest is charged on the undrawn portions. Interest is payable upon repayment of each draw-down, which vary in length. Although any individual draw-downs are repayable within 12 months of the balance sheet date, the group expects to renew this funding and immediate renewal is available under Facility A until October 2021 and Facility B until November 2020. Under each facility, final repayment of the total drawn-down balance is due as one payment on the agreement repayment date.

Greene King secured financing vehicle

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

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

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

1 Carrying value is net of related deferred finance fees.

2 Includes the effect of interest rate swap rates on the floating rate notes; the group's interest rate swap arrangements are discussed in note 23.

3 This assumes notes are held until final maturity.

4 B1 tranche switches to floating rate L+1.80% in March 2020 with a swap rate of 5.16%-L.

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

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

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

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

The Class A1, A2, A3, A4, A5 and A6 bonds rank pari passu in point of security and as to payment of interest and principal, and have preferential interest payment and repayment rights over the Class B bonds. The Class B1 and B2 bonds rank pari passu in point of security, principal repayment and interest payment.

The securitisation is governed by various covenants, warranties and events of default, many of which apply to Greene King Retailing Limited, a group company. These include covenants regarding the maintenance and disposal of securitised properties and restrictions on its ability to move cash to other group companies.

Liquidity facility

In 2014 the standby liquidity facility provider to the Greene King secured financing vehicle, the Royal Bank of Scotland, had its short-term credit rating downgraded below the minimum prescribed in the facility agreement and as such the group exercised its entitlement to draw the full amount of the facility and hold it in a designated bank account. Amounts drawn down under the liquidity facility can only be used for the purpose of meeting the securitisation's debt service obligations should there ever be insufficient funds available from operations to meet such payments. As such, the drawn-down balance was considered to be restricted cash.

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

Spirit secured financing vehicle

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

The group's secured loan notes, issued by Spirit Issuer plc, consist of the following:

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

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

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

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

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

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

The secured loan notes rank pari passu in point of security and as to payment of interest and principal.

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

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

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

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

Obligations under finance leases

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

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

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

23 FINANCIAL INSTRUMENTS

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

The principal financial instruments held for the purpose of raising finance for operations are bank loans and overdrafts, secured bonds, cash and short-term deposits. Other financial instruments arise directly from the operations of the group, such as trade and other receivables, trade payables, and trade loans.

Derivative financial instruments, principally interest rate swaps, are used to manage the interest rate risks related to the group's operations and financing sources. No speculative trading in derivative financial instruments is undertaken.

The main risks arising from the group's financial instruments are interest rate risk, liquidity risk and credit risk. The policy for managing each of these risks is set out below.

Interest rate risk

Exposure to changes in interest rates on the group's borrowings is reviewed with regard to the maturity profile and cash flows of the underlying debt. The group uses a mixture of fixed and floating interest rate debt with exposure to market interest rate fluctuations primarily arising from the floating rate instruments. The group's aim is that no less than 95% of the overall interest exposure should be at a fixed rate. The group enters into interest rate swaps to manage the exposure. Certain swaps are designated as cash flow hedges at inception, and tested for effectiveness every six months.

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

- Balance sheet sensitivity to interest rates applies only to derivative financial instruments, as the carrying value of debt and deposits does not change as interest rates move.
- Gains and losses are recognised within other comprehensive income or the income statement in line with the accounting policies of the group.
- Cash flow hedges were assumed to be effective or ineffective on the same basis as those as at the year end.

Based on the group's net position at the year end, a 1% increase or decrease in interest rates would change the group's profit before tax by approximately £31.2m (2017: £47.8m) and the group's OCI by £58.4m (2017: £65.4m). An increase in interest rates would increase the group's profit.

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

The percentage of net debt that was fixed as at the year end was 94.4% (2017: 95.8%), broadly in line with the group's target of fixing 95% of all net debt.

Liquidity risk

The group mitigates liquidity risk by managing cash generated by its operations combined with bank borrowings and long-term debt. The group's objective is to maintain a balance between the continuity of funding and flexibility through the use of overdrafts and bank loans. The group also monitors the maturity of financial liabilities to avoid the risk of a shortage of funds.

The standard payment terms that the group has with its suppliers is 60 days following month end (2017: 60 days following month end).

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

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

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

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

Credit risk

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

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

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

Financial instruments qualifying for hedge accounting

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

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

The interest rate swaps hedging the A1, A3, B1 and B2 tranches are held on the balance sheet as a fair value liability of £118.6m (2017: £140.2m). The interest rate swap hedging the A5 tranche is held on the balance sheet as a fair value asset of £1.4m (2017: fair value liability of £6.4m). The contract maturity dates range from September 2021 to March 2036. Retrospective quantitative hedge effectiveness testing is performed and the bonds and related interest rate swaps have the same critical terms excluding credit risk.

Changes in cash flow hedge fair values are recognised in the hedging reserve to the extent that the hedges are effective. The interest rate swaps have been assessed as highly effective during the period and are expected to remain highly effective over their remaining contract lives. The ineffectiveness during the period, which is recognised within finance costs, amounted to £nil (2017: £0.2m loss).

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

Financial instruments not qualifying for hedge accounting

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

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

Upon the acquisition of Spirit Pub Company, the swaps were deemed ineffective hedges and therefore do not qualify for hedge accounting, with movements in their fair value being recognised in the income statement. The interest rate swaps are held on the balance sheet as a fair value liability of £124.0m (2017: £198.1m). The contract maturity dates range from March 2025 to December 2032.

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

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

Where the nominal value of the derivative exceeds that of the related secured note (for example, due to early repayment of floating rate notes) the group will seek to eliminate the over-hedging where this is financially practicable. At 29 April 2018, there are £2.9m (2017: £2.9m) of interest rate swaps outstanding on cancelled floating rate notes which relate to the Spirit secured debt.

Fair values

Set out in the table below is a comparison of carrying amounts and fair values of all of the group's financial instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents (comprising cash at bank and in hand and short-term deposits) – approximates to the carrying amount stated in the accounts.

Trade receivables – approximates to the carrying amount because of the short maturity of these instruments.

Financial assets – these are carried at amortised cost using the effective interest method and fair value is deemed to be the same as this.

Overdrafts – approximates to the carrying amount because of the short maturity of these instruments.

Long-term loans – based on quoted market prices in the case of the securitised debt; approximates to the carrying amount in the case of the floating rate bank loans and other variable rate borrowings.

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

Trade payables and accruals – approximates to the carrying amount because of the short maturity of these instruments.

Finance lease obligations and off-market contract liabilities (excludes off-market lease liabilities) – estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

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

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

Hierarchical classification of financial assets and liabilities measured at fair value

IFRS 13 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive fair value. The classification uses the following three-level hierarchy:

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

Level 2 – other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3 – techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

Capital risk management

The group aims to maximise shareholder value by maintaining a strong credit rating and a core level of debt which optimises the weighted average cost of capital (WACC) and shareholder value.

A number of mechanisms are used to manage net debt and equity levels (together referred to as capital) as disclosed on the balance sheet, as appropriate in light of economic and trading conditions. To maintain or adjust the capital structure, the group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes during the period.

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

24 OFF-MARKET CONTRACT LIABILITIES AND PROVISIONS

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

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

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

Off-market contract liabilities

Off-market contract liabilities are recognised where contracts are at unfavourable terms relative to current market terms on acquisition. For acquired leases where the current rentals are below market terms, an operating lease intangible asset has been recognised (see note 13). For other acquired pubs an off-market liability has been calculated as the difference between the present value of future contracted rentals and the present value of future market rate rentals. The liability unwinds against the rental expense so that the income statement charge reflects current market terms over an average period of 17 years (2017: 18 years).

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

Property leases

The provision for property leases has been set up to cover operating costs of vacant or loss-making premises as well as dilapidation requirements. Payments are expected to be ongoing on these properties for an average of 14 years (2017: 15 years).

Indirect tax provisions

During a previous period the Spirit Pub Company group received VAT refunds of £17.9m from HMRC in respect of gaming machines following a ruling involving The Rank Group plc (Rank) that the application of VAT contravened the EU's principal of fiscal neutrality. HMRC successfully appealed the decision in October 2013. However, HMRC did not seek to recover the VAT of £17.9m and associated interest of £6.8m because it had accepted a guarantee that it would only repay this VAT if Rank's litigation is finally determined in HMRC's favour. Rank's latest appeal was rejected by the Supreme Court in July 2015 and the group is currently awaiting the outcome of related litigation involving Rank and others.

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

25 SHARE CAPITAL

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

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

26 RESERVES

Share premium account

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

Merger reserve

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

Capital redemption reserve

The capital redemption reserve arose from the purchase and cancellation of own share capital, and represents the nominal amount of the share capital cancelled.

Hedging reserve

Hedging reserve adjustments arise from the movement in fair value of the group's derivative instruments used as an effective hedge, in line with the accounting policy disclosed in note 1. Amounts recycled to income are included within finance costs in the income statement.

Own shares

Own shares relates to shares held in treasury, held by the employee benefit trust or purchased to fulfil awards made under the deferred share bonus scheme. At 29 April 2018 nil shares (2017: nil) were held in treasury, 0.1m shares (2017: 0.1m) were held by the employee benefit trust and nil (2017: nil) were held to fulfil awards under the deferred share bonus scheme. The market value at 29 April 2018 of the treasury shares was £nil (2017: £nil), of the shares held by the employee benefit trust was £0.7m (2017: £0.2m) and of the shares held for the deferred share bonus scheme was £nil (2017: £nil).

The employee benefit trust is independently managed and has purchased shares in order to satisfy outstanding employee share options and potential awards under the long-term incentive plan.

At the year end nil (2017: nil) treasury shares and nil (2017: nil) shares in the employee benefit trust were allocated to meet awards under the long-term incentive plan.

A transfer of £0.2m (2017: £1.6m) from own shares to retained earnings has been made to reflect transfers to satisfy awards under the long-term incentive plan and options exercised under the executive share option plan and reflects the weighted average cost of own shares.

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

Goodwill

The cumulative amount of goodwill written off to retained earnings in respect of acquisitions made prior to May 1998 amounts to £89.7m.

27 WORKING CAPITAL AND NON-CASH MOVEMENTS

	2018	2017
	£m	*£m*
Increase in inventories	(2.7)	(3.7)
Decrease/(increase) in trade and other receivables	7.1	(10.4)
(Decrease)/increase in trade and other payables	(3.6)	24.4
Decrease in off-market contract liabilities	(19.6)	(22.0)
Decrease in provisions	(1.8)	(1.9)
Share-based payment expense	1.3	2.7
Defined benefit pension contributions paid	(3.6)	(3.9)
Operating exceptional and non-underlying items	(23.9)	(14.4)
Working capital and other movements	(46.8)	(29.2)

28 ANALYSIS OF AND MOVEMENTS IN NET DEBT

	As at 30 April 2017	Financing cash flows	Changes in fair value	Other non-cash changes	As at 29 April 2018
	£m	*£m*	*£m*	*£m*	*£m*
Cash and cash equivalents					
Cash at bank and in hand[1]	285.5	(117.0)	–	–	168.5
Liquidity facility reserve	157.5	(157.5)	–	–	–
Cash and cash equivalents for balance sheet	443.0	(274.5)	–	–	168.5
Overdrafts	–	–	–	–	–
Cash and cash equivalents for cash flow	443.0	(274.5)	–	–	168.5
Liabilities from financing activities					
Included in net debt:					
– Finance leases	(21.6)	1.0	–	–	(20.6)
– Liquidity facility loan	(157.5)	157.5	–	–	–
– Unsecured bank loans					
– floating rate					
– Bank loans – Facility A	(168.3)	80.0	–	(0.5)	(88.8)
– Bank loans – Facility B	–	(183.8)	–	(0.5)	(184.3)
– Securitised borrowing	(2,170.1)	266.7	–	(3.7)	(1,907.1)
	(2,517.5)	321.4	–	(4.7)	(2,200.8)
Not included in net debt:					
– Derivative financial instruments [2]	(344.8)	42.6	59.9	1.2	(241.1)
Liabilities from financing activities	(2,862.3)	364.0	59.9	(3.5)	(2,441.9)
Net debt	(2,074.5)	46.9	–	(4.7)	(2,032.3)

1 Includes short-term deposits.
2 Includes derivative asset balances.

29 FINANCIAL COMMITMENTS

The group has entered into commercial leases on certain properties and items of plant and machinery. The terms of the leases vary but typically on inception a property lease will be for a period of up to 30 years and plant and machinery will be for up to six years. Most property leases have an upwards-only rent review based on open market rents at the time of the review.

Future minimum cash rentals payable under non-cancellable operating leases are as follows:

	2018	**2017**
		restated
	£m	*£m*
Within one year	80.2	78.1
Between one and five years	309.5	312.6
After five years	1,437.4	1,509.0
	1,827.1	1,899.7

2017 disclosure has been re-presented to correctly reflect future cash payments and to exclude the non-cash benefit of property provisions and off-market liabilities.

The group leases part of its licensed estate and other non-licensed properties to tenants. The majority of lease agreements have terms of between six months and 25 years and are classified for accounting purposes as operating leases. Most of the leases with terms of over three years include provision for rent reviews on either a three-year or five-year basis.

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

	2018	**2017**
	£m	*£m*
Within one year	45.1	45.5
Between one and five years	122.9	131.5
After five years	119.5	124.5
	287.5	301.5

Future minimum lease rentals include £6.1m (2017: £5.0m) receivable in respect of non-cancellable subleases.

30 RELATED PARTY TRANSACTIONS

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

Greene King Finance plc and Spirit Issuer plc are structured entities set up to raise bond finance for the group, and as such are deemed to be related parties. The results and financial position of the entities have been consolidated in the group's results.

Compensation of directors and other key management personnel of the group

	2018	**2017**
	£m	*£m*
Short-term employee benefits (including National Insurance contributions)	5.2	5.1
Post-employment pension and medical benefits	0.6	0.6
Share-based payments	0.1	0.1
	5.9	5.8

Key management personnel

Key management personnel are deemed to be those employees who are directors of Greene King plc or its subsidiaries.

Directors' interests in an employee share-based payment plan

Details of the options held by executive members of the board of directors are included in the remuneration report. No options have been granted to the non-executive members of the board of directors under this scheme.

31 POST BALANCE SHEET EVENTS

Final dividend

A final dividend of 24.4p per share (2017: 24.4p) amounting to a dividend of £75.6m (2017: £75.6m) was proposed by the directors at their meeting on 27 June 2018. These financial statements do not reflect the dividend payable.

Borrowings and financial instruments

On 7 June 2018 the group gave notice to repay £62.3m (30%) of the outstanding Class A4 secured loan note issued by Spirit Issuer plc at 103.3% of its par value on 28 June 2018, classified as non-current liabilities as at 29 April 2018. The group has also agreed to make a payment of £7.4m on 28 June 2018 to terminate 30% of the corresponding interest rate swap contract.

COMPANY BALANCE SHEET
As at 29 April 2018
Registered number: 24511

	Note	**As at 29 April 2018** *£m*	**As at 30 April 2017** *£m*
Fixed assets			
Investments	*36*	3,474.8	3,493.5
Current assets			
Amounts due from subsidiaries		98.2	470.5
Cash		6.9	34.7
Creditors: amounts falling due within one year			
Creditors	*37*	(1,922.1)	(2,455.8)
Net current liabilities		(1,817.0)	(1,950.6)
Total assets less current liabilities		1,657.8	1,542.9
Creditors: amounts falling due after more than one year			
Borrowings	*38*	(273.1)	(168.3)
Net assets		1,384.7	1,374.6
Capital and reserves			
Called up share capital	*39*	38.7	38.7
Share premium account	*40*	262.0	261.7
Merger reserve	*40*	752.0	752.0
Revaluation reserve		2.5	2.5
Other reserve	*40*	93.9	93.9
Own shares	*40*	(0.5)	(0.2)
Retained earnings[1]		236.1	226.0
Equity attributable to owners of the parent		1,384.7	1,374.6

[1] The profit and loss account of the parent company is omitted from the Company's accounts by virtue of the exemption granted by section 408 of the Companies Act 2006. The profit generated in the year for ordinary shareholders, and included in the financial statements of the parent Company, amounted to £111.9m (2017: £70.2m).

Signed on behalf of the board on 27 June 2018

P E Yea
Director

R Anand
Director

FINANCIAL STATEMENTS

Company statement of changes in equity

For the 52 weeks ended 29 April 2018

	Called up share capital £m	Share premium account £m	Merger reserve £m	Revaluation reserve £m	Other reserve £m	Own shares £m	Retained earnings £m	Total £m
At 1 May 2016	38.6	261.0	752.0	2.5	93.9	(0.2)	257.9	1,405.7
Profit for the year	–	–	–	–	–	–	70.2	70.2
Other comprehensive income:								
Cash flow hedges – loss taken to equity	–	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	–	70.2	70.2
Issue of ordinary share capital	0.1	0.7	–	–	–	–	–	0.8
Purchase of shares	–	–	–	–	–	(1.6)	–	(1.6)
Release of shares	–	–	–	–	–	1.6	(1.6)	–
Share-based payments	–	–	–	–	–	–	(0.4)	(0.4)
Equity dividends paid	–	–	–	–	–	–	(100.1)	(100.1)
At 30 April 2017	38.7	261.7	752.0	2.5	93.9	(0.2)	226.0	1,374.6
Profit for the period	–	–	–	–	–	–	111.9	111.9
Other comprehensive income:	–	–	–	–	–	–	–	–
Cash flow hedges – loss taken to equity	–	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	–	111.9	111.9
Issue of ordinary share capital	–	0.3	–	–	–	–	–	0.3
Transfer	–	–	–	–	–	0.2	(0.2)	–
Purchase of shares	–	–	–	–	–	(0.5)	–	(0.5)
Release of shares	–	–	–	–	–	–	–	–
Share-based payments	–	–	–	–	–	–	1.3	1.3
Equity dividends paid	–	–	–	–	–	–	(102.9)	(102.9)
At 29 April 2018	38.7	262.0	752.0	2.5	93.9	(0.5)	236.1	1,384.7

NOTES TO THE COMPANY ACCOUNTS
For the 52 weeks ended 29 April 2018

32 ACCOUNTING POLICIES

Basis of accounting and presentation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

The company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' as issued by the Financial Reporting Council (FRC). The financial statements have therefore been prepared in accordance with FRS 101 Reduced Disclosure Framework.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

– the requirements of IAS 7: Statement of Cash Flows;

– the requirements of IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors; to disclose IFRSs issued but not effective;

– the requirements of IFRS 2: Share based payments;

– the requirements of IFRS 7: Financial Instruments: Disclosures;

– the requirements of IFRS 13: Fair Value Measurements;

– the requirements of IAS 24: Related Party Disclosures, to present key management personnel compensation and intragroup transactions including wholly owned subsidiaries; and

– the requirements of IAS 1: Presentation of Financial Statements, to present certain comparative information and capital management disclosures.

The basis for all of the above exemptions is because equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

Greene King plc is a public company limited by shares incorporated and domiciled in England and Wales. The company's shares are listed on the London Stock Exchange.

Investments

Investments in subsidiaries are recorded at cost less impairment and held as fixed assets on the balance sheet. The carrying value of investments is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. On transition to FRS 101, the previous GAAP carrying amount at the date of transition was regarded as deemed cost.

Taxation

Corporation tax payable is provided on taxable profits using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Financial instruments

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

Borrowings

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

Own shares

Own shares consist of treasury shares and shares held within an employee benefit trust. The company has an employee benefit trust to satisfy the exercise of share options that have vested under the group's share option schemes.

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

Share-based payments

Where the company grants share-based awards over its own shares in exchange for employee services rendered to its subsidiaries (including services provided by the company's directors), it recognises in its individual financial statements, and an increase to the cost of investment equivalent to the share-based payment expense recognised in the consolidated financial statements and a corresponding credit in equity. The share-based payments relating to directors are recognised as an expense by the subsidiaries, consistent with their other remuneration.

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

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

Significant accounting judgments and estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions in the application of accounting policies that affect reported amounts of assets and liabilities, income and expense. The company bases its estimates and judgments on historical experience and other factors deemed reasonable under the circumstances, including any expectations of future events. Actual results may differ from these estimates. No estimates and judgments were considered to be significant.

33 PROFIT FOR THE PERIOD

No income statement is presented for the company as permitted by section 408 of the Companies Act 2006. The profit after tax for the period is £111.9m (2017: £70.2m).

34 AUDITOR'S REMUNERATION

Auditor's remuneration in respect of the company audit was £16,500 (2017: £16,500). The figures for auditor's remuneration for the company required by regulation 5(1)(b) of the Companies Regulations 2008 are not presented here as the group accounts comply with this regulation on a consolidated basis.

35 DIRECTORS' REMUNERATION AND EMPLOYEE COSTS

Details of directors' remuneration are contained in the directors' remuneration report*. The company has no employees other than directors and the directors are not remunerated through this company. Details of share options issued by the company are given in note 8.

36 INVESTMENTS

	Investments in subsidiaries	Loans to subsidiaries	Total
	£m	*£m*	*£m*
Cost at 1 May 2016	2,366.9	1,038.2	3,405.1
Additions	–	112.0	112.0
Share-based payment awards to employees of subsidiaries	(0.4)	–	(0.4)
Cost at 30 April 2017	2,366.5	1,150.2	3,516.7
Share-based payment awards to employees of subsidiaries	1.3	–	1.3
Repayment	–	(20.0)	(20.0)
Cost at 29 April 2018	2,367.8	1,130.2	3,498.0
Impairment at 1 May 2016 and 30 April 2017	(23.2)	–	(23.2)
Impairment at 29 April 2018	(23.2)	–	(23.2)
NBV at 29 April 2018	2,344.6	1,130.2	3,474.8
NBV at 30 April 2017	2,343.3	1,150.2	3,493.5
NBV at 1 May 2016	2,343.7	1,038.2	3,381.9

Principal subsidiaries

For a full list of all subsidiaries see note 16.

Interest on amounts owed to and from group undertakings accrues at a rate of LIBOR + 1.0% and is receivable at interim and year end dates.

* The directors' remuneration report is included in the 2018 Target Annual Report.

37 CREDITORS

	2018	2017
	£m	*£m*
Accruals	3.4	2.0
Amounts owed to subsidiaries	1,918.7	2,453.8
	1,922.1	2,455.8

Interest on amounts owed to and from group undertakings accrues at a rate of LIBOR + 1.0% and is payable on demand.

38 BORROWINGS

	2018			2017		
	Within one year	After one year	Total	Within one year	After one year	Total
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Unsecured bank loans – floating rate:						
– Facility A	–	88.8	88.8	–	168.3	168.3
– Facility B	–	184.3	184.3	–	–	–
	–	273.1	273.1	–	168.3	168.3

As explained in note 22 the company amended its existing £400m revolving credit facility (Facility A) during the year to incorporate an additional £350m three-year revolving facility (Facility B), taking the total facilities to £750m.

Bank loans due after one year are repayable as follows:

	2018	2017
	£m	*£m*
Due between two and five years	273.1	168.3

Although any individual draw-downs are repayable within 12 months of the balance sheet date, immediate renewal is available under Facility A until October 2021 (2017: October 2021) and under Facility B until November 2020 (2017: n/a).

39 ALLOTTED AND ISSUED SHARE CAPITAL

Allotted, called up and fully paid	**2018**	**2017**
	£m	*£m*
Ordinary shares of 12.5p each		
310.0m shares (2017: 309.9m)	38.7	38.7

Further information on share capital is given in note 25.

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

40 RESERVES

Share premium account

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

Merger reserve

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

Other reserve

The other reserve consists of £3.3m (2017: £3.3m) capital redemption reserve arising from the purchase of own share capital and £90.6m (2017: £90.6m) arising from transfer of revalued assets to other group companies and will only be realised when the related assets are disposed of by the group.

Own shares

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

41 CONTINGENT LIABILITIES

The company has provided a guarantee to the Greene King Pension Scheme in respect of the payment obligations to the scheme of its subsidiary Greene King Services Limited. In the event that these obligations are not met the company will become liable for amounts due to the pension scheme; such an event is not considered probable.

Details of the group's pension schemes are included in note 9.

42 POST BALANCE SHEET EVENTS

Final dividend

A final dividend of 24.4p per share (2017: 24.4p) amounting to a dividend of £75.6m (2017: £75.6m) was proposed by the directors at their meeting on 27 June 2018. These financial statements do not reflect the dividend payable.

3. The following is an extract of the audited financial statements of the Target Group for the 52 weeks ended 28 April 2019, which were prepared in accordance with the IFRS as adopted by the European Union, from the 2019 Target Annual Report issued on 6 August 2019.

GROUP INCOME STATEMENT

for the 52 weeks ended 28 April 2019

		2019			2018		
		Before exceptional and non-underlying items	Exceptional and non-underlying items *(note 5)*	Total	Before exceptional and non-underlying items	Exceptional and non-underlying items *(note 5)* (restated [1])	Total (restated [1])
	Note	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Revenue	*3*	2,216.9	–	2,216.9	2,176.7	–	2,176.7
Operating costs	*4*	(1,848.7)	(53.5)	(1,902.2)	(1,803.6)	(56.1)	(1,859.7)
Operating profit	*3,4*	368.2	(53.5)	314.7	373.1	(56.1)	317.0
Finance income	*7*	1.1	–	1.1	1.0	–	1.0
Finance costs	*7*	(122.4)	(20.6)	(143.0)	(131.1)	10.6	(120.5)
Profit before tax		246.9	(74.1)	172.8	243.0	(45.5)	197.5
Tax	*10*	(47.1)	(5.3)	(52.4)	(48.6)	34.4	(14.2)
Profit attributable to equity holders of parent		199.8	(79.4)	120.4	194.4	(11.1)	183.3
Earnings per share							
– Basic[1]	*12*			38.9p			59.1p
– Adjusted basic[2]	*12*	64.5p			62.7p		
– Diluted[1]	*12*			38.7p			58.9p
– Adjusted diluted[2]	*12*	64.3p			62.6p		
Dividends per share (paid and proposed in respect of the period)	*11*			33.2p			33.2p

[1] Exceptional and non-underlying tax has been restated. As a consequence basic and diluted EPS has been restated. See note 1 for further details.

[2] Adjusted basic and diluted earnings per share exclude the effect of exceptional and non-underlying items.

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the 52 weeks ended 28 April 2019

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

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

GROUP BALANCE SHEET
as at 28 April 2019

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

	Note	As at 28 April 2019 £m	As at 29 April 2018 (restated[1]) £m	As at 30 April 2017 (restated[1]) £m
Non-current liabilities				
Borrowings	22	(2,062.4)	(2,146.2)	(2,297.8)
Derivative financial instruments	23	(208.3)	(222.0)	(313.9)
Trade and other payables	21	(1.7)	(1.8)	(1.9)
Off-market contract liabilities	24	(219.2)	(228.6)	(264.1)
Post-employment liabilities	9	(1.3)	–	(28.0)
Provisions	24	(23.5)	(23.1)	(14.6)
		(2,516.4)	(2,621.7)	(2,920.3)
Total liabilities		(3,075.5)	(3,164.3)	(3,661.0)
Total net assets		2,107.9	2,073.1	1,939.6
Issued capital and reserves				
Share capital	25	38.7	38.7	38.7
Share premium	26	262.2	262.0	261.7
Merger reserve	26	752.0	752.0	752.0
Capital redemption reserve	26	3.3	3.3	3.3
Hedging reserve	26	(161.6)	(158.1)	(192.2)
Own shares	26	–	(0.5)	(0.2)
Retained earnings		1,213.3	1,175.7	1,076.3
Total equity		2,107.9	2,073.1	1,939.6
Net debt	28	1,943.3	2,032.3	2,074.5

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

Signed on behalf of the board on 26 June 2019

R Smothers
Director

GROUP CASH FLOW STATEMENT

for the 52 weeks ended 28 April 2019

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

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

GROUP STATEMENT OF CHANGES IN EQUITY

for the 52 weeks ended 28 April 2019

	Note	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Hedging reserve £m	Own shares £m	Retained earnings £m	Total equity £m
At 30 April 2017 (as previously stated)		38.7	261.7	752.0	3.3	(192.2)	(0.2)	1,080.9	1,944.2
Prior year adjustment		–	–	–	–	–	–	(4.6)	(4.6)
At 30 April 2017 (restated)		38.7	261.7	752.0	3.3	(192.2)	(0.2)	1,076.3	1,939.6
Profit for the period (restated)		–	–	–	–	–	–	183.3	183.3
Other comprehensive income:									
Actuarial gains on defined benefit pension schemes (net of tax)		–	–	–	–	–	–	17.9	17.9
Net loss on cash flow hedges (net of tax)		–	–	–	–	34.1	–	–	34.1
Total comprehensive income		–	–	–	–	34.1	–	201.2	235.3
Issue of ordinary share capital	*25*	–	0.3	–	–	–	–	–	0.3
Release of shares	*26*	–	–	–	–	–	0.2	(0.2)	–
Purchase of shares		–	–	–	–	–	(0.5)	–	(0.5)
Share-based payments (net of tax)	*8*	–	–	–	–	–	–	1.3	1.3
Equity dividends paid	*11*	–	–	–	–	–	–	(102.9)	(102.9)
At 29 April 2018 (restated)		38.7	262.0	752.0	3.3	(158.1)	(0.5)	1,175.7	2,073.1
Profit for the period		–	–	–	–	–	–	120.4	120.4
Other comprehensive income:									
Actuarial gains on defined benefit pension schemes (net of tax)		–	–	–	–	–	–	14.1	14.1
Net gain on cash flow hedges (net of tax)		–	–	–	–	1.3	–	–	1.3
Total comprehensive income		–	–	–	–	1.3	–	134.5	135.8
Issue of ordinary share capital	*25*	–	0.2	–	–	–	–	–	0.2
Transfer		–	–	–	–	(4.8)	–	4.8	–
Release of shares	*26*	–	–	–	–	–	0.5	(0.5)	–
Share-based payments (net of tax)	*8*	–	–	–	–	–	–	1.7	1.7
Equity dividends paid	*11*	–	–	–	–	–	–	(102.9)	(102.9)
At 28 April 2019		38.7	262.2	752.0	3.3	(161.6)	–	1,213.3	2,107.9

NOTES TO THE ACCOUNTS

for the 52 weeks ended 28 April 2019

1 BASIS OF PREPARATION

Corporate information

The consolidated financial statements of Greene King plc for the 52 weeks ended 28 April 2019 were authorised for issue by the board of directors on 26 June 2019. Greene King plc is a public company limited by shares incorporated and domiciled in England and Wales. The company's shares are listed on the London Stock Exchange.

Statement of compliance

The group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as they apply to the financial statements of the group for the 52 weeks ended 28 April 2019 (prior year 52 weeks ended 29 April 2018).

Basis of preparation

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

Prior year adjustment

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

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

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

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

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

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

The financial impact of the errors identified are as follows:

Balance sheet

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

Income statement for the 52 weeks ended 29 April 2018

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Greene King plc, its subsidiaries and its related parties, Greene King Finance plc and Spirit Issuer plc. Greene King Finance plc and Spirit Issuer plc are structured entities set up to raise bond finance for the group. As Greene King plc has full control over both entities they are fully consolidated. The financial statements of subsidiaries are prepared for the same reporting year end as the parent company with adjustments made to their financial statements to bring their accounting policies in line with those used by the group.

The results of subsidiaries are consolidated from the date of acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases. Intercompany transactions, balances, income and expenses are eliminated on consolidation.

Going concern

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

* The directors' report and the strategic report are included in the 2018 Target Annual Report.

New accounting standards, amendments and interpretations adopted by the group

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

Those standards and interpretations include:

– IFRS 9 Financial Instruments

– IFRS 15 Revenue from Contracts with Customers

– Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

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

IFRS 9 Financial Instruments

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

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

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

Classification and measurement

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

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

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

Impairment of financial assets

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

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

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

Hedge accounting

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

Standards issued but not yet effective

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

IFRS 16 Leases

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

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

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

Transition

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

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

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

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

– not to reassess contracts to determine if the contract contains a lease and not to separate lease and non-lease elements;

– where an onerous lease provision is in existence, to utilise this provision to reduce the right-of-use asset value rather than undertaking an impairment review;

– to exclude initial direct costs from the measurement of the right-of-use asset;

– to apply the portfolio approach where a group of leases has similar characteristics; and

– to use hindsight in determining the lease term.

Impact of adoption of IFRS 16 Leases

Balance sheet

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

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

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

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

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

Income statement

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

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

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

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

Tax impact on changes to the income statement

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

Cash flow statement

There is no net cash flow impact on application of IFRS 16, although the classification of cash flows will be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under IFRS 16, the lease payments will be split into a principal and a interest portion which will be presented as financing and operating cash flows respectively. The change in presentation as a result of the adoption of IFRS 16 will see an improvement in 2020 of an estimated £85m in cash flow generated from operating activities, offset by a corresponding decline in cash flow from financing activities.

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

The following table shows the estimated effect of adopting IFRS16 on the consolidated balance sheet at 29 April 2019.

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

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

Reconciliation between operating lease commitments and lease liability

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

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

IFRIC 23 Uncertainty over Income Tax Treatments

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

Significant accounting judgments and estimates

Significant accounting judgments

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

Exceptional and non-underlying items

Management uses a range of measures to monitor and assess the group's financial performance. These measures include a combination of statutory measures calculated in accordance with IFRS and alternative performance measures. The alternative performance measures represent the equivalent IFRS measures but are adjusted to exclude items that management considers would prevent comparison of the group's performance both from one reporting period to another and with other similar businesses.

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

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

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

Significant accounting estimates

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

Impairment of property, plant and equipment and intangible assets

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

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

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

Property, plant and equipment

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

Residual values of property are determined with reference to current market property trends. If residual values are lower than estimated, an impairment of asset value and reassessment of future depreciation charge may be required.

In line with its accounting policy, the residual value of the group's freehold buildings was reviewed in the prior year and increased to reflect recent external valuations.

This increase had no material impact on the group's pre-tax consolidated results or financial position, nor is it anticipated to have a material impact in future periods. The taxation impact is reported in note 5.

Useful lives are reassessed annually which may lead to an increase or reduction in depreciation accordingly.

Taxation

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

Recognition of deferred tax assets

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

Uncertain tax position

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

Pension assets and liabilities

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

Property, plant and equipment

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

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

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

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

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

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

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

Intangible assets

Operating lease intangibles

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

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

Brand intangibles

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

Business combinations and goodwill

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

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

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

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

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

Contingent liabilities representing a present obligation are recognised if the acquisition date fair value can be measured reliably.

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

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

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

Impairment

Property, plant and equipment

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

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

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

Impairment losses and any subsequent reversals are recognised in the income statement. Details of the impairment losses recognised in respect of property, plant and equipment are provided in note 14.

Goodwill

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

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

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

Financial instruments – policy applicable from 30 April 2018

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

Classification, measurement and impairment

Financial assets

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

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

– amortised cost;

– fair value through other comprehensive income; or

– fair value through profit or loss

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

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

Financial assets

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

The amortised cost is reduced by impairment losses.

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

For financial assets held at amortised cost, an estimate of 12-months expected credit losses (ECLs) are recognised as an impairment provision upon recognition of a new free trade loan; and at each reporting date, an assessment is made to determine if there has been a significant increase in credit risk since initial recognition.

In cases where this is evident, lifetime expected credit losses are used as the basis for the impairment provision, otherwise the group measures the loss allowance for the financial asset at an amount equal to 12-month expected credit loss.

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

Trade and other receivables

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Financial liabilities

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

Interest-bearing loans and borrowings

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

Trade payables

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

Derivative financial instruments and hedge accounting

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

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

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

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

Hedge accounting

To qualify for hedge accounting the hedge relationship must be designated and documented at inception. Documentation must include the group's risk management objective and strategy for undertaking the hedge and formal allocation to the item or transaction being hedged. The group also documents how it will assess the effectiveness of the hedge and carries out assessments through periodic prospective effectiveness to ensure that:

– there is an economic relationship exists between the hedged item and the hedging instrument;

– the effect of credit risk does not dominate the value changes that result from the economic relationship; and

– the hedge ratio is the same as that resulting from actual quantities of hedged items and hedging instruments used for risk management

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

Cash flow hedge accounting

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

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

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

Financial assets – policy applicable prior 30 April 2018

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

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

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

Finance costs and income

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

Inventories

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

Property, plant and equipment held for sale

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

Provisions

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

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

Off-market contract liabilities

Off-market contract liabilities are recognised where contracts are at unfavourable terms relative to current market terms on acquisition. For leases where the current rentals are below market terms, the related asset is considered to be recognised as an operating lease in intangible assets. For other acquired pubs an off-market liability has been calculated as the difference between the present value of future contracted rentals and the present value of future market rate rentals.

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

Pensions and other post-employment benefits

Defined benefit pension schemes

The group operates two defined benefit pension schemes which require contributions to be made into separately administered funds.

The cost of providing benefits under the schemes is determined separately for each plan using the projected unit credit actuarial method on an annual basis.

Remeasurement gains and losses are recognised in full in the group statement of comprehensive income in the period in which they occur.

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

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

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

Defined contribution pension schemes

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

Share-based payments

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

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

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met.

Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Own shares

Own shares consist of treasury shares and shares held within an employee benefit trust. The group has an employee benefit trust to satisfy the exercise of share options that have vested under the group's share option schemes.

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

Revenue

Generally, revenue represents external sales (excluding taxes) of goods and services, net of discounts. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and is measured at the fair value of consideration receivable, excluding discounts, rebates, and other sales taxes or duty relating to brewing and packaging of certain products.

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

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

Pub Company

Food and drink

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

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

Other services

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

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

Pub Partners

Drink/product sales

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

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

Rental income

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

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

Machine income

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

Brewing & Brands

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

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

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

Supplier rebates

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

Operating leases

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

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

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

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

Finance leases

Leases of property, plant and equipment, where the group has substantially all the risks and rewards of ownership, are classified as finance leases.

Finance leases are recognised at acquisition at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

The asset is then depreciated over the shorter of the estimated useful life of the asset or the lease term. A corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between the finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs.

Merger reserve

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

Taxes

Income tax

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

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

Deferred tax

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

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

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

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

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

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

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

Uncertain tax positions

A current tax provision is recognised when the group has a present obligation as a result of a past event and it is probable that the group will be required to settle that obligation. Tax benefits are not recognised unless it is probable that the benefit will be obtained and tax provisions are made if it is probable that a liability will arise.

The group reviews its uncertain tax positions each year in order to determine the appropriate accounting treatment.

Exceptional and non-underlying items and adjusted profitability measures

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

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

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

Exceptional items:

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

- costs incurred in association with business combinations, such as legal and professional fees and stamp duty, that are excluded from the fair value of the consideration of the business combination;

- one-off restructuring and integration costs that are incurred either following a business combination or following a restructuring of the group's support functions. These costs can be significant and would prevent year-on-year comparability of the group's trading if not separately identified;

- impairment charges/reversals in respect of tangible and intangible assets as a result of restructuring, business closure, underperformance of sites or fire damage;

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

- finance costs or income resulting from gains or losses upon the settlement of interest rate swap and bond liabilities. These amounts may be significant and are separately identified as the instruments they relate to would no longer form part of the group's ongoing capital structure;

- fair value gains and losses on the ineffective element of cash flow hedges and fair value movements in respect of derivatives held at fair value through profit and loss. Such items are separately presented as movements may be both significant and volatile; and

- significant and/or one-off tax settlements in respect of prior years (including any related interest), and the tax impact of the items identified above and movements on the licensed estate are included as exceptional items. These items are separately identified to allow management and investors to separately understand tax charges relating to in-year ongoing activity and what relates to prior years.

Non-underlying items may include:

- employee costs and other legal and professional fees incurred in relation to restructuring cost associated with changes to management, group refinancing activities and defending uncertain tax positions;

- profit or loss on the disposal of property, plant and equipment, where the group disposes of properties that it no longer considers meet the ongoing needs of the business. These profits or losses could be significant and volatile and are not reflective of the group's ongoing trading results;

- costs associated with property lease reversions and onerous leases. The group may incur costs and recognise liabilities in respect of leasehold properties where the terms of the lease make them onerous or leases that have previously been disposed of but revert to the group under privity of contract. Such costs may occur infrequently or could be significant and are not reflective of the group's ongoing trade;

- significant credits to the income statement resulting from the reversal of share-based payment charges recognised in prior year's performance following the reassessment of expected scheme;

- gains or losses resulting from the settlement of liabilities in respect of the group's pension schemes;

- finance costs or income includes the recycling to the income statement of cumulative gains or losses relating to settled swaps previously taken to the hedging reserve;

- the impact of changes in the statutory tax rates;

- the impact of changes to the tax base cost of group's licensed estate and indexation; and

- other adjustments in respect of prior years' tax arising from finalising the tax returns for earlier years and rolled over gains on the licensed estate.

3 SEGMENT INFORMATION

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

The segments include the following businesses:

Pub Company: Managed pubs and restaurants

Pub Partners: Tenanted and leased pubs

Brewing & Brands: Brewing, marketing and selling beer

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

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

2019	Pub Company *£m*	Pub Partners *£m*	Brewing & Brands *£m*	Corporate *£m*	Total operations *£m*
Revenue	1,799.2	190.1	227.6	–	2,216.9
Analysed as follows:					
Goods					
– Drink	1,000.6	130.5	227.6	–	1,358.7
– Food	720.8	–	–	–	720.8
	1,721.4	130.5	227.6	–	2,079.5
Services					
– Other services[1]	77.8	59.6	–	–	137.4
	77.8	59.6	–	–	137.4
EBITDA[2]	365.8	97.2	33.2	(14.2)	482.0
Segment operating profit	272.9	87.1	27.4	(19.2)	368.2
Exceptional and non-underlying items					(53.5)
Net finance costs					(141.9)
Income tax charge					(52.4)
Net profit for the period					120.4
Balance sheet					
Segment assets	3,643.1	863.9	395.5	53.7	4,956.2
Unallocated assets[3]					227.2
Total assets	3,643.1	863.9	395.5	53.7	5,183.4

2019	**Pub Company** *£m*	**Pub Partners** *£m*	**Brewing & Brands** *£m*	**Corporate** *£m*	**Total operations** *£m*
Segment liabilities	(382.0)	(44.6)	(94.0)	(156.3)	(676.9)
Unallocated liabilities[3]					(2,398.6)
Total liabilities	(382.0)	(44.6)	(94.0)	(156.3)	(3,075.5)
Net assets	3,261.1	819.3	301.5	(102.6)	2,107.9
Other segment information:					
Capital expenditure	123.9	18.9	7.9	5.0	155.7
Depreciation and amortisation	(92.9)	(10.1)	(5.8)	(5.0)	(113.8)

2018	**Pub Company** *£m*	**Pub Partners** *£m*	**Brewing & Brands** *£m*	**Corporate** *£m*	**Total operations** (restated[4]) *£m*
Revenue	1,767.7	193.9	215.1	–	2,176.7
Analysed as follows:					
Goods					
– Drink	954.1	133.3	215.1	–	1,302.5
– Food	730.5	–	–	–	730.5
	1,684.6	133.3	215.1	–	2,033.0
Services					
– Other services[1]	83.1	60.6	–	–	143.7
	83.1	60.6	–	–	143.7
EBITDA[2]	362.9	101.3	36.0	(13.6)	486.6
Segment operating profit	268.2	91.4	30.7	(17.2)	373.1
Exceptional and non-underlying operating costs[4]					(56.1)
Net finance costs					(119.5)
Income tax charge					(14.2)
Net profit for the period					183.3

2018	Pub Company	Pub Partners	Brewing & Brands	Corporate	Total operations (restated[4])
	£m	£m	£m	£m	£m
Balance sheet					
Segment assets	3,703.9	884.6	395.1	39.8	5,023.4
Unallocated assets[3]					214.0
Total assets	3,703.9	884.6	395.1	39.8	5,237.4
Segment liabilities	(392.1)	(45.3)	(101.4)	(157.5)	(696.3)
Unallocated liabilities[3]					(2,468.0)
Total liabilities	(392.1)	(45.3)	(101.4)	(157.5)	(3,164.3)
Net assets	3,311.8	839.3	293.7	(117.7)	2,073.1
Other segment information:					
Capital expenditure	158.0	23.9	6.8	3.7	192.4
Depreciation and amortisation	(94.7)	(9.9)	(5.3)	(3.6)	(113.5)

1 Other services include accommodation, rental and machine income.

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

3 Unallocated assets/liabilities comprise cash, borrowings, pensions, net deferred tax, net current tax, derivatives and indirect tax provisions.

4 Exceptional and non-underlying tax has been restated.

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

Management reporting and controlling systems

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

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

4. OPERATING COSTS

Operating profit is stated after charging/(crediting):

	2019			2018		
	Before exceptional and non-underlying items	Exceptional and non-underlying items	Total	Before exceptional and non-underlying items	Exceptional and non-underlying items	Total
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Cost of products sold recognised as an expense	769.8	–	769.8	743.0	–	743.0
Employment costs *(note 6)*	581.9	4.0	585.9	584.7	2.5	587.2
Depreciation of property, plant and equipment *(note 14)*	105.6	–	105.6	103.7	–	103.7
Amortisation *(note 13)*	8.2	–	8.2	9.8	–	9.8
Operating lease rentals:						
– Minimum lease rentals payable	69.1	–	69.1	70.0	–	70.0
Other operating charges	314.1	66.5	380.6	292.4	86.6	379.0
Net profit on disposal *(note 5)*	–	(17.0)	(17.0)	–	(33.0)	(33.0)
	1,848.7	53.5	1,902.2	1,803.6	56.1	1,859.7

Fees earned by the auditor during the year consisted of:

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

5 EXCEPTIONAL AND NON-UNDERLYING ITEMS

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

Exceptional operating costs

Integration costs are items of one-off expenditure, including legal and professional fees, the costs of dedicated integration project teams and redundancy costs incurred in connection with the integration of Spirit Pub Company, which was finalised in the prior year.

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

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

Of the impairment on properties, £33.6m impairment has been recognised in respect of a small number of pubs and is driven by changes in the local competitive and trading environment at the respective sites, and £20.6m due to a decision taken to exit some sites during the financial year. Impairment reversals have been recognised following an improvement in trading performance and an increase in amounts of estimated future cash flows for previously impaired sites or increases to fair value less costs of disposal.

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

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

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

Non-underlying operating costs

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

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

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

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

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

Exceptional finance costs

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

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

In a prior year the group acquired as part of a business combination derivatives which have subsequently been accounted for at fair value through profit and loss as they were deemed at acquisition not to qualify for hedge accounting. An exceptional loss of £5.4m (2018: gain of £19.2m) relates to the mark-to-market movement on these derivatives, excluding amortisation of fair value on acquisition which reduces the pre-exceptional finance costs that include interest paid (note 23). Mark-to-market movements are considered to be exceptional owing to their volatility and are shown separately to ensure pre-exceptional finance costs are more readily comparable each year. Fair value amortisation is deemed to be a pre-exceptional item as it adjusts swap interest to a market rate.

Non-underlying finance costs

In previous periods, the group settled a number of its swap liabilities that were hedging cash flows relating to the Greene King A5 bond and floating rate bank loans.

These cash flows are still expected to occur and therefore in accordance with IAS 39 the cumulative losses taken to the hedging reserve will be recycled to the income statement over the same period during which the hedged forecast cash flows affect profit or loss. A non-underlying charge of £10.7m (2018: £11.6m) has been recognised in respect of this during the year.

Exceptional tax

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

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

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

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

Non-underlying tax

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

The Finance Act 2016 reduced the rate of corporation tax from 19% to 17% from 1 April 2020. The rate reduction was substantively enacted at the balance sheet date and is therefore included in these accounts. The net deferred tax asset has been calculated using the rates at which each temporary difference is expected to reverse.

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

6 EMPLOYMENT COSTS

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

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

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

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

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

Details of directors' emoluments are shown in the directors' remuneration report*.

* The directors' remuneration report is included in the 2019 Target Annual Report.

7 FINANCE (COSTS)/INCOME

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

8 SHARE-BASED PAYMENT PLANS

The group operates three types of share-based payment arrangements: a senior management long-term incentive plan (LTIP/growth LTIP), a deferred share scheme for other management and a general employee share option plan (SAYE).

The general terms of the LTIP/growth LTIP are detailed in the directors' remuneration report*. All are equity settled.

The total charge recognised for the period arising from share-based payment transactions including National Insurance contributions is £2.0m (2018: £1.8m). A corresponding credit of £2.0m (2018: £1.3m) has been recognised in equity.

* The directors' remuneration report is included in the 2019 Target Annual Report.

The fair value of the LTIP/growth LTIP issued since 2015 is considered to be equal to the share price on the date of issue. For the awards granted in 2019 the fair value was between 492p and 538p (2018: 558p and 573p) per share option.

Future dividend payments have not been factored into the valuation as participants are entitled to dividend payments.

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

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

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

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

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

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

	Number of shares	
LTIP	**2019**	**2018**
	m	*m*
Outstanding at the beginning of the year	2.3	2.3
Granted	1.2	1.2
Forfeited	(1.0)	(1.2)
Outstanding at the end of the year	2.5	2.3
Exercisable at the end of the year	–	–

The options and shares granted under the LTIP are at nil cost; therefore, the weighted average exercise price for rights outstanding at the beginning and end of the year, and granted, forfeited and exercised during the year is £nil (2018: £nil).

SAYE and LTIP

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

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

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

9 PENSIONS

Defined contribution pension schemes

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

Member funds for the defined contribution schemes are held and administered by the Friends Life Group. The total cost recognised in operating profit for the year was £9.0m (2018: £7.2m).

Defined benefit pension schemes and post-employment benefits

The group maintains two defined benefit schemes: the Greene King Pension Scheme and the Spirit (Legacy) Pension Scheme which are closed to new entrants and are closed to future accrual.

Only administrative costs and deficit recovery contributions are incurred going forward. The triennial reviews for both the Greene King and Spirit pension schemes have now been finalised.

Member funds for the defined benefit schemes are held in separate funds independently of the group's finances and are administered by pension trustees.

Pension benefits are related to members' final salary at the earlier of retirement or closure to future accrual and their length of service.

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

The majority of the bonds relate to UK government and corporate bonds.

Net interest on net defined liability:

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

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

	2019		2018	
	Greene King	Spirit	Greene King	Spirit
Discount rate	2.5%	2.5%	2.8%	2.8%
Expected pension payment increases	3.1%	3.1%	3.0%	3.0%
Rate of inflation (RPI)	3.3%	3.3%	3.1%	3.1%
Rate of inflation (CPI)	2.2%	2.2%	2.0%	2.0%
The mortality assumptions imply the following expectations of years of life from age 65:				
Man currently aged 40	23.2	23.2	23.7	23.7
Woman currently aged 40	25.3	25.3	25.8	25.8
Man currently aged 65	21.5	21.5	21.9	21.9
Woman currently aged 65	23.4	23.4	23.8	23.8

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

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

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

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

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

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

	Pension assets		Pension liabilities		Net pension (liability)/ asset
	Greene King	Spirit	Greene King	Spirit	
	£m	*£m*	*£m*	*£m*	*£m*
Post-employment assets/(liabilities) at 30 April 2017	363.3	524.7	(391.3)	(507.9)	(11.2)
Pension interest income/(costs) recognised in the income statement	9.6	14.3	(10.3)	(13.9)	(0.3)
Benefits paid	(17.3)	(24.0)	17.3	24.0	–
Remeasurement gains/(losses) in other comprehensive income:					
Return on plan assets (excluding amounts included in net interest expenses)	8.1	(23.1)	–	–	(15.0)
Actuarial changes arising from changes in demographic assumptions	–	–	2.2	2.9	5.1
Actuarial changes arising from changes in financial assumptions	–	–	16.3	15.1	31.4
Experience adjustments	–	–	–	–	–
Contributions paid – employers	3.6	–	–	–	3.6
Post-employment assets/(liabilities) at 29 April 2018	367.3	491.9	(365.8)	(479.8)	13.6
Pension interest income/(costs) recognised in the income statement	10.0	13.5	(9.9)	(13.2)	0.4
Benefits paid	(26.4)	(22.0)	26.4	22.0	–
Past service cost	–	–	(0.4)	(2.8)	(3.2)
Remeasurement gains/(losses) in other comprehensive income:					
Return on plan assets (excluding amounts included in net interest expenses)	7.6	20.2	–	–	27.8
Actuarial changes arising from changes in demographic assumptions	–	–	8.5	3.6	12.1
Actuarial changes arising from changes in financial assumptions	–	–	(25.5)	(22.5)	(48.0)
Experience adjustments	–	–	3.6	21.5	25.1
Contributions paid – employers	3.3	–	–	–	3.3
Post-employment assets/(liabilities) at 28 April 2019	361.8	503.6	(363.1)	(471.2)	31.1

Presented in the balance sheet as follows:

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

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

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

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

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

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

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

10 TAXATION

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

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

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

Reconciliation of income tax expense for the year

The effective rate of taxation is higher (2018: lower) than the full rate of corporation tax. The differences are explained below:

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

Income tax payable

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

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

Deferred tax

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

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

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

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

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

At 28 April 2019, the group had unused trading losses of £1.5m (2018: £5.3m) and unused capital losses of £827.6m (2018: £805.9m). A deferred tax asset of £0.3m (2018: £1.0m) has been recognised in respect of trading losses and no deferred tax asset (2018: £nil) in respect of capital losses where tax losses are expected to be utilised against future profits and gains. Current legislation allows all of the group's tax losses to be carried forward for an unlimited period.

Factors that may affect future tax charges

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

The net deferred tax asset has been calculated using the rates at which each temporary difference is expected to reverse.

The effect of these rate reductions is to reduce the deferred tax asset by a net £1.5m comprising a debit to the income statement of £1.5m. There is no impact in the statement of comprehensive income or to the group statement of changes in equity.

11 DIVIDENDS PAID AND PROPOSED

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

Dividends on own shares have been waived.

12 EARNINGS PER SHARE

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

Diluted earnings per share has been calculated on a similar basis taking account of 0.6m (2018: 0.5m) dilutive potential shares under option, giving a weighted average number of ordinary shares adjusted for the effect of dilution of 310.5m (2018: 310.4m). There were nil (2018: nil) anti-dilutive share options excluded from the diluted earnings per share calculation. The performance conditions for share options granted over 2.7m (2018: 2.7m) shares have not been met in the current financial period and therefore the dilutive effect of the number of shares which would have been issued at the year end has not been included in the diluted earnings per share calculation.

Adjusted earnings per share excludes the effect of exceptional and non-underlying items and is presented to show the underlying performance of the group on both a basic and diluted basis.

Adjusted earnings per share	Earnings 2019	Earnings 2018 (restated)	Basic earnings per share 2019	Basic earnings per share 2018 (restated)	Diluted earnings per share 2019	Diluted earnings per share 2018 (restated)
	£m	*£m*	*p*	*p*	*p*	*p*
Profit attributable to equity holders	120.4	183.3	38.9	59.1	38.7	58.9
Exceptional and non-underlying items	79.4	11.1	25.6	3.6	25.6	3.7
Profit attributable to equity holders before exceptional and non-underlying items	199.8	194.4	64.5	62.7	64.3	62.6

13 GOODWILL AND OTHER INTANGIBLE ASSETS

	Brand intangibles	Operating lease intangibles	Total other intangibles	Goodwill (restated)
	£m	*£m*	*£m*	*£m*
Cost				
At 30 April 2017 (restated)	16.1	167.0	183.1	1,134.6
Disposal	–	(26.5)	(26.5)	(19.1)
At 29 April 2018	16.1	140.5	156.6	1,115.5
Disposal	–	(3.1)	(3.1)	(10.8)
At 28 April 2019	16.1	137.4	153.5	1,104.7
Impairment and amortisation				
At 30 April 2017	(2.0)	(17.4)	(19.4)	–
Amortisation	(1.1)	(8.7)	(9.8)	–
Impairment *(note 5)*	(1.7)	(5.4)	(7.1)	–
Disposal	–	4.4	4.4	–
At 29 April 2018	(4.8)	(27.1)	(31.9)	–
Amortisation	(0.9)	(7.3)	(8.2)	–
Impairment *(note 5)*	–	(1.7)	(1.7)	–
Disposal	–	0.5	0.5	–
At 28 April 2019	(5.7)	(35.6)	(41.3)	–
Net book value				
At 28 April 2019	10.4	101.8	112.2	1,104.7
At 29 April 2018	11.3	113.4	124.7	1,115.5
At 30 April 2017	14.1	149.6	163.7	1,134.6

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

Other intangibles consists of brand intangibles and operating lease intangibles both recognised as part of business combinations.

Brand intangibles are amortised over the expected life of the asset, and have a remaining useful life of 11 years. The recoverable amount for assets impaired were based on value in use.

Operating lease intangibles are amortised on a straight-line basis over the length of the lease. The recoverable amount for assets impaired was based on a combination of value in use or fair value less cost of disposal.

The impairment charge is made up of the following segments: Pub Company (£1.4m) and Pub Partners (£0.3m).

All goodwill was recognised as part of business combinations.

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

The carrying amount of goodwill is allocated as follows:

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

Goodwill disposed of in the year

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

Goodwill impairment testing

The recoverable amount of each segment was determined on a value-in-use basis, using cash flow projections based on one year budgets approved by the board, and in all cases exceeded the carrying amount.

The key assumptions used in the value-in-use calculations are budgeted EBITDA, the pre-tax discount rate and the growth rate used to extrapolate cash flows beyond the budgeted period.

Budgeted EBITDA, which is based on the group's latest three year strategic plan, reflecting a growth rate of 1.04% in Pub Company (2018: 1.15%), 1.40% in Pub Partners (2018: 1.09%) and nil% in Brewing & Brands (2018: 1.00%) has been used to extrapolate cash flows. The growth rate is below the long-term average growth rate for the operating segments and reflects anticipated trends in future trading performance.

Cash flows are discounted at 7.50% (2018: 7.50%) which is used as an approximation for the risk-adjusted discount rate of the relevant operating segment. The discount rate has been based on external valuations. As risk factors are considered to be similar in each of the group's operating segments the same level of discount rate is applied to all.

Sensitivity to changes in assumptions

The goodwill valuation is most sensitive to changes in the assumptions used for budgeted cash flow, pre-tax discount rate and growth rate. Management considers that reasonable possible changes in assumptions would be an increase in pre-tax discount rate of 1% point, a reduction in growth rate of 1% point or a 10% reduction in budgeted cash flow. As an indication of sensitivity, when applied to the value-in-use calculation in isolation, a 1% increase in discount rate would reduce the estimated recoverable amount by £39.4m, resulting in a £6.2m (2018: £nil) impairment to the goodwill allocated to Brewing & Brands, with a carrying value equalling the recoverable amount at a discount rate of 8.3%. An impairment charge would have also resulted based on a reduction in growth rate of 1% point or a 10% reduction in budgeted cash flow of £3.4m (2018: £nil), and £4.0m (2018: £nil) respectively. Neither a 1% reduction in growth rate, a 10% reduction in budgeted cash flow, nor a 1% increase in the pre-tax discount rate would have resulted in an impairment of goodwill allocated to Pub Company and Pub Partners in the year.

14 PROPERTY, PLANT AND EQUIPMENT

	Licensed estate		Other		
	Land and buildings	Plant and equipment	Land and buildings	Plant and equipment	Total
	£m	*£m*	*£m*	*£m*	*£m*
Cost					
At 30 April 2017	3,455.5	974.0	71.9	145.5	4,646.9
Additions during year	74.2	107.8	1.7	8.7	192.4
Transfer to property, plant and equipment held for sale	(36.3)	(11.6)	(0.2)	–	(48.1)
Disposals during year	(58.6)	(14.7)	(5.0)	(0.2)	(78.5)
Reclassification	(118.6)	(82.8)	3.0	(12.5)	(210.9)
At 29 April 2018	3,316.2	972.7	71.4	141.5	4,501.8
Additions during year	42.5	84.6	14.2	14.4	155.7
Transfer to property, plant and equipment held for sale	(11.5)	(2.0)	–	–	(13.5)
Disposals during year	(45.4)	(12.8)	(2.6)	(0.1)	(60.9)
At 28 April 2019	3,301.8	1,042.5	83.0	155.8	4,583.1
Depreciation and impairment					
At 30 April 2017	268.3	641.3	18.6	96.8	1,025.0
Provided during the year	13.5	81.3	2.3	6.6	103.7
Written back on disposals	(18.0)	(8.5)	(2.5)	–	(29.0)
Impairment (see below)	64.0	11.7	0.3	0.1	76.1
Impairment reversal (see below)	(11.7)	(1.1)	–	–	(12.8)
Transfer to property, plant and equipment held for sale	(28.8)	(10.7)	–	–	(39.5)
Reclassification	(60.4)	(147.2)	(1.1)	(2.2)	(210.9)
At 29 April 2018	226.9	566.8	17.6	101.3	912.6
Provided during the year	13.8	80.9	2.7	8.2	105.6
Written back on disposals	(11.7)	(8.0)	(0.3)	–	(20.0)
Impairment (see below)	75.5	13.2	1.4	–	90.1
Impairment reversal (see below)	(30.2)	(4.2)	(0.6)	(0.1)	(35.1)
Transfer to property, plant and equipment held for sale	(5.5)	(1.6)	–	–	(7.1)
At 28 April 2019	268.8	647.1	20.8	109.4	1,046.1

	Licensed estate		Other		
	Land and buildings	Plant and equipment	Land and buildings	Plant and equipment	Total
	£m	£m	£m	£m	£m
Net book value					
At 28 April 2019	3,033.0	395.4	62.2	46.4	3,537.0
At 29 April 2018	3,089.3	405.9	53.8	40.2	3,589.2
At 30 April 2017	3,187.2	332.7	53.3	48.7	3,621.9

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

The net book value of land and buildings comprises:

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

Review of property, plant and equipment

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

Valuation

The licensed estate properties were valued by the group's own professionally qualified chartered surveyors, as at 20 December 2003, on the basis of existing use value, in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards. A representative sample of properties was also valued by external valuers, Gerald Eve Chartered Surveyors and Property Consultants, who confirmed that the values were consistent with their appraisal. Frozen revaluation has been taken as deemed cost on the transition to IFRS, therefore no historic cost analysis is provided.

Up to 1999 the brewery and depots were valued at depreciated replacement cost and other properties at open market value. These valuations have been retained but they have not been updated. Subsequent additions have been included at cost or, in the case of acquisitions, at fair value.

Charges over assets

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

Assets held under finance leases

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

Future capital expenditure

	2019	2018
	£m	*£m*
Contracted for	10.0	13.6

Impairment of property, plant and equipment

During the period to 28 April 2019 the group has recognised a net impairment loss of £55.0m (2018: £63.3m). This is comprised of an impairment charge of £90.1m (2018: £76.1m) and reversal of previously recognised impairment losses of £35.1m (2018: £12.8m). The recoverable amounts for assets impaired were based on a combination of value in use or fair value less cost of disposal.

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

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

The group considers that each of its individual pubs is a cash-generating unit (CGU). Each CGU is reviewed annually for indicators of impairment.

When indicators of impairment are identified the carrying value of the CGU is compared to its recoverable amount. The recoverable amount for assets impaired were based on a combination of value in use or fair value less cost of disposal.

The group estimates value in use using a discounted cash flow model. The key assumptions used are expected cash flow projections for the next year, the discount rate applied to those cash flows of 7.50% (2018: 7.50%) and the projected cash flows extrapolated using an average growth rate of 1.04% in Pub Company (2018: 1.15%) and 1.40% in Pub Partners (2018: 1.09%) which are below the long-term average growth rate for the operating segments and reflects anticipated trends in future trading performance.

As risk factors are considered to be similar in each of the group's operating segments the same level of discount rate is applied to all.

Cash flow projections relating to individual CGUs have been made based on historic trends adjusted for management's estimates of medium-term trading prospects.

Estimates of fair value less costs of disposal are based on both internal and external valuations, with the latest external valuation being performed in April 2019. The valuation considers assumptions such as current and future projected income levels, which take account of the location and quality of the pub. In addition recent market transactions in the sector and potential alternative use values have been considered.

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

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

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

Sensitivity to changes in assumptions

The level of impairment is predominantly dependent upon judgments used in arriving at fair values, future growth rates and the discount rate applied to cash flow projections. The net impact on the impairment charge of applying different assumptions to fair values, the growth rates used to calculate cash flow projections and in the pre-tax discount rates would be as follows:

	A 10% reduction in fair value less cost of disposal:		A 1% increase in discount rate:		A 1% reduction in growth rate:	
	2019	2018	2019	2018	2019	2018
	£m	£m	£m	£m	£m	£m
Increased net impairment resulting from:						
Pub Company	12.2	6.2	22.0	23.1	22.0	23.1
Pub Partners	2.1	2.0	3.2	3.1	3.2	3.1
	14.3	8.2	25.2	26.2	25.2	26.2

15 FINANCIAL ASSETS

	2019	2018
	£m	£m
Trade loans (net of provision)	9.0	10.5
Total current	9.0	10.5
Trade loans (net of provision)	13.1	12.9
Other financial assets	0.3	0.3
Total non-current	13.4	13.2

Trade loans are net of provisions of £2.1m (2018: £5.1m). During the year £3.3m (2018: £0.2m) of the provision was utilised and £0.3m (2018: £0.2m) of new provision was created. All trade loans that are neither past due nor impaired are expected to be fully recoverable. All significant overdue balances are fully provided for.

Trade loans are advanced to customers on terms linked to supply terms such that returns are greater than interest income. The fixed rate trade loans amounted to £13.2m (2018: £17.2m) and variable rate trade loans amounted to £10.9m (2018: £11.3m). Included in fixed rate loans are £12.5m of loans with settlement related to purchase levels (2018: £16.2m). The write-down of these loans has been taken on a straight-line basis over the remaining term of the loan as an approximation of the settlement.

The fixed rate trade loans had a weighted average interest rate of 0.1% (2018: 0.2%) and a weighted average period of 2.7 years (2018: 2.92 years). Interest rates on variable rate trade loans are linked to base rate.

Trade loans (net of provision)	2019 £m	2018 £m
Balance at beginning of year	23.4	25.9
Advances	5.5	3.4
Repayments	(6.5)	(5.9)
Provisions	(0.3)	–
Balance at end of year	22.1	23.4

16 SUBSIDIARY UNDERTAKINGS

The subsidiary undertakings are:

Subsidiary undertakings	Principal activity	Country of incorporation	Held by	Holding	Proportion of voting rights and ownership
Directly held by Greene King plc					
Greene King Developments Limited[1]	Property	England & Wales	Parent	Ordinary shares	100%
Greene King GP Limited[1]	Dormant	England & Wales	Parent	Ordinary shares	100%
Greene King Investments Limited[1]	Holding company	England & Wales	Parent	Ordinary shares	100%
Greene King Pension Scheme Limited[1]	Pension trustee	England & Wales	Parent	Ordinary shares	100%
Greene King Properties Limited[1]	Property	England & Wales	Parent	Ordinary shares	100%
Greene King Pubs Limited[1]	Property	England & Wales	Parent	Ordinary shares	100%
Greene King Retailing Parent Limited[1]	Holding company	England & Wales	Parent	Ordinary shares	100%
Norman Limited[2]	Holding company	Guernsey	Parent	Ordinary shares	100%
Realpubs Limited[1]	Financing	England & Wales	Parent	Ordinary shares	100%
Rushmere Sports Club Limited[1]	Financing	England & Wales	Parent	Ordinary shares	100%
Spirit Pub Company Limited[1]	Holding company	England & Wales	Parent	Ordinary shares	100%
The Capital Pub Company Limited[1]	Holding company	England & Wales	Parent	Ordinary shares	100%
Indirectly held by Greene King plc					
Allied Kunick Entertainments Limited[1]	Property	England & Wales	Subsidiary	Ordinary shares	100%
Ashes Investment LP[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Aspect Ventures Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
AVL (Pubs) No.1 Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
AVL (Pubs) No.2 Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Belhaven Brewery Company Limited[3]	Financing	Scotland	Subsidiary	Ordinary shares	100%
Belhaven Finance Limited[3]	Financing	Scotland	Subsidiary	Ordinary shares	100%
Belhaven Pubs Limited[3]	Financing	Scotland	Subsidiary	Ordinary shares	100%
Capital Pub Company Trading Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares Preference shares	100% 100%
Chef & Brewer Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
City Limits Limited [1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Cleveland Place Holdings Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Cloverleaf Restaurants Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
CPH Palladium Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Dearg Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Freshwild Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
G.K. Holdings No.1 Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Acquisitions (No.3) Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Greene King Acquisitions No.2 Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%

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

Subsidiary undertakings	Principal activity	Country of incorporation	Held by	Holding	Proportion of voting rights and ownership
Spirit Group Retail (Northampton) Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
				Preference shares	100%
Spirit Group Retail (South) Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Group Retail Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
				Preference shares	100%
Spirit Group Retail Pensions Limited[1]	Pension trustee	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Intermediate Holdings Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Managed Funding Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
				Preference shares	100%
Spirit Managed Holdings Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Managed Inns Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Parent Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Derwent) Limited[1]	Pub retailing	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Holdco) Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Investments) Limited[1]	Financing	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Leased) Limited[1]	Leasing of public houses	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Managed) Limited[1]	Pub retailing	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Services) Limited[1]	Administration	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (SGE) Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Supply) Limited[1]	Procurement	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pub Company (Trent) Limited[1]	Pub retailing	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pubs Debenture Holdings Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Pubs Parent Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Spirit Retail Bidco Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Springtarn Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
The Chef & Brewer Group Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
The Nice Pub Company Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Tom Cobleigh Group Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%
Tom Cobleigh Holdings Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Tom Cobleigh Limited[1]	Holding company	England & Wales	Subsidiary	Ordinary shares	100%
Whitegate Taverns Limited[1]	Non-trading	England & Wales	Subsidiary	Ordinary shares	100%

1 Registered office: Westgate Brewery, Bury St Edmunds, Suffolk, IP33 1QT
2 Registered office: Hambro House, St Julian's Avenue, St Peter Port, Guernsey, GY1 3AE
3 Registered office: Belhaven Brewery, Brewery Lane, Dunbar, East Lothian, EH42 1PE
4 Registered office: PO Box 309, Ugland House, Grand Cayman, KY1-1004
5 Company is limited by guarantee.

17 INVENTORIES

	2019	2018
	£m	*£m*
Raw materials and work in progress	4.7	4.4
Finished goods and goods for resale	42.0	39.5
Consumable stores	4.4	3.8
	51.1	47.7

18 TRADE AND OTHER RECEIVABLES

	2019	2018
	£m	*£m*
Other receivables	–	0.1
Total non-current	–	0.1
Trade receivables	68.3	69.9
Other receivables	21.4	17.6
Total current	89.7	87.5

Trade and other receivables are non-interest bearing.

Trade receivables are shown net of a loss allowance of £4.0m (2018: £4.9m). Information about the group's exposure to credit and market risks, and impairment losses for trade receivables is included in Note 23.

The effect of initially applying IFRS 15 and IFRS 9 is described in note 1.

19 CASH AND CASH EQUIVALENTS

	2019	2018
	£m	*£m*
Cash at bank and in hand	126.5	115.9
Short-term deposits	58.8	52.6
Cash and cash equivalents for balance sheet	185.3	168.5
Bank overdrafts *(note 22)*	(1.3)	–
Cash and cash equivalents for cash flow	184.0	168.5

Included in cash at bank and in hand and short term deposits is £67.3m (2018: £74.6m) and £134.5m (2018: £90.4m) held within securitised bank accounts which are only available for use by the Greene King secured financing vehicle and the Spirit secured financing vehicle respectively.

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

Interest receivable on cash and short term deposits is linked to prevailing interest rates and is received either monthly or quarterly.

20 PROPERTY, PLANT AND EQUIPMENT HELD FOR SALE

	2019	2018
	£m	*£m*
Property, plant and equipment held for sale	6.4	8.6

At the year end, property, plant and equipment held for sale of £6.4m (2018: £8.6m) represents pubs that are being actively marketed for sale with expected completion dates within one year. The value of property, plant and equipment held for sale represents the expected net disposal proceeds; further details on the valuation of fair value less costs of disposal are held in note 14. The impairment charge on reclassification to assets held for sale for these sites was £nil (2018: £0.5m).

21 TRADE AND OTHER PAYABLES

	2019	2018
	£m	*£m*
Trade payables	110.2	120.5
Other payables		
– Other taxation and social security costs	89.7	108.7
– Accruals and deferred income	194.7	175.8
– Interest payable	14.3	15.0
Total current	408.9	420.0
Other payables	1.7	1.8
Total non current	1.7	1.8

Trade payables and other payables are non-interest bearing. Interest payable is mainly settled monthly, quarterly or semi-annually throughout the year, in accordance with the terms of the related financial instrument. Interest payable in both 2019 and 2018 also includes interest on uncertain tax positions.

22 BORROWINGS

		2019			2018		
	Repayment date	Current £m	Non-current £m	Total £m	Current £m	Non-current £m	Total £m
Bank overdrafts	On demand	1.3	–	1.3	–	–	–
Unsecured bank loans							
– floating rate:							
– Facility A	2021	–	24.3	24.3	–	88.8	88.8
– Facility B	2020	–	165.6	165.6	–	184.3	184.3
Secured debt:							
– Issued by Greene King Finance plc	2005 to 2036	53.6	1,483.9	1,537.5	51.3	1,292.2	1,343.5
– Issued by Spirit Issuer plc	2015 to 2036	10.1	369.4	379.5	2.1	561.5	563.6
Obligations under finance leases	2015 to 2084	1.2	19.2	20.4	1.2	19.4	20.6
		66.2	2,062.4	2,128.6	54.6	2,146.2	2,200.8

Bank overdrafts

Overdrafts are utilised for the day to day management of cash. The group has facilities of £25.0m (2018: £25.0m) available with interest linked to base rate.

Bank loans – unsecured

The group has available revolving credit facilities totalling £750.0m, comprising a £400.0m facility (Facility A) available to fund the working capital requirements of the group and other general corporate purposes and a £350.0m facility (Facility B) available to fund the internal transfer of pubs from the Spirit secured financing vehicle.

Of the £400.0m (2018: £400.0m) available under Facility A, £25.0m (2018: £90.0m) was drawn down at the year end with a carrying value of £24.3m (2018: £88.8m) which included £0.7m (2018: £1.2m) of fees.

Of the £350.0m (2018: £350.0m) available under Facility B, £167.3m (2018: £187.0m) was drawn down at the year end with a carrying value of £165.6m (2018: £184.3m) which included £1.7m (2018: £2.7m) of fees.

Any amounts drawn down bear interest at a margin above LIBOR and the group is charged a utilisation fee based on the proportion of each facility drawn. Commitment interest is charged on the undrawn portions. Interest is payable upon repayment of each draw-down, which vary in length. Although any individual draw-downs are repayable within 12 months of the balance sheet date, the group expects to renew this funding and immediate renewal is available under Facility A until October 2021 and Facility B until November 2020. Under each facility, final repayment of the total drawn-down balance is due as one payment on the agreement repayment date.

Greene King secured financing vehicle

The group has issued various tranches of bonds in connection with the securitisation of pubs operated by Greene King Retailing Limited.

The bonds are secured over the properties and their future income streams and were issued by Greene King Finance plc.

In February 2019 the group issued an additional £250m of secured loan notes with a fixed coupon of 3.593% (tranche A7) in connection with the securitisation of an additional 177 of the group's pubs.

The net issuance proceeds were applied to the repayment of revolving credit facility loans advanced under Facility B.

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

Tranche	Nominal value *(£m)*	Carrying value (£m)[1] 2019	2018	Interest	Interest rate(%)[2]	Last repayment period	Weighted average life[3]
A1	85.0	84.2	93.8	Floating	6.11%	2031	4.8 years
A2	219.3	217.5	224.4	Fixed	5.32%	2031	7.6 years
A3	35.4	34.7	48.0	Floating	6.09%	2021	1.3 years
A4	258.9	257.9	257.8	Fixed	5.11%	2034	9.3 years
A5	218.0	218.0	226.8	Floating	3.93%	2033	8.5 years
A6	264.2	260.3	273.2	Fixed	4.06%	2035	8.8 years
A7	250.0	245.3	–	Fixed	3.59%	2035	9.6 years
B1	120.9	120.1	120.1	Fixed/ floating	5.70%[4]	2034	14.1 years
B2	99.9	99.5	99.4	Floating	6.92%	2036	16.2 years
	1,551.6	1,537.5	1,343.5				

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

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

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

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

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

The Class A1, A2, A3, A4, A5, A6 and A7 bonds rank pari passu in point of security and as to payment of interest and principal, and have preferential interest payment and repayment rights over the Class B bonds. The Class B1 and B2 bonds rank pari passu in point of security, principal repayment and interest payment.

The securitisation is governed by various covenants, warranties and events of default, many of which apply to Greene King Retailing Limited, a group company. These include covenants regarding the maintenance and disposal of securitised properties and restrictions on its ability to move cash to other group companies.

The group has available various liquidity facilities which can only be used for the purpose of meeting the securitisation's debt service obligations should there ever be insufficient funds available from operations to meet such payments. There were no draw-downs under these facilities during the year and the drawn down amount at the year end was £nil (2018: £nil).

Spirit secured financing vehicle

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

The group's secured loan notes issued by Spirit Issuer plc consist of the following:

Tranche	Nominal value *(£m)*	Carrying value (£m)[1] 2019	Carrying value (£m)[1] 2018	Interest	Interest rate (%)[2] 2019	Interest rate (%)[2] 2018	Last repayment period	Weighted average life[3]
Class A2	186.6	182.7	182.2	Floating	9.49%[4]	9.38%	2029	8.7 years
Class A4	93.5	96.4	216.4	Fixed/ floating[5]	7.31%[5]	6.58%	2025	3.3 years
Class A5	96.7	100.4	165.0	Fixed/ floating	5.47%[6]	5.47%	2032	11.9 years
	376.8	379.5	563.6					

1 Carrying value includes premium arising from fair value adjustment.
2 Includes the effect of interest rate swap rates on the floating rate notes. The group's interest rate swap arrangements are discussed in note 23.
3 Assumes notes are held until final maturity.
4 In September 2018 the rate on the A2 swap increased from 6.68%-L to 6.79%-L.
5 In December 2018 the A4 tranche switched from a fixed rate of 6.58% to a floating rate of L+2.78% with a swap rate of 4.53%-L.
6 The A5 tranche switches to a floating rate of L+0.75% in December 2028 with a swap rate of 4.53%-L.

The interest payable on the floating rate tranche is as follows:

Tranche	Interest rate payable[1]	Interest rate swap	Total interest rate
A2	L+2.70%	6.79%-L	9.49%
A4	L+2.78%	4.53%-L	7.31%

1 For the floating rate notes the rate payable is three-month LIBOR (L) plus the margin as shown.

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

The secured loan notes rank pari passu in point of security and as to payment of interest and principal.

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

The group has available a liquidity facility which can only be used for the purpose of meeting the debenture's debt service obligations should there ever be insufficient funds available from operations to meet such payments. There were no draw-downs under this facility during the year and the drawn down amount at the year end was £nil (2018: £nil).

In June 2018 the group repaid £62.3m (30%) of the outstanding Class A4 secured loan note issued by Spirit Issuer plc and in September 2018 the group repaid a further £51.9m (25%) of the Class A4 secured loan note.

In conjunction with each of these transactions the group also partially terminated the corresponding interest rate swap contract.

In December 2018 the group, in an open-market transaction, purchased and subsequently cancelled £61.8m (39%) of the Class A5 secured loan note issued by Spirit Issuer plc. In conjunction with this transaction the group also partially terminated the corresponding interest rate swap contract.

Obligations under finance leases

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

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

	2019		2018	
	Minimum lease payments *£m*	Present value of future obligations *£m*	Minimum lease payments *£m*	Present value of future obligations *£m*
Within one year	1.2	1.2	1.2	1.2
Between one and five years	4.6	3.9	4.6	3.9
Over five years	48.5	15.3	49.7	15.5
	54.3	20.4	55.5	20.6

23 FINANCIAL INSTRUMENTS

The effect of initially applying IFRS9 on the group's financial instruments is described in note 1.

Due to the transition method chosen, comparative information has not been restated to reflect the new requirements.

The group holds the following financial instruments:

		2019			2018		
	Note	**Current** *£m*	**Non-current** *£m*	**Total** *£m*	**Current** *£m*	**Non-current** *£m*	**Total** *£m*
Financial assets							
Financial assets at amortised cost							
Trade receivables	*18*	68.3	–	68.3	69.9	–	69.9
Financial assets	*15*	9.0	13.4	22.4	10.5	13.2	23.7
Cash and cash equivalents	*19*	185.3	–	185.3	168.5	–	168.5
Derivative financial instruments							
Designated as hedging instruments	*23*	–	–	–	–	1.5	1.5
		262.6	13.4	276.0	248.9	14.7	263.6
Financial liabilities							
Liabilities at amortised cost							
Trade payables and accruals	*21*	315.1	–	315.1	308.1	–	308.1
Borrowings	*22*	66.2	2,062.4	2,128.6	54.6	2,146.2	2,200.8
Derivative financial instruments							
Designated as hedging instruments	*23*	8.6	118.6	127.2	8.5	110.1	118.6
Not designated as hedging instruments	*23*	13.1	89.7	102.8	12.1	111.9	124.0
		403.0	2,270.7	2,673.7	383.3	2,368.2	2,751.5

Financial risk management

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

The principal financial instruments held for the purpose of raising finance for operations are bank loans and overdrafts, secured bonds, cash and short-term deposits. Other financial instruments arise directly from the operations of the group, such as trade and other receivables, trade payables, and trade loans.

Derivative financial instruments, principally interest rate swaps, are used to manage the interest rate risks related to the group's operations and financing sources. No speculative trading in derivative financial instruments is undertaken.

The main risks arising from the group's financial instruments are interest rate risk, liquidity risk and credit risk. The policy for managing each of these risks is set out below.

Derivatives

The group has the following derivative financial instruments:

Financial instruments qualifying for hedge accounting

At 28 April 2019 the group held four (2018: four) interest rate swap contracts for a nominal value of £438.3m (2018: £470.1m), which are designated cash flow hedges against £438.3m (2018: £470.1m) of variable rate bonds issued by Greene King Finance plc. These swaps are hedges of the A1, A3, A5 and B2 tranches, receiving a variable rate of interest based on LIBOR and paying a fixed rate of 5.155% on the A1 tranche, 4.837% on the A3 tranche, 1.426% on the A5 tranche and 4.837% on the B2 tranche.

The weighted average fixed rate of the swaps was 3.2% (2018: 3.3%).

In addition, the group holds one (2018: one) forward starting swap commencing when the B1 notes issued by Greene King Finance plc switch from fixed rate interest to floating rate in March 2020.

This swap will receive a variable rate of interest based on LIBOR and pay a fixed rate of 5.155%.

The interest rate swaps hedging the A1, A3, B1 and B2 tranches are held on the balance sheet as a fair value liability of £123.8m (2018: £118.6m). The interest rate swap hedging the A5 tranche is held on the balance sheet as a fair value liability of £3.3m (2018: fair value asset of £1.4m). The contract maturity dates range from September 2021 to March 2036.

Prospective hedge effectiveness testing is performed and the bonds and related interest rate swaps have the same critical terms excluding credit risk.

Changes in cash flow hedge fair values are recognised in the hedging reserve to the extent that the hedges are effective.

The interest rate swaps have been assessed as highly effective during the period and are expected to remain highly effective over their remaining contract lives.

The ineffectiveness during the period, which is recognised within finance costs, amounted to £nil (2018: £nil).

During the year a loss of £10.7m (2018: £11.6m) was recycled from the hedging reserve to the income statement in respect of interest rate swap liabilities settled in prior periods.

The remaining losses in the hedging reserve in respect of these swaps, which had been designated cash flow hedges, will be recycled over the period over which the hedged forecast cash flows affect profit or loss.

Financial instruments not qualifying for hedge accounting

At 28 April 2019 the group held two (2018: one) interest rate swap contracts for a nominal value of £280.0m (2018: £189.4m). These swaps, which do not qualify for hedge accounting, are in respect of the A2 and A4 secured loan notes issued by Spirit Issuer plc, receiving a variable rate of interest based on LIBOR and paying a fixed rate of 6.791% on the A2 tranche and 4.529% on the A4 tranche.

In addition, the group holds one (2018: two) forward starting swap commencing when the A5 notes issued by Spirit Issuer plc switch from fixed rate interest to floating rate in December 2028. The swap will receive a variable rate of interest based on LIBOR and pay a fixed rate of 4.529%.

Upon the acquisition of Spirit Pub Company, the swaps were deemed ineffective hedges and therefore do not qualify for hedge accounting, with movements in their fair value being recognised in the income statement. The interest rate swaps are held on the balance sheet as a fair value liability of £102.8m (2018: £124.0m). The contract maturity dates range from March 2025 to December 2032.

Scheduled cash payments of £12.1m (2018: £18.5m) made in respect of the swaps have been recognised in pre-exceptional finance costs net of amortisation of fair value on acquisition of £7.9m (2018: £11.3m).

These amounts are included within pre-exceptional profit as they can be deemed to be the market rate of the acquired swaps. The remainder of the fair value movement amounting to a £5.4m loss (2018: £19.2m gain) is recognised in exceptional finance costs as it is considered to be more volatile and its inclusion in pre-exceptional profit would hinder year-on-year comparability of performance.

During the year the group partially terminated two interest rate swap contracts in connection with the partial repayment of the A4 and A5 Spirit secured loan notes, resulting in cash payments totalling £16.6m.

Where the nominal value of a derivative exceeds that of the related secured note (for example, due to early repayment of floating rate notes) the group seeks to eliminate the over-hedging where this is financially practicable. During the year the group made a payment of £2.0m to eliminate the remaining over-hedges on three interest rate swap contracts. At 28 April 2019, the nominal value of interest rate swaps outstanding on cancelled floating rate notes which relate to the Spirit secured debt was £nil (2018: £2.9m).

On 11 June 2019 the group gave notice to repay the remaining outstanding Class A4 secured loan notes issued by Spirit Issuer plc at par on 28 June 2019. See note 31 for further details on the post balance sheet event.

Interest rate risk

Exposure to changes in interest rates on the group's borrowings is reviewed with regard to the maturity profile and cash flows of the underlying debt.

The group uses a mixture of fixed and floating interest rate debt with exposure to market interest rate fluctuations primarily arising from the floating rate instruments. The group's aim is that no less than 95% of the overall interest exposure should be at a fixed rate. The group enters into interest rate swaps to manage the exposure. Certain swaps are designated as cash flow hedges at the date of contract included within the accounts, and tested for effectiveness every six months.

In accordance with IFRS 7, the group has undertaken sensitivity analysis on its financial instruments which are affected by changes in interest rates.

This analysis has been prepared on the basis of a constant amount of net debt, a constant ratio of fixed to floating interest rates, and on the basis of the hedging instruments in place at 28 April 2019 and 29 April 2018. The analysis relates only to balances at these dates and is not representative of the year as a whole. The following assumptions were made:

– Balance sheet sensitivity to interest rates applies only to derivative financial instruments, as the carrying value of debt and deposits does not change as interest rates move.

– Gains and losses are recognised within other comprehensive income or the income statement in line with the accounting policies of the group.

– Cash flow hedges were assumed to be effective or ineffective on the same basis as those as at the year end.

Based on the group's net position at the year end, a 1% increase or decrease in interest rates would change the group's profit before tax by approximately £23.8m (2018: £31.2m) and the group's OCI by £55.9m (2018: £58.4m). An increase in interest rates would increase the group's profit and OCI.

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

The percentage of net debt that was fixed as at the year-end was 99.6% (2018: 94.4%), in line with the group's target of fixing 95% of all net debt.

Liquidity risk

The group mitigates liquidity risk by managing cash generated by its operations combined with bank borrowings and long-term debt. The group's objective is to maintain a balance between the continuity of funding and flexibility through the use of overdrafts and bank loans. The group also monitors the maturity of financial liabilities to avoid the risk of a shortage of funds.

The standard payment terms that the group has with its suppliers is 60 days following month end (2018: 60 days following month end).

Excess cash used in managing liquidity is placed on interest-bearing deposit using instant-access money market deposit accounts. Short-term flexibility is achieved through the use of short-term borrowing on the money markets under the group's revolving credit facility.

The table below summarises the maturity profile of the group's financial liabilities at 28 April 2019 and 29 April 2018 based on contractual undiscounted payments including interest.

Year ended 28 April 2019	**Within 1 year**	**1-2 years**	**2-5 years**	**>5 years**	**Total**
	£m	*£m*	*£m*	*£m*	*£m*
Interest bearing loans and borrowings:					
– Capital	65.6	245.9	294.5	1,516.0	2,122.0
– Interest	95.4	88.1	224.3	386.3	794.1
	161.0	334.0	518.8	1,902.3	2,916.1
Interest rate swaps settled net	29.7	30.6	75.1	132.3	267.7
	190.7	364.6	593.9	2,034.6	3,183.8
Trade payables and accruals	315.1	–	–	–	315.1
Finance lease obligations	1.2	1.2	3.4	48.5	54.3
	507.0	365.8	597.3	2,083.1	3,553.2

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

Credit risk

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

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

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

Impairment of financial assets

The group has two types of financial assets that are subject to the expected credit loss model:

– trade and other receivables

– financial assets (trade loans with publicans) held at amortised cost

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Impairment losses on financial assets and trade and other receivables recognised in profit or loss were as follows.

	2019
	£m
Impairment loss on trade and other receivables	1.0
Impairment loss on financial assets (trade loans with publicans)	0.3
	1.3

Trade receivables

An impairment analysis is performed at each reporting date using a provision matrix to measure the expected credit losses for trade receivables. The provision rates are based on days past due. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The group writes off a trade receivable when there is objective evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery.

Set out below is the information about the credit risk exposure on the group's trade receivables using a provision matrix:

	2019			2018
	Gross	**Provision**	**Net**	**Net**
	£m	*£m*	*£m*	*£m*
Not past due	60.0	(1.9)	58.1	61.4
Past due				
– Less than 30 days	6.6	(0.9)	5.7	4.5
– 30-60 days	1.5	(0.3)	1.2	0.2
– Greater than 60 days	4.2	(0.9)	3.3	3.8
	72.3	(4.0)	68.3	69.9

Financial assets

The group measures expected credit losses for financial assets held at amortised cost by keeping a system that identifies debts that are at a high risk of non-recovery. Once the debts are moved into this system, the risk related to the debt is considered to have significantly increased. The criteria taken into account by the system are: customers who have both sales and debt unpaid, and customers that have stopped trading with the group but have an outstanding balance. For the loans considered to be at high risk of non-recovery a lifetime expected loss is calculated.

The remainder of the portfolio will be assessed under a 12-month expected credit loss model.

Set out below is the movement in the allowance for expected credit losses of trade receivables and financial assets held at amortised cost:

	Trade receivables 2019	Financial assets 2019
	£m	*£m*
As at 30 April 2018	(4.9)	(5.1)
Provision for expected credit losses recognised in profit or loss during the year	(0.1)	(0.3)
Receivables written off during the year as uncollectible	1.0	3.3
At 28 April 2019	(4.0)	(2.1)

Further detail on expected credit loss methodology refer to note 2.

Fair values

Set out in the table below is a comparison of carrying amounts and fair values of certain of the group's financial instruments in accordance with the requirements of IFRS 7 and IFRS 13.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. The following methods and assumptions were used to estimate the fair values:

Financial assets – these are carried at amortised cost using the effective interest method and fair value is deemed to be the same as this.

Interest-bearing loans and borrowings – based on quoted market prices in the case of the securitised debt; approximates to the carrying amount in the case of the floating rate bank loans.

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

Finance lease obligations – estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

	Hierarchical classification	Fair value 2019 £m	Carrying value 2019 £m	Fair value 2018 £m	Carrying value 2018 £m
Financial liabilities					
Interest-bearing loans and borrowings					
– Secured debt:					
Issued by Greene King Finance plc	Level 1	1,596.2	1,537.5	1,423.7	1,343.5
Issued by Spirit Issuer plc	Level 1	373.6	379.5	561.1	563.6
– Floating rate bank loans	Level 2	189.9	189.9	273.1	273.1
Interest rate swaps	Level 2	230.0	230.0	242.6	242.6
Finance lease obligations	Level 2	20.4	20.4	20.6	20.6
Financial assets					
Interest rate swaps	Level 2	–	–	(1.5)	(1.5)
Financial assets	Level 3	(22.4)	(22.4)	(23.7)	(23.7)

Carrying values of the secured debt issued by Greene King Finance plc are stated net of any deferred finance fees which amounted to £14.1m (2018: £10.2m).

Carrying values of the secured debt issued by Spirit Issuer plc include premiums arising from fair value adjustments of £2.7m (2018: £10.9m).

Floating rate bank loan notes are stated net of deferred finance fees of £2.4m (2018: £4.0m).

Hierarchical classification of financial assets and liabilities measured at fair value

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

The classification uses the following three-level hierarchy:

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

Level 2 – other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3 – techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

During the periods ending 28 April 2019 and 29 April 2018 there were no transfers between fair value levels 1, 2 or 3.

Capital risk management

The group aims to maximise shareholder value by maintaining a strong credit rating and a core level of debt which optimises the weighted average cost of capital (WACC) and shareholder value.

A number of mechanisms are used to manage net debt and equity levels (together referred to as capital) as disclosed on the balance sheet, as appropriate in light of economic and trading conditions. To maintain or adjust the capital structure, the group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes during the period.

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

24 OFF-MARKET CONTRACT LIABILITIES AND PROVISIONS

	Off-market liabilities	Property leases	Indirect tax provisions	Total provisions
	£m	*£m*	*£m*	*£m*
At 30 April 2017	285.4	15.9	25.6	326.9
Unwinding of discount element of provisions	12.5	0.5	–	13.0
Provided for during the year	–	19.2	0.6	19.8
Released during the year	(17.0)	(5.9)	(1.5)	(24.4)
Utilised during the year	(34.4)	(1.8)	–	(36.2)
At 29 April 2018	246.5	27.9	24.7	299.1
Unwinding of discount element of provisions	11.4	0.6	–	12.0
Provided for during the year	–	17.5	0.7	18.2
Released during the year	(4.1)	(13.1)	–	(17.2)
Utilised during the year	(16.8)	(3.5)	–	(20.3)
At 28 April 2019	237.0	29.4	25.4	291.8

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

	28 April 2019				29 April 2018			
	Off-market liabilities	Property leases	Indirect tax provisions	Total	Off-market liabilities	Property leases	Indirect tax provisions	Total
	£m	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Current	17.8	5.9	25.4	49.1	17.9	4.8	24.7	47.4
Non-current	219.2	23.5	–	242.7	228.6	23.1	–	251.7
	237.0	29.4	25.4	291.8	246.5	27.9	24.7	299.1

Off-market contract liabilities

Off-market contract liabilities are recognised where contracts are at unfavourable terms relative to current market terms on acquisition. For acquired leases where the current rentals are below market terms, an operating lease intangible asset has been recognised (see note 13). For other acquired pubs an off-market liability has been calculated as the difference between the present value of future contracted rentals and the present value of future market rate rentals. The liability unwinds against the rental expense so that the income statement charge reflects current market terms over an average period of 16 years (2018: 17 years).

The off-market contract liabilities balance as at 29 April 2019 will transfer to the right-of-use asset, following the adoption of IFRS 16. See basis of preparation – IFRS 16 Leases.

Property leases

The provision for property leases has been set up to cover operating costs of vacant or loss-making premises as well as dilapidation requirements. Payments are expected to be ongoing on these properties for an average of 24 years (2018: 23 years).

The onerous lease provision balance as at 29 April 2019 will transfer to the right-of-use asset, following the adoption of IFRS 16. See basis of preparation – IFRS 16 Leases.

Indirect tax provisions

During a previous period the Spirit Pub Company group received VAT refunds of £17.9m from HMRC in respect of gaming machines following a ruling involving The Rank Group plc (Rank) that the application of VAT contravened the EU’s principal of fiscal neutrality. HMRC successfully appealed the decision in October 2013. However, HMRC did not seek to recover the VAT of £17.9m and associated interest of £7.5m because it had accepted a guarantee that it would only repay this VAT if Rank’s litigation is finally determined in HMRC’s favour. Rank’s latest appeal was rejected by the Supreme Court in July 2015 and the group is currently awaiting the outcome of related litigation involving Rank and others.

25 SHARE CAPITAL

	2019		2018	
	Number of issued shares	**Share capital**	**Number of issued shares**	**Share capital**
	m	*£m*	*m*	*£m*
Ordinary shares of 12.5p each – called up, allotted and fully paid				
At beginning of year	310.0	38.7	309.9	38.7
Issue of share capital – share options exercised	–	–	0.1	–
At end of year	310.0	38.7	310.0	38.7

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

26 RESERVES

Share premium account

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

Merger reserve

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

Capital redemption reserve

The capital redemption reserve arose from the purchase and cancellation of own share capital, and represents the nominal amount of the share capital cancelled.

Hedging reserve

Hedging reserve adjustments arise from the movement in fair value of the group's derivative instruments used as an effective hedge, in line with the accounting policy disclosed in note 1. Amounts recycled to income are included within finance costs in the income statement.

Own shares

Own shares relates to shares held in treasury, held by the employee benefit trust or purchased to fulfil awards made under the deferred share bonus scheme. At 28 April 2019 nil shares (2018: nil) were held in treasury, less than 0.1m shares (2018: 0.1m) were held by the employee benefit trust and nil (2018: nil) were held to fulfil awards under the deferred share bonus scheme. The market value at 28 April 2019 of the treasury shares was nil (2018: £nil), of the shares held by the employee benefit trust was £0.2m (2018: £0.7m) and of the shares held for the deferred share bonus scheme was nil (2018: £nil).

The employee benefit trust is independently managed and has purchased shares in order to satisfy outstanding employee share options and potential awards under the long-term incentive plan.

At the year end nil (2018: nil) treasury shares and nil (2018: nil) shares in the employee benefit trust were allocated to meet awards under the long term incentive plan.

A transfer of £0.5m (2018: £0.2m) from own shares to retained earnings has been made to reflect transfers to satisfy awards under the long term incentive plan and options exercised under the executive share option plan and reflects the weighted average cost of own shares.

During the period nil (2018: nil) shares were repurchased at a cost of nil (2018: £nil) to fulfil awards made under the deferred share bonus scheme with nil (2018: nil) shares transferred to individuals to satisfy awards. The employee benefit trust purchased nil shares (2018: 0.1m) at a cost of nil (2018: £0.5m) and nil (2018: 0.07m) shares were transferred to satisfy awards under the long term incentive plan.

Goodwill

The cumulative amount of goodwill written off to retained earnings in respect of acquisitions made prior to May 1998 amounts to £89.7m.

27 WORKING CAPITAL AND NON-CASH MOVEMENTS

	2019	2018
	£m	*£m*
Increase in inventories	(3.4)	(2.7)
(Increase)/decrease in trade and other receivables	(8.3)	7.1
Decrease in trade and other payables	(2.5)	(3.6)
Decrease in off-market contract liabilities	(16.8)	(19.6)
Decrease in provisions	(3.5)	(1.8)
Other non-cash movement	0.3	–
Share-based payment expense	2.0	1.3
Defined benefit pension contributions paid	(3.3)	(3.6)
Operating exceptional and non-underlying items	(5.9)	(23.9)
Working capital and other movements	(41.4)	(46.8)

28 ANALYSIS AND MOVEMENTS IN NET DEBT

	As at 29 April 2018	Financing cash flows	Changes in fair value	Other non-cash changes	As at 28 April 2019
	£m	*£m*	*£m*	*£m*	*£m*
Cash and cash equivalents					
Cash at bank and in hand[1]	168.5	16.8	–	–	185.3
Cash and cash equivalents for balance sheet	168.5	16.8	–	–	185.3
Overdrafts	–	(1.3)	–		(1.3)
Cash and cash equivalents for cash flow	168.5	15.5	–	–	184.0
Liabilities from financing activities					
Included in net debt:					
– Finance leases	(20.6)	0.2	–	–	(20.4)
– Unsecured bank loans – floating rate					
– Bank loans – Facility A	(88.8)	65.0	–	(0.5)	(24.3)
– Bank loans – Facility B	(184.3)	19.8	–	(1.1)	(165.6)
– Securitised borrowing	(1,907.1)	(6.1)	–	(3.8)	(1,917.0)
	(2,200.8)	78.9	–	(5.4)	(2,127.3)
Not included in net debt:					
– Derivative financial instruments[2]	(241.1)	18.6	(7.5)	–	(230.0)
Liabilities from financing activities	(2,441.9)	97.5	(7.5)	(5.4)	(2,357.3)
Net debt	(2,032.3)	94.4	–	(5.4)	(1,943.3)

	As at 30 April 2017 £m	Financing cash flows £m	Changes in fair value £m	Other non-cash changes £m	As at 29 April 2018 £m
Cash and cash equivalents					
Cash at bank and in hand[1]	285.5	(117.0)	–	–	168.5
Liquidity facility reserve	157.5	(157.5)	–	–	–
Cash and cash equivalents for balance sheet	443.0	(274.5)	–	–	168.5
Overdrafts	–	–	–	–	–
Cash and cash equivalents for cash flow	443.0	(274.5)	–	–	168.5
Liabilities from financing activities					
Included in net debt:					
– Finance leases	(21.6)	1.0	–	–	(20.6)
– Liquidity loan facility	(157.5)	157.5	–	–	–
– Unsecured bank loans – floating rate					
– Bank loans – Facility A	(168.3)	80.0	–	(0.5)	(88.8)
– Bank loans – Facility B	–	(183.8)	–	(0.5)	(184.3)
– Securitised borrowing	(2,170.1)	266.7	–	(3.7)	(1,907.1)
	(2,517.5)	321.4	–	(4.7)	(2,200.8)
Not included in net debt:					
– Derivative financial instruments[2]	(344.8)	42.6	59.9	1.2	(241.1)
Liabilities from financing activities	(2,862.3)	364.0	59.9	(3.5)	(2,441.9)
Net debt	(2,074.5)	46.9	–	(4.7)	(2,032.3)

1 Includes short-term deposits.

2 Includes derivative asset balances.

29 FINANCIAL COMMITMENTS

The group has entered into commercial leases on certain properties and items of plant and machinery. The terms of the leases vary but typically on inception a property lease will be for a period of up to 30 years and plant and machinery will be for up to six years. Most property leases have an upwards only-rent review based on open market rents at the time of the review.

Future minimum cash rentals payable under non-cancellable operating leases are as follows:

	2019	2018
	£m	*£m*
Within one year	83.7	80.2
Between one and five years	318.9	309.5
After five years	1,444.9	1,437.4
	1,847.5	1,827.1

The group leases part of its licensed estate and other non-licensed properties to tenants. The majority of lease agreements have terms of between six months and 25 years and are classified for accounting purposes as operating leases. Most of the leases with terms of over three years include provision for rent reviews on either a three year or five year basis.

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

	2019	2018
	£m	*£m*
Within one year	43.9	45.1
Between one and five years	118.8	122.9
After five years	135.6	119.5
	298.3	287.5

Future minimum lease rentals include £6.8m (2018: £6.1m) receivable in respect of non-cancellable subleases.

30 RELATED PARTY TRANSACTIONS

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

Greene King Finance plc and Spirit Issuer plc are structured entities set up to raise bond finance for the group, and as such are deemed to be related parties. The results and financial position of the entities have been consolidated in the group's results.

Compensation of directors and other key management personnel of the group

	2019	2018
	£m	*£m*
Short-term employee benefits (including National Insurance contributions)	5.6	5.2
Post-employment pension and medical benefits	0.5	0.6
Share-based payments	0.5	0.1
	6.6	5.9

Key management personnel

Key management personnel are deemed to be those employees who are directors of Greene King plc or its subsidiaries.

Directors' interests in an employee share-based payment plan

Details of the options held by executive members of the board of directors are included in the remuneration report. No options have been granted to the non-executive members of the board of directors.

31 POST BALANCE SHEET EVENTS

Final dividend

A final dividend of 24.4p per share (2018: 24.4p) amounting to a dividend of £75.6m (2018: £75.6m) was proposed by the directors at their meeting on 26 June 2019. These financial statements do not reflect the dividend payable.

Borrowings and financial instruments

On 11 June 2019 the group gave notice to repay the remaining £93.5m outstanding Class A4 secured loan notes issued by Spirit Issuer plc at par on 28 June 2019. The notes have a carrying value of £96.4m as at 28 April 2019, of which £10.3m is classified as a current liability and £86.1m is classified as a non-current liability. The group has also agreed to make a payment of £11.4m on 28 June 2019 to fully terminate the corresponding interest rate swap contract.

COMPANY BALANCE SHEET
As at 28 April 2019
Registered number: 24511

	Note	As at 28 April 2019 £m	As at 29 April 2018 £m
Fixed assets			
Investments	36	3,890.6	3,474.8
Current assets			
Amounts due from subsidiaries		99.3	98.2
Cash		–	6.9
Creditors: amounts falling due within one year			
Creditors	37	(2,436.2)	(1,922.1)
Net current liabilities		(2,336.9)	(1,817.0)
Total assets less current liabilities		1,553.7	1,657.8
Creditors: amounts falling due after more than one year			
Borrowings	38	(191.5)	(273.1)
Net assets		1,362.2	1,384.7
Capital and reserves			
Called up share capital	40	38.7	38.7
Share premium account	41	262.2	262.0
Merger reserve	41	752.0	752.0
Revaluation reserve		2.5	2.5
Other reserve	41	93.9	93.9
Own shares	41	–	(0.5)
Retained earnings[1]		212.9	236.1
Equity attributable to owners of the parent		1,362.2	1,384.7

1 The profit and loss account of the parent company is omitted from the Company's accounts by virtue of the exemption granted by section 408 of the Companies Act 2006. The profit generated in the year for ordinary shareholders, and included in the financial statements of the parent company, amounted to £79.6m (2018: £111.9m).

Signed on behalf of the board on 26 June 2019

Richard Smothers
Director

COMPANY STATEMENT OF CHANGES IN EQUITY
For the 52 weeks ended 28 April 2019

	Called up share capital £m	Share premium account £m	Merger reserve £m	Revaluation reserve £m	Other reserve £m	Own shares £m	Retained earnings £m	Total £m
At 30 April 2017	38.7	261.7	752.0	2.5	93.9	(0.2)	226.0	1,374.6
Profit for the year	–	–	–	–	–	–	111.9	111.9
Total comprehensive income	–	–	–	–	–	–	111.9	111.9
Issue of ordinary share capital	–	0.3	–	–	–	–	–	0.3
Purchase of shares	–	–	–	–	–	0.2	(0.2)	–
Release of shares	–	–	–	–	–	(0.5)	–	(0.5)
Share-based payments	–	–	–	–	–	–	1.3	1.3
Equity dividends paid	–	–	–	–	–	–	(102.9)	(102.9)
At 29 April 2018	38.7	262.0	752.0	2.5	93.9	(0.5)	236.1	1,384.7
Change in accounting policy	–	–	–	–	–	–	(1.4)	(1.4)
Restated as at 30 April 2018	38.7	262.0	752.0	2.5	93.9	(0.5)	234.7	1,383.3
Profit for the period	–	–	–	–	–	–	79.6	79.6
Total comprehensive income	–	–	–	–	–	–	79.6	79.6
Issue of ordinary share capital	–	0.2	–	–	–	–	–	0.2
Transfer	–	–	–	–	–	0.5	(0.5)	–
Share-based payments	–	–	–	–	–	–	2.0	2.0
Equity dividends paid	–	–	–	–	–	–	(102.9)	(102.9)
At 28 April 2019	38.7	262.2	752.0	2.5	93.9	–	212.9	1,362.2

NOTES TO THE COMPANY ACCOUNTS
For the 52 weeks ended 28 April 2019

32 ACCOUNTING POLICIES

Basis of accounting and presentation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

The company meets the definition of a qualifying entity under FRS 100 Application of Financial Reporting Requirements as issued by the Financial Reporting Council (FRC). The financial statements have therefore been prepared in accordance with FRS 101 Reduced Disclosure Framework.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

– the requirements of IAS 7: Statement of Cash Flows;

– the requirements of IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors; to disclose IFRSs issued but not effective;

– the requirements of IFRS 2: Share-based payments (paragraphs 45(b) and 46 to 52);

– the requirements of IFRS 7: Financial Instruments: Disclosures;

– the requirements of IFRS 13: Fair Value Measurements;

– the requirements of IAS 24: Related Party Disclosures (to present key management personnel compensation and intragroup transactions including wholly owned subsidiaries); and

– the requirements of IAS 1: Presentation of Financial Statements, to present certain comparative information and capital management disclosures.

The basis for all of the above exemptions is because equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

Greene King plc is a public company limited by shares incorporated and domiciled in England and Wales. The company's shares are listed on the London Stock Exchange.

Investments

Investments in subsidiaries are recorded at cost less impairment and held as fixed assets on the balance sheet. The carrying value of investments is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. On transition to FRS 101, the previous GAAP carrying amount at the date of transition was regarded as deemed cost.

Taxation

Corporation tax payable is provided on taxable profits using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Financial instruments

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

Financial assets

The company classifies its amounts due from subsidiaries at amortised cost where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs, and are subsequently carried at amortised cost using the effective interest rate method less provision for impairment.

The company recognises a loss allowance for expected credit losses on amounts due from subsidiaries. The methodology used to determine the amount of the expected credit loss is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset.

For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those where the credit risk has increased significantly or determined to be credit impaired, lifetime expected credit losses along with the gross interest income or net interest income, respectively, are recognised.

Borrowings

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

Own shares

Own shares consist of treasury shares and shares held within an employee benefit trust. The company has an employee benefit trust to satisfy the exercise of share options that have vested under the group's share option schemes.

Own shares are recognised at cost as a deduction from shareholders' equity. Subsequent consideration received for the sale of such shares is also recognised in equity, with any difference between the sale proceeds from the original cost being taken to retained earnings.

No gain or loss is recognised in the performance statements on transactions in own shares.

Share-based payments

Where the company grants share-based awards over its own shares in exchange for employee services rendered to its subsidiaries (including services provided by the company's directors), it recognises in its individual financial statements, an increase to the cost of investment equivalent to the share-based payment expense recognised in the consolidated financial statements and a corresponding credit in equity. The share-based payments relating to directors are recognised as an expense by the subsidiaries, consistent with their other remuneration. Certain employees and directors receive equity-settled remuneration, whereby they render services in exchange for shares or rights over shares. The fair value of the shares and options granted is measured using a Black-Scholes model, at the date at which they were granted. No account is taken in the fair value calculation of any vesting conditions (service and performance), other than market conditions (performance linked to the price of the shares of the company). Any other conditions that are required to be met in order for an employee to become fully entitled to an award are considered non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value. The fair value of shares and options granted is recognised as an employee expense with a corresponding increase in equity spread over the period in which the vesting conditions are fulfilled ending on the relevant vesting date. The cumulative amount recognised as an expense reflects the extent to which the vesting period has expired, adjusted for the estimated number of shares and options that are ultimately expected to vest. The periodic charge or credit is the movement in the cumulative position from beginning to end of that period.

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

Significant accounting judgments and estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions in the application of accounting policies that affect reported amounts of assets and liabilities, income and expense. The company bases its estimates and judgments on historical experience and other factors deemed reasonable under the circumstances, including any expectations of future events. Actual results may differ from these estimates. No estimates and judgments were considered to be significant.

Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 on the company's financial statements.

As a result of the changes in the company's accounting policies, the adjustment arising from the new impairment rules are recognised in the opening retained earnings as at 30 April 2018. IFRS 9 has been adopted without restating comparative information.

The new accounting policy is set out above in this note.

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

Company balance sheet (extract)

	As at 29 April 2018		
	As previously reported	**Impact of IFRS 9**	**Restated**
	£m	*£m*	*£m*
Fixed assets			
Investments (loans to subsidiaries)	1,130.2	(1.3)	1,128.9
Current assets			
Amounts due from subsidiaries	98.2	(0.1)	98.1
Capital and reserves			
Retained earnings	236.1	(1.4)	234.7

Classification and measurement

The company's loan to subsidiaries and amounts due from subsidiaries were classified under loans and receivables under IAS 39 and now are held at amortised cost. There is no impact from the change in classification in the company financial statements and no tax impact from the adoption of IFRS 9.

Impairment of financial assets

The loan to subsidiary undertaking is subject to IFRS 9's new expected credit loss model. The loans are not considered to have had an increase in significant risk and therefore a 12-month expected credit loss has been determined. Applying the expected credit risk model resulted in the recognition of a loss allowance of £1.4m on 30 April 2018 (previous allowance was £nil) and a further increase in the allowance by £0.2m in the current reporting period.

33 PROFIT FOR THE PERIOD

No income statement is presented for the company as permitted by section 408 of the Companies Act 2006. The profit after tax for the period is £79.6m (2018: £111.9m).

34 AUDITOR'S REMUNERATION

Auditor's remuneration in respect of the company audit was £16,500 (2018: £16,500). The figures for auditor's remuneration for the company required by regulation 5(1)(b) of the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 are not presented here as the group accounts comply with this regulation on a consolidated basis.

35 DIRECTORS' REMUNERATION AND EMPLOYEE COSTS

Details of directors' remuneration are contained in the directors' remuneration report*. The company has no employees other than directors and the directors are not remunerated through this company. Details of share options issued by the company are given in note 8.

36 INVESTMENTS

	Investments in subsidiaries *£m*	Loans to subsidiaries *£m*	Total *£m*
Cost at 30 April 2017	2,366.5	1,150.2	3,516.7
Share-based payment awards to employees of subsidiaries	1.3	–	1.3
Repayment	–	(20.0)	(20.0)
Cost at 29 April 2018	2,367.8	1,130.2	3,498.0
Additions	222.0	–	222.0
Share-based payment awards to employees of subsidiaries	2.0	–	2.0
Advances	–	193.3	193.3
Cost at 28 April 2019	2,591.8	1,323.5	3,915.3
Impairment at 30 April 2017 and 29 April 2018	(23.2)	–	(23.2)
Impairment of non-trading subsidiaries	–	(1.5)	(1.5)
Impairment at 28 April 2019	(23.2)	(1.5)	(24.7)
NBV at 28 April 2019	2,568.6	1,322.0	3,890.6
NBV at 29 April 2018	2,344.6	1,130.2	3,474.8
NBV at 30 April 2017	2,343.3	1,150.2	3,493.5

Principal subsidiaries

For a full list of all subsidiaries see note 16.

Interest on amounts owed to and from group undertakings accrues at a rate of LIBOR + 1.0% and is receivable at interim and year end dates.

* The directors' remuneration report is included in the 2019 Target Annual Report.

The current year impairment on loans to subsidiaries is constituted of £1.4m expected credit loss on transition to IFRS 9 and £0.2m of in year expected credit loss as discussed in note 32.

37 CREDITORS

	2019 *£m*	2018 *£m*
Accruals	2.7	3.4
Corporation tax payable	5.1	–
Amounts owed to subsidiaries	2,428.4	1,918.7
	2,436.2	1,922.1

Interest on amounts owed to and from group undertakings accrues at a rate of LIBOR + 1.0% and is payable on demand.

38 BORROWINGS

	2019			2018		
	Within one year *£m*	After one year *£m*	Total *£m*	Within one year *£m*	After one year *£m*	Total *£m*
Bank overdraft	1.6	–	1.6	–	–	–
Unsecured bank loans – floating rate:						
– Facility A	–	24.3	24.3	–	88.8	88.8
– Facility B	–	165.6	165.6	–	184.3	184.3
	1.6	189.9	191.5	–	273.1	273.1

As explained in note 22 the company has available revolving credit facilities totalling £750.0m.

Bank loans due after one year are repayable as follows:

	2019 *£m*	2018 *£m*
Due between one and two years	165.6	–
Due between two and five years	24.3	273.1
	189.9	273.1

Although any individual draw-downs are repayable within 12 months of the balance sheet date, immediate renewal is available under Facility A until October 2021 (2018: October 2021) and under Facility B until November 2020 (2018: November 2020).

39 FINANCIAL INSTRUMENTS

Financial assets at amortised cost

Financial assets at amortised cost include the following:

	2019			2018		
	Current	Non-current	Total	Current	Non-current	Total
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Loans to subsidiaries	–	1,323.5	1,323.5	–	1,130.2	1,130.2
Less: expected credit loss	–	(1.5)	(1.5)	–	–	–
	–	1,322.0	1,322.0	–	1,130.2	1,130.2
Amounts due from subsidiaries	99.4	–	99.4	98.2	–	98.2
Less: expected credit loss	(0.1)	–	(0.1)	–	–	–
	99.3	–	99.3	98.2	–	98.2

See note 32 for the impact on the change in accounting policy following the adoption of IFRS 9 on the classification and impairment of financial assets.

Impairment

The company has assessed the credit risk on the intercompany loans and have concluded that there has not been an increase in credit risk since initial recognition, therefore a 12-month expected credit loss has been calculated.

The loss allowance for the loans to subsidiaries and amounts due from subsidiaries reconciles to the opening loss allowance on 30 April 2018 and to the closing loss allowance as at 28 April 2019 as follows:

	Loans to subsidiaries	Amounts due from subsidiaries
	£m	*£m*
Closing expected credit loss as at 29 April 2018	–	–
Amounts restated through opening retained earnings	1.3	0.1
Opening expected credit loss as at 30 April 2018 (calculated under IFRS 9)	1.3	0.1
Increase in the allowance recognised in profit or loss during the period	0.2	–
Closing expected credit loss as at 28 April 2019	1.5	0.1

40 ALLOTTED AND ISSUED SHARE CAPITAL

Allotted, called-up and fully paid	**2019** *£m*	**2018** *£m*
Ordinary shares of 12.5p each		
310.0m shares (2018: 310.0m)	38.7	38.7

Further information on share capital is given in note 25.

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

41 RESERVES

Share premium account

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

Merger reserve

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

Other reserve

The other reserve consists of £3.3m (2018: £3.3m) capital redemption reserve arising from the purchase of own share capital and £90.6m (2018: £90.6m) arising from transfer of revalued assets to other group companies and will only be realised when the related assets are disposed of by the group.

Own shares

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

42 CONTINGENT LIABILITIES

The company has provided a guarantee to the Greene King Pension Scheme in respect of the payment obligations to the scheme of its subsidiary Greene King Services Limited. In the event that these obligations are not met the company will become liable for amounts due to the pension scheme; such an event is not considered probable.

Details of the group's pension schemes are included in note 9.

43 POST BALANCE SHEET EVENTS

Final dividend

A final dividend of 24.4p per share (2018: 24.4p) amounting to a dividend of £75.6m (2018: £75.6m) was proposed by the directors at their meeting on 26 June 2019. These financial statements do not reflect the dividend payable.

B. REPORTS FROM THE AUDITORS ON THE AUDITED FINANCIAL INFORMATION OF THE TARGET GROUP FOR THE 52 WEEKS ENDED 30 APRIL 2017, 29 APRIL 2018 AND 28 APRIL 2019

1. The following is the text of the report from Ernst & Young LLP, Statutory Auditor, United Kingdom, in respect of the audited financial information of the Target Group as of and for the 52 weeks ended 30 April 2017 issued on 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*; accounting policies; and note 14 of the group financial statements		**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.

* Included in the 2017 Target Annual Report.

Risk	Our response to the risk	Key observations communicated to the audit committee
Asset impairment considerations in relation to the trading estate Refer to the audit committee report*; accounting policies; and note 14 of the group financial statements		**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.
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.

* Included in the 2017 Target Annual Report.

Risk	Our response to the risk	Key observations communicated to the audit committee
Stamp duty land tax Refer to the audit committee report*; accounting policies; and note 25 of the group financial statements		**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*; accounting policies; and note 3 of the group financial statements		**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.

* Included in the 2017 Target Annual Report.

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*; accounting policies; and note 3 of the group financial statements		**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.

* Included in the 2017 Target Annual Report.

Risk	Our response to the risk	Key observations communicated to the audit committee
Goodwill impairment Refer to the audit committee report*; accounting policies; and note 13 of the group financial statements		**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.

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

* Included in the 2017 Target Annual Report.

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.

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*, 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.

* Included in the 2017 Target Annual Report.

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* 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.

* Included in the 2017 Target Annual Report.

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* 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 and longer-term viability*; 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.

* Included in the 2017 Target Annual 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.

2. The following is the text of the report from Ernst & Young LLP, Statutory Auditor, United Kingdom, in respect of the audited financial information of the Target Group as of and for the 52 weeks ended 29 April 2018 issued on 27 June 2018.

INDEPENDENT AUDITOR'S REPORT
To the members of Greene King plc

Our opinion on the financial statements

In our opinion:

– Greene King plc's group financial statements and company financial statements (the financial statements) give a true and fair view of the state of the group's and of the company's affairs as at 29 April 2018 and of the group's profit for the 52 weeks then ended;

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

– the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

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

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

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

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

Basis for opinion

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

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

Conclusions relating to principal risks, going concern and viability statement

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

– the disclosures in the annual report that describe the principal risks and explain how they are being managed or mitigated;

– the directors' confirmation set out in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;

– the directors' statement set out in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;

– whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or

– the directors' explanation set out in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

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

Key audit matters

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

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

* Included in the 2018 Target Annual Report.

Risk

Property, plant and equipment (PP&E) impairment considerations, due to the risk of material misstatement over the net impairment charge if management's assumptions to support the projected financial information in the impairment assessments include incorrect judgments or estimates (2018: £3,589.2m PP&E net book value and £63.3m net impairment charge; 2017: £3,621.9m and £58.6m respectively)

Refer to the audit and risk committee report; accounting policies; and note 14 of the consolidated financial statements*

Management performs an annual impairment assessment on a site-by-site basis.

In assessing impairment, management estimates the recoverable amount of each site by reference to the higher of its value in use (VIU), based on the group's key assumptions in relation to forecast profits, growth rate and applied discount rate, and fair value less costs of disposal (FVLCD). FVLCD was determined by either external or internal valuations.

Our response to the risk

We obtained an understanding of the group's process employed to estimate appropriate impairments of PP&E at a cash-generating unit (CGU) level (site level). We then tested key elements of those processes.

In particular:

– We checked the arithmetical accuracy and integrity of the impairment model.

– We used our valuation experts to assess the reasonableness of the discount rate applied to cash flows by benchmarking to comparator companies and market information.

– We compared the profit growth rates in the cash flow forecasts to the strategic plan and to external market growth estimates for the industry.

– We reperformed the group's sensitivity calculations applied to the cash flows and considered the group's disclosure of how a reasonably possible change in assumptions would lead to a material impairment based upon our knowledge of the group's activities and industry knowledge.

– We verified that the individual site NBVs, lease periods (where applicable) and trading data were correctly imported into the impairment model.

– We used our property valuation experts to assess the property valuations provided by management's external valuer, where management adopted the valuer's FVLCD instead of the internal VIU model. Our testing also included the inputs into the external valuations.

– We used our property valuation experts to assess the property valuations provided by management's internal valuers, where management adopted the valuers' FVLCD instead of the internal VIU model.

– We examined the appropriateness of any other information used by management to refine the VIU or FVLCD in the calculation of the impairment charge.

Key observations communicated to the audit and risk committee

We considered the reasonableness and appropriateness of the group's estimates, noting that all significant assumptions fell within a range of acceptable outcomes.

We considered the group's sensitivity calculations applied to the cash flows to be materially correct and the disclosures of a reasonable change to be appropriate.

We found no material errors within the site data used in the impairment calculations.

We considered the property valuations provided by management's external valuer to fall within a range of acceptable valuations.

We considered the property valuations provided by management's internal valuers to fall within a range of acceptable valuations.

We considered the other information used by management to determine VIU or FVLCD in the calculation of the impairment charge to be appropriate.

As a result of the procedures performed, we concluded that the group's impairment assessment for the group's CGUs had been carried out appropriately and in accordance with accounting standards.

We found that the impairment charge had a net understatement error that was not significant. We do not consider the error to be material and therefore we concluded that the impairment calculations are appropriate and free from material error.

* Included in the 2018 Target Annual Report.

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

* Included in the 2018 Target Annual Report.

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

– **Accounting for supplier income and customer rebates:** Based on our experience and results of our audit in the prior year, we noted that the amounts of rebates are not significant, the estimation of the rebates at year end is not highly complex and nor do they require significant judgment. We therefore do not consider the risk of material error to be significant, and is therefore no longer considered a significant risk or key audit matter in the current year.

– **Impairment of goodwill:** Based on prior year audit and interim planning procedures and the level of fair value headroom above the carrying value of goodwill (as presented in note 13 of the financial statements), we consider the risk of impairment in goodwill does not give rise to a significant risk and is not considered a key audit matter in the current period.

– **Uncertain tax positions and stamp duty land tax:** During the prior period a formal agreement was reached with HMRC on a number of historical tax positions and the Court of Appeal issued its final decision on the Sussex case. In addition the stamp duty land tax matter was also concluded with HMRC in the current period. There are no remaining historical open items with HMRC of significance; therefore there is no longer a risk of material misstatement in the financial statements for the current period. Accordingly, uncertain tax positions and stamp duty land tax are not considered key audit matters in the current period.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each division.

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

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

Our application of materiality

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

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

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

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

Performance materiality

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

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

Audit work on each division for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each division is based on the relative scale and risk of the division to the group as a whole and our assessment of the risk of misstatement at that division. In the current year, the range of performance materiality allocated to divisions was £2.3m to £8.0m (2017: £2.7m to £8.1m).

Reporting threshold

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

We agreed with the audit and risk committee that we would report to them all uncorrected audit differences in excess of £0.6m (2017: £0.7m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

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

We have nothing to report in this regard.

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

– **fair, balanced and understandable*** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

* Included in the 2018 Target Annual Report.

– **audit and risk committee reporting*** – the section describing the work of the audit and risk committee does not appropriately address matters communicated by us to the audit and risk committee; or

– **directors' statement of compliance with the UK Corporate Governance Code*** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006. In our opinion, based on the work undertaken in the course of the audit:

– the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;

– the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and

– information about the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which we are required to report by exception

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

– the strategic report or the directors' report; or

– the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

* Included in the 2018 Target Annual Report.

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

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

– the company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or

– certain disclosures of directors' remuneration specified by law are not made; or

– we have not received all the information and explanations we require for our audit; or

– a corporate governance statement has not been prepared by the company.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to

* Included in the 2018 Target Annual Report.

fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

– We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant relate to the reporting framework (IFRS, FRS 101, the Companies Act 2006 and the UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the group operates. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those laws and regulations as disclosed within risk and uncertainties of the group's business* including The Pubs Code etc. Regulations 2016, Health & Safety Regulations, the General Data Protection Regulation, and Licensing Regulations.

– We understood how Greene King plc is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the group company secretary. We corroborated our enquiries through the attendance at meetings held by the audit and risk committee, which receives updates on such matters from divisional and functional management. As well as enquiry and attendance at meetings, our procedures involved a review of the reporting to the committees and a review of board meetings and other committee minutes to identify any non-compliance with laws and regulations.

– We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur, by meeting with management to understand where it considered there was susceptibility to fraud. We also considered performance targets and their propensity to influence management to manage earnings and revenue by overriding internal controls. We considered the controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud, and how senior management monitors those controls. Our procedures also included testing a risk-based sample of manual journals that may have been posted with the intention of overriding internal controls to manipulate earnings. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

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

* Included in the 2018 Target Annual Report.

Other matters we are required to address

– We were re-appointed by the shareholders at the annual general meeting on 8 September 2017 and signed an engagement letter with the company on 28 November 2017 confirming the terms of appointment for the audit of the financial statements for the 52 weeks ended 29 April 2018.

– The period of total uninterrupted engagement including previous renewals and re-appointments is 20 years, covering the periods ending 2 May 1998 to 29 April 2018.

– The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company and we remain independent of the group and the company in conducting the audit.

– The audit opinion is consistent with the additional report to the audit and risk committee.

Use of our report

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

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

Notes:

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

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

3. The following is the text of the report from Ernst & Young LLP, Statutory Auditor, United Kingdom, in respect of the audited financial information of the Target Group as of and for the 52 weeks ended 28 April 2019 issued on 26 June 2019.

INDEPENDENT AUDITOR'S REPORT
To the members of Greene King plc

OPINION

In our opinion:

- Greene King plc's group financial statements and company financial statements (the 'financial statements') give a true and fair view of the state of the group's and of the company's affairs as at 28 April 2019 and of the group's profit for the 52 weeks then ended;

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

- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

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

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

Group	**Company**
Group balance sheet as at 28 April 2019	Company balance sheet as at 28 April 2019
Group income statement for the 52 weeks ended 28 April 2019	Company statement of changes in equity for the 52 weeks ended 28 April 2019
Group statement of comprehensive income for the 52 weeks ended 28 April 2019	Related notes 32 to 43 to the financial statements including a summary of significant accounting policies
Group statement of changes in equity for the 52 weeks ended 28 April 2019	
Group cash flow statement for the 52 weeks ended 28 April 2019	
Related notes 1 to 31 to the financial statements, including a summary of significant accounting policies	

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

BASIS FOR OPINION

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

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

CONCLUSIONS RELATING TO PRINCIPAL RISKS, GOING CONCERN AND VIABILITY STATEMENT

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

- the disclosures in the annual report that describe the principal risks and explain how they are being managed or mitigated;

- the directors' confirmation set out in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;

- the directors' statement set out in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;

- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or

- the directors' explanation set out in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

OVERVIEW OF OUR AUDIT APPROACH

Key audit matters	• Property, plant and equipment (PP&E) impairment considerations, due to the risk of material misstatement over the net impairment charge if management's assumptions to support the projected financial information in the impairment assessments include incorrect judgments or estimates. • Revenue recognition, due to the risk of fraudulent recognition of revenue through management override. • We have identified deferred tax as a significant risk due to the identification of errors in respect of prior periods. This has resulted in the restatement of prior period comparatives in the 2019 accounts. (The detail of this restatement is documented in note 1)
Audit scope	• We performed an audit of the complete financial information of the three trading divisions and corporate centre which together represent 100% of the group's results for the period. • We have obtained an understanding of the entity-level controls of the group which assisted us in identifying and assessing risks of material misstatement due to fraud or error, as well as assisting us in determining the most appropriate audit strategy.
Materiality	• Overall group materiality of £12.1m which represents 5% of profit before tax and exceptional and non-underlying items.

KEY AUDIT MATTERS

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

Key audit matter	How we addressed the key audit matter	Key observations communicated to the audit and risk committee
Property, plant and equipment (PP&E) impairment considerations, due to the risk of material misstatement over the net impairment charge if management's assumptions to support the projected financial information in the impairment assessments include incorrect judgments or estimates (2019: £3,543.4m PP&E net book value and £65.0m net impairment charge; 2018: £3,589.2m and £63.3m respectively) *Refer to the audit and risk committee report*; accounting policies; and Note 14 of the consolidated financial statements* Management perform an annual impairment assessment on a site-by-site basis. In assessing impairment, management estimates the recoverable amount of each site by reference to the higher of its value in use (VIU), based on the group's key assumptions in relation to forecast profits, growth rate and applied discount rate, and fair value less costs of disposal (FVLCD). FVLCD was determined by either external or internal valuations.	We obtained an understanding of the group's process employed to estimate appropriate impairments of PP&E at a cash-generating unit (CGU) level (site level). We then tested key elements of those processes. In particular: – We checked the arithmetical accuracy and integrity of the impairment model. – We used our valuation experts to assess the reasonableness of the discount rate applied to cash flows by benchmarking to comparator companies and market information. – We compared the profit growth rates in the cash flow forecasts to the strategic plan and to external market growth estimates for the industry. – We reperformed the group's sensitivity calculations applied to the cash flows and considered the group's disclosure of how a reasonably possible change in assumptions would lead to a material impairment based upon our knowledge of the group's activities and industry knowledge. – We tested, on a sample basis, that the individual site NBVs, lease periods (where applicable) and trading data were correctly imported into the impairment model. – We used our property valuation experts to assess the property valuations provided by management's external valuers, where management adopted the valuers' FVLCD instead of the internal VIU model. – We examined the appropriateness of any other information used by management to refine the VIU or FVLCD in the calculation of the impairment charge.	We considered the reasonableness and appropriateness of the group's estimates, noting that all significant assumptions fell within a range of acceptable outcomes. We considered the group's sensitivity calculations applied to the cash flows to be materially correct and the disclosures of a reasonable change to be appropriate. We found no material errors within the site data used in the impairment calculations. We considered the property valuations provided by management's external valuers to fall within a range of acceptable valuations. We considered the other information used by management to determine VIU or FVLCD in the calculation of the impairment charge to be appropriate. As a result of the procedures performed, we concluded that the group's impairment assessment for the group's CGUs had been carried out appropriately and in accordance with accounting standards. We found that the impairment charge had a net understatement error that was not significant. We do not consider the error to be material and therefore we concluded that the impairment calculations are appropriate and free from material error.

* Included in the 2019 Target Annual Report.

Key audit matter	How we addressed the key audit matter	Key observations communicated to the audit and risk committee
Revenue recognition, due to the risk of fraudulent recognition of revenue through management override (2019: £2,216.9m, 2018: £2,176.7m) *Refer to the audit and risk committee report*; accounting policies; and Note 3 of the consolidated financial statements* In accordance with International Standards on Auditing (UK and Ireland) there is a presumed fraud risk relating to revenue recognition. Revenue principally consists of: ● drink, food and accommodation sales, which are recognised at the point at which goods or services are provided; ● rental income, which is recognised on a straight line basis over the lease term; ● machine income, where net takings are recognised as earned. Greene King Pub Partners and Pub Company divisions, given their high disaggregation with over 2,500 individual pubs and low value individual sale transactions, have a low inherent risk of material error or fraud occurring undetected. Similarly, with strong revenue to cash correlation, any systemic errors of significance would quickly be visible in balance sheet reconciliations. Therefore the risk of material error in revenue recognition is principally seen to reside in a topside management journal overriding financial reporting close processes. We have identified a significant risk of material overstatement of revenue through management override and topside journals (for all divisions).	We have walked through each significant revenue stream and assessed the design, and for those controls we have chosen to rely on, we have tested the operating effectiveness of those controls. In addition we have performed the following procedures: – Completed tests of detail on a representative sample of revenue transactions recorded in the period. – Used data analysis tools on 100% of revenue transactions in the year for the largest division, Pub Company division, to test the correlation of revenue to cash receipts to support the occurrence of revenue. – Performed disaggregated analytical review on revenue recorded by division and month to identify unusual or unexpected trends; and – Tested manual journal entries to revenue from across the year to ensure that entries were appropriately supported by evidence of arrangement, delivery note or subsequent cash receipt.	As a result of the procedures performed, we concluded that revenue had been recognised appropriately in accordance with the revenue recognition policy and accounting standards.

* Included in the 2019 Target Annual Report.

Key audit matter	How we addressed the key audit matter	Key observations communicated to the audit and risk committee
Estimation of deferred tax (2019: net deferred tax asset £29.1m, 2018: £39.5m as restated) *Refer to the audit and risk committee report*; accounting policies; and Note 1 of the consolidated financial statements* We have identified deferred tax as a new significant risk in the current period due to the identification of errors in respect of prior periods. This has resulted in the restatement of prior period comparatives in the 2019 accounts. (The detail of this restatement is documented in note 1.) These errors arose as the result of complexities in the underlying accounting for deferred tax, and the impact on deferred tax of the historic tax planning arrangements entered into not being captured, or not being captured correctly in the calculations prepared by management. ● Management has completed a detailed review of the calculation of existing and historic deferred tax balances and assessed the completeness of these balances as at the current and prior period balance sheet dates.	We have audited the 2019 deferred tax position and the restated comparative position. We used specialists in tax accounting to verify the appropriateness of the deferred tax balances calculated by completing the following key procedures: – Reviewed memoranda prepared by management setting out the methodology for calculating each existing deferred tax balance and confirmed that the principles are compliant with IAS 12. – Tested revised calculations of deferred tax and the underlying information prepared by management as at the FY19 and prior balance sheet dates. This included detailed testing of Management's calculation in respect of deferred tax on property, plant and equipment. – Reviewed the accounting and tax bases for balance sheet balances and for consolidation adjustments to assess completeness of deferred tax impacts and accounting. – Reviewed all submitted 2018 tax returns to confirm there are not any other items on which deferred tax should have been recognised to test the completeness of deferred tax balances. – Reconciled the aggregate of profit before tax recorded in the statutory accounts of all subsidiaries to the consolidated profit before tax amount to identify possible further sources of deferred tax not yet considered.	Material errors were identified in respect of prior periods and accordingly the comparative periods have been restated. Disclosure of the nature and magnitude of the restatement is documented in note 1 in accordance with IAS 8. The principal differences identified were as follows: ● Incorrect assumptions in respect of accounting depreciation of property, plant and equipment in the deferred tax calculation and inconsistencies in the supporting information were identified; ● Deferred tax calculated on the differences between the carrying values of the Spirit bonds and off-market contract liabilities in the group accounts and the equivalent carrying values in the statutory accounts were not calculated correctly; ● Deferred tax calculated in respect of complex tax planning arrangements involving derivative contracts and intra-group lease premiums were not calculated correctly. Following correction of the errors in prior period by way of a prior period restatement, we conclude that the deferred tax balances recorded in the current year balance sheet are appropriate and free from material error.

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

* Included in the 2019 Target Annual Report.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each division within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each division.

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

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

OUR APPLICATION OF MATERIALITY

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

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the group to be £12.1 million (2018: £12.1 million), which is 5% (2018: 5%) of profit before tax and exceptional and non-underlying items. We used pre-tax profit before exceptional and non-underlying items of £246.9m because it is a key performance indicator used in communications with investors, it is a key metric used by the group in the assessment of the performance of management and we note that market and analyst commentary on the group uses pre-tax profit before exceptional and non-underlying items as a key metric. Therefore, we consider pre-tax profit before exceptional and non-underlying items to be the most appropriate performance metric on which to base our materiality calculation.

We determine materiality for the company using net assets, a measure chosen due to the nature of the company's business activity, which is that of investment holding. As the materiality calculated under this basis is higher than that for the group, we cap the materiality for the company at that of the group being £12.1m (2018: £13.9m calculated using the net asset calculated materiality).

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgment was that performance materiality was 75% (2018: 75%) of our planning materiality, namely £9.0m (2018: £9.0m). We have set performance materiality at this percentage reflecting the absence of significant changes in the group and absence of significant audit adjustments in the prior period. Our objective in considering and adopting this approach was to ensure that the total of any detected and undetected audit differences do not exceed our materiality of £12.1m for the group financial statements as a whole.

Audit work on each division for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each division is based on the relative scale and risk of the division to the group as a whole and our assessment of the risk of misstatement at that division. In the current year, the range of performance materiality allocated to divisions was £2.7m to £9.0m (2018: £2.3m to £8.0m).

Reporting threshold

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

We agreed with the audit and risk committee that we would report to them all uncorrected audit differences in excess of £0.6m (2018: £0.6m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

OTHER INFORMATION

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

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

We have nothing to report in this regard.

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

- **Fair, balanced and understandable*** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

- **Audit and risk committee reporting*** – the section describing the work of the audit and risk committee does not appropriately address matters communicated by us to the audit and risk committee; or

- **Directors' statement of compliance with the UK Corporate Governance Code*** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;

- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook

* Included in the 2019 Target Annual Report.

made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and

- information about the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

- the strategic report or the directors' report; or

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

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

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

- the company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit; or

- a corporate governance statement has not been prepared by the company.

RESPONSIBILITIES OF DIRECTORS

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

* Included in the 2019 Target Annual Report.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

EXPLANATION AS TO WHAT EXTENT THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

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

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant relate to the reporting framework (IFRS, FRS 101, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the group operates. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those laws and regulations as disclosed within Risk and Uncertainties of the group's business* including The Pubs Code etc. Regulations 2016, Health & Safety Regulations, General Data Protection Regulation, and Licensing Regulations.

- We understood how Greene King plc is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the group company secretary. We corroborated our enquiries through the attendance at meetings held by the audit and risk committee who receive updates

* Included in the 2019 Target Annual Report.

on such matters from divisional and functional management. As well as enquiry and attendance at meetings, our procedures involved a review of the reporting to the committees and a review of board meetings and other committee minutes to identify any non-compliance with laws and regulations.

- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur, by meeting with management to understand where they considered there was susceptibility to fraud. We also considered performance targets and their propensity to influence management to manage earnings and revenue by overriding internal controls. We considered the controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those controls. Our procedures also included testing a risk-based sample of manual journals that may have been posted with the intention of overriding internal controls to manipulate earnings. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

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

OTHER MATTERS WE ARE REQUIRED TO ADDRESS

- We were re-appointed by the shareholders at the AGM on 7 September 2018 and signed an engagement letter with the company on 28 November 2017 confirming the terms of appointment for the audit of the financial statements for the 52 weeks ended 28 April 2019.

- The period of total uninterrupted engagement including previous renewals and reappointments is 21 years, covering the periods ending 2 May 1998 to 28 April 2019.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company and we remain independent of the group and the company in conducting the audit.

- The audit opinion is consistent with the additional report to the audit and risk committee.

USE OF OUR REPORT

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

Lloyd Brown (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, UK
26 June 2019

Notes:

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

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

C. RECONCILIATION

1. The following is a line-by-line reconciliation (the "Reconciliation") of the group balance sheets of the Target Group as at 30 April 2017, 29 April 2018 and 28 April 2019 and group income statements of the Target Group for the 52 weeks ended 30 April 2017, 29 April 2018 and 28 April 2019 to address the differences, in all material respects, on the Target Group's financial information had it been prepared in accordance with the Group's accounting policies.

2. The process applied in the preparation of this Reconciliation is set out in the "*Basis of Preparation*" and "*Reconciliation Process*" sections below.

(i) Line-by-line reconciliation

	For the 52 weeks ended 30 April 2017				For the 52 weeks ended 29 April 2018						For the 52 weeks ended 28 April 2019			
	Unadjusted Financial Information of the Target Group	**Reclassifications**		**Adjusted Financial Information of the Target Group under the Group's accounting policies (Note 1)**	**Unadjusted Financial Information of the Target Group**	**Adjustments**		**Reclassifications**		**Adjusted Financial Information of the Target Group under the Group's accounting policies (Note 1)**	**Unadjusted Financial Information of the Target Group**	**Reclassifications**		**Adjusted Financial Information of the Target Group under the Group's accounting policies (Note 1)**
	£m	*£m*	*(Note 3)*	*£m*	*£m*	*£m*		*£m*	*(Note 3)*	*£m*	*£m*	*£m*	*(Note 3)*	*£m*
Revenue	2,216.5			2,216.5	2,176.7					2,176.7	2,216.9			2,216.9
Operating costs	(1,870.0)	(139.2)	(i)	(2,009.2)	(1,859.7)			(139.7)	(i)	(1,999.4)	(1,902.2)	(137.6)	(i)	(2,039.8)
Operating profit	346.5			207.3	317.0					177.3	314.7			177.1
Finance income	1.0			1.0	1.0					1.0	1.1			1.1
Finance costs	(162.6)	162.6	(i), (ii)	–	(120.5)			120.5	(i), (ii)	–	(143.0)	143.0	(i), (ii)	–
Gain (loss) on financial instruments	–	(23.4)	(ii)	(23.4)	–			19.2	(ii)	19.2	–	(5.4)	(ii)	(5.4)
Profit before tax	184.9			184.9	197.5					197.5	172.8			172.8
Tax	(33.2)			(33.2)	(35.0)	20.8	(Note 2a)			(14.2)	(52.4)			(52.4)
Profit attributable to equity holder of parent	151.7			151.7	162.5					183.3	120.4			120.4

	As at 30 April 2017						As at 29 April 2018						As at 28 April 2019			
	Unadjusted Financial Information of the Target Group	Adjustments		Reclassifications		Adjusted Financial Information of the Target Group under the Group's accounting policies (Note 1)	Unadjusted Financial Information of the Target Group	Adjustments		Reclassifications		Adjusted Financial Information of the Target Group under the Group's accounting policies (Note 1)	Unadjusted Financial Information of the Target Group	Reclassifications		Adjusted Financial Information of the Target Group under the Group's accounting policies (Note 1)
	£m	*£m*		*£m*	*(Note 4)*	*£m*	*£m*	*£m*		*£m*	*(Note 4)*	*£m*	*£m*	*£m*	*(Note 4)*	*£m*
Non-current assets																
Property, plant and equipment	3,621.9					3,621.9	3,589.2					3,589.2	3,537.0			3,537.0
Intangibles	163.7					163.7	124.7					124.7	112.2			112.2
Goodwill	1,108.8	25.8	(Note 2a)			1,134.6	1,089.7	25.8	(Note 2a)			1,115.5	1,104.7			1,104.7
Financial assets	16.3			(16.3)	(i)	–	13.2			(13.2)	(i)	–	13.4	(13.4)	(i)	–
Loan receivables	–			16.6	(i)	16.6	–			13.5	(i)	13.5	–	13.5	(i)	13.5
Derivative financial instruments	–					–	1.5					1.5	–			–
Deferred tax assets	63.1	(40.2)	(Note 2a)			22.9	29.7	(9.6)	(Note 2a)			20.1	9.5			9.5
Post-employment assets	–	16.8	(Note 2b)			16.8	13.6					13.6	32.4			32.4
Prepayments	0.2			(0.2)	(i)	–	0.2			(0.2)	(i)	–	0.1	(0.1)	(i)	–
Trade and other receivables	0.1			(0.1)	(i)	–	0.1			(0.1)	(i)	–	–			–
	4,974.1					4,976.5	4,861.9					4,878.1	4,809.3			4,809.3
Current assets																
Inventories	45.0					45.0	47.7					47.7	51.1			51.1
Financial assets	10.1			(10.1)	(ii)	–	10.5			(10.5)	(ii)	–	9.0	(9.0)	(ii)	–
Loan receivables	–			10.1	(ii)	10.1	–			10.5	(ii)	10.5	–	9.0	(ii)	9.0
Income tax receivable	–					–	10.2					10.2	–			–
Debtors, prepayments and others	–			120.9	(iii)	120.9	–			113.8	(iii)	113.8	–	122.3	(iii)	122.3
Trade and other receivables	93.3			(93.3)	(iii)	–	87.5			(87.5)	(iii)	–	89.7	(89.7)	(iii)	–
Prepayments	27.6			(27.6)	(iii)	–	26.3			(26.3)	(iii)	–	32.6	(32.6)	(iii)	–
Cash and cash equivalents	443.0					443.0	168.5					168.5	185.3			185.3
	619.0					619.0	350.7					350.7	367.7			367.7
Property, plant and equipment held for sale	5.1					5.1	8.6					8.6	6.4			6.4
	624.1					624.1	359.3					359.3	374.1			374.1
Total assets	5,598.2					5,600.6	5,221.2					5,237.4	5,183.4			5,183.4

	As at 30 April 2017				As at 29 April 2018				As at 28 April 2019		
	Unadjusted Financial Information of the Target Group	Adjustments	Reclassifications	Adjusted Financial Information of the Target Group under the Group's accounting policies (Note 1)	Unadjusted Financial Information of the Target Group	Adjustments	Reclassifications	Adjusted Financial Information of the Target Group under the Group's accounting policies (Note 1)	Unadjusted Financial Information of the Target Group	Reclassifications	Adjusted Financial Information of the Target Group under the Group's accounting policies (Note 1)
	£m	*£m*	*£m* *(Note 4)*	*£m*	*£m*	*£m*	*£m* *(Note 4)*	*£m*	*£m*	*£m* *(Note 4)*	*£m*
Current liabilities											
Borrowings	219.7			219.7	54.6			54.6	66.2		66.2
Derivative financial instruments	30.9			30.9	20.6			20.6	21.7		21.7
Trade and other payables	429.3			429.3	420.0			420.0	408.9		408.9
Off-market contract liabilities	21.3			21.3	17.9			17.9	17.8		17.8
Income tax payable	12.6			12.6	–			–	13.2		13.2
Provisions	26.9			26.9	29.5			29.5	31.3		31.3
	740.7			740.7	542.6			542.6	559.1		559.1
Non-current liabilities											
Borrowings	2,297.8			2,297.8	2,146.2			2,146.2	2,062.4		2,062.4
Derivative financial instruments	313.9			313.9	222.0			222.0	208.3		208.3
Trade and other payables	1.9			1.9	1.8			1.8	1.7		1.7
Off-market contract liabilities	264.1			264.1	228.6			228.6	219.2		219.2
Deferred tax liabilities	9.8	(9.8) (Note 2a)		–	–			–	–		–
Post-employment liabilities	11.2	16.8 (Note 2b)		28.0	–			–	1.3		1.3
Provisions	14.6			14.6	23.1			23.1	23.5		23.5
	2,913.3			2,920.3	2,621.7			2,621.7	2,516.4		2,516.4
Total liabilities	3,654.0			3,661.0	3,164.3			3,164.3	3,075.5		3,075.5
Total net assets	1,944.2			1,939.6	2,056.9			2,073.1	2,107.9		2,107.9
Equity											
Share capital	38.7			38.7	38.7			38.7	38.7		38.7
Share premium	261.7			261.7	262.0			262.0	262.2		262.2
Merger reserve	752.0			752.0	752.0			752.0	752.0		752.0
Capital redemption reserve	3.3			3.3	3.3			3.3	3.3		3.3
Hedging reserve	(192.2)			(192.2)	(158.1)			(158.1)	(161.6)		(161.6)
Own shares	(0.2)			(0.2)	(0.5)			(0.5)	–		–
Retained earnings	1,080.9	(4.6) (Note 2a)		1,076.3	1,159.5	16.2 (Note 2a)		1,175.7	1,213.3		1,213.3
Total equity	1,944.2			1,939.6	2,056.9			2,073.1	2,107.9		2,107.9

Notes:

(1) The accounting policies adopted by the Group for the year ended 31 December 2018 are in accordance with IFRS and the accounting policies adopted by the Target Group for the 52 weeks ended 30 April 2017, 29 April 2018 and 28 April 2019 are in accordance with IFRS EU effective for the relevant periods. For those financial statement line items of the Target Group that have not already been applied to the Group, the Group would adopt accounting policies in accordance with IFRS if such financial statement line items should be included in the Group's consolidated financial statements. There is no difference between IFRS and IFRS EU for those financial statement line items which have not already been applied to the Group.

(2a) As shown in the audited consolidated financial statements of the Target Group for the 52 weeks ended 28 April 2019, the Target Group identified a number of errors within its assessment of deferred tax which date back prior to the earliest prior period presented within the financial statements, that is, for the 52 weeks ended 30 April 2017. Adjustments were made to the related financial statement line items in order to correct the errors in the relevant periods of 52 weeks.

(2b) As shown in the audited consolidated financial statements of the Target Group for the 52 weeks ended 29 April 2018, adjustments were made to the relevant financial statement line items as at 30 April 2017 for grossing up the post-employment assets and post-employment liabilities for separate defined benefit schemes.

(3) Reclassifications are to align the classifications of the respective amounts of financial statement line items as shown on the group income statement of the Target Group to the consolidated income statement of the Group:

(i) the below items from "Finance costs" of the Target Group to "Operating costs" of the Group:

– interest expenses on bank loans and overdrafts;

– interest expenses on other loans;

– settlement of financial liabilities;

– amounts recycled from hedging reserve in respect of settled interest rate liabilities;

– interest in respect of tax positions and adjustments;

– unwinding of discount element of provisions and off-market contract liabilities; and

– net finance cost from pensions.

(ii) from "Finance costs" of the Target Group to "Gain (loss) on financial instruments" of the Group for the fair value movements of derivatives held at fair value through profit and loss and ineffective element of cash flow hedges of the Target Group.

(4) Reclassifications are to align the classifications of the respective amounts of financial statement line items as shown on the group balance sheet of the Target Group to the consolidated statement of financial position of the Group:

(i) from "Financial assets (non-current)", "Prepayments (non-current)" and "Trade and other receivables (non-current)" of the Target Group to "Loan receivables (non-current)" of the Group for trade loans and other insignificant non-current assets of the Target Group;

(ii) from "Financial assets (current)" of the Target Group to "Loan receivables (current)" of the Group for trade loans of the Target Group; and

(iii) from "Prepayments (current)" and "Trade and other receivables (current)" of the Target Group to "Debtors, prepayments and others" of the Group for trade and other receivables and prepayments of the Target Group.

Other than the reclassifications and adjustments set out in the Reconciliation above, there are no material differences between the Target Group's consolidated financial statements for each of the 52 weeks ended 30 April 2017, 29 April 2018 and 28 April 2019, compared to such financial statements had they been prepared in accordance with the accounting policies adopted by the Group which are set out in the published annual report of the Company for the year ended 31 December 2018.

Your attention is drawn to the fact that the work carried out in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" ("HKSAE 3000 (Revised)") is different in scope from an audit or a review conducted in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and consequently, Deloitte Hong Kong did not express an audit opinion nor a review conclusion on the Reconciliation.

(ii) Basis of Preparation

The Reconciliation above for each of the 52 weeks ended 30 April 2017, 29 April 2018 and 28 April 2019 was prepared by restating the "Unadjusted Financial Information of the Target Group", being extracted from the Target Group's reports set out in Appendix IV to this Circular, as if it had been prepared in accordance with the accounting policies adopted by the Group which are set out in the published annual report of the Company for the year ended 31 December 2018.

(iii) Reconciliation Process

The Reconciliation above has been prepared by the directors of the Company by comparing the differences between the accounting policies adopted by the Target Group for each of the 52 weeks ended 30 April 2017, 29 April 2018 and 28 April 2019 respectively on the one hand, and the accounting policies adopted by the Group which are set out in the published annual report of the Company for the year ended 31 December 2018 on the other hand, as appropriate, and quantifying the relevant material financial effects of such differences, if any. Your attention is drawn to the fact that the Reconciliation above has not been subject to an independent audit.

Accordingly, no opinion is expressed by an auditor on whether it presents a true and fair view of the Target Group's financial positions as at 30 April 2017, 29 April 2018 and 28 April 2019, nor its results for the 52 weeks ended 30 April 2017, 29 April 2018 and 28 April 2019 under the accounting policies adopted by the Group which are set out in the published annual report of the Company for the year ended 31 December 2018.

Deloitte Hong Kong was engaged by the Company to conduct work in accordance with HKSAE 3000 (Revised) issued by the HKICPA on the Reconciliation above. The work consisted primarily of:

(i) comparing the "Unadjusted Financial Information of the Target Group" for each of the 52 weeks ended 30 April 2017, 29 April 2018 and 28 April 2019 as set out in the Reconciliation above with the audited consolidated financial statements of the Target Group for each of the 52 weeks ended 30 April 2017, 29 April 2018 and 28 April 2019 prepared in accordance with the Target Group's accounting policies as set out in Appendix IV to this circular, as appropriate;

(ii) assessing the accounting treatments according to the Target Group's accounting policies and the Group's accounting policies and evaluating the different accounting treatments identified by the directors of the Company;

(iii) considering the adjustments made and evidence supporting the adjustments made in arriving at the "Adjusted Financial Information of the Target Group under the Group's accounting policies" as set out above in the Reconciliation; and

(iv) checking the arithmetic accuracy of the computation in the Reconciliation above.

Deloitte Hong Kong's engagement did not involve independent examination of any of the consolidated underlying financial information of the Target Group. The work carried out in accordance with HKSAE 3000 (Revised) is different in scope from an audit or a review conducted in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA and consequently, Deloitte Hong Kong did not express an audit opinion nor a review conclusion on the Reconciliation.

Deloitte Hong Kong's engagement was intended solely for the use of the directors of the Company in connection with this Circular and may not be suitable for another purpose. Based on the work performed, Deloitte Hong Kong has concluded that:

(i) the "Unadjusted Financial Information of the Target Group" for each of the 52 weeks ended 30 April 2017, 29 April 2018 and 28 April 2019 as set out in the Reconciliation above is in agreement with the audited consolidated financial statements of the Target Group for each of the 52 weeks ended 30 April 2017, 29 April 2018 and 28 April 2019 prepared in accordance with the Target Group's accounting policies as set out in Appendix IV to this circular, as appropriate;

(ii) the adjustments made in the Reconciliation in arriving at the "Adjusted Financial Information of the Target Group under the Group's accounting policies" as set out in the Reconciliation above reflect, in all material respects, the differences in accounting treatments according to the Target Group's accounting policies and the Group's accounting policies; and

(iii) the computation of the Reconciliation above is arithmetically accurate.

D. SUPPLEMENTAL FINANCIAL INFORMATION OF THE TARGET GROUP

1. The Company sets out the following supplemental financial information of the Target Group, which was not included in Target's audited consolidated financial statements for the 52 weeks ended 30 April 2017, 29 April 2018 and 28 April 2019.

TRADE PAYABLES

Ageing analysis of trade payables

The following is an ageing analysis of trade payables presented based on invoice due date:

	52 weeks ended		
	30 April 2017	**29 April 2018**	**28 April 2019**
	£m	*£m*	*£m*
0-30 days	107	114	109
31-60 days	1	4	–
61-90 days	–	1	–
Over 90 days	2	2	1
	110	121	110

The average credit period on purchases of goods was 60 days.

2. The Company sets out the following supplemental information of the Target Group, which was not included in the management discussions and analysis of the results of the Target Group for the 52 weeks ended on each of 30 April 2017, 29 April 2018 and 28 April 2019 from the 2017 Target Annual Report, 2018 Target Annual Report and 2019 Target Annual Report respectively.

   (a) *Number and remuneration of employees, remuneration policies, bonus and share options schemes and training schemes*

   For the 52 weeks ended on each of 30 April 2017, 29 April 2018 and 28 April 2019, the Target Group (including its subsidiaries) employed, respectively, an average number of 42,479, 39,168 and 38,894 employees, in each case including part-time employees, and remuneration for the period amounted to, respectively, approximately £595.8 million, £587.2 million and £585.9 million.

   It is the Target Group'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. Career development plans are in place to retain key employees, whilst remuneration packages are benchmarked to ensure that they remain competitive.

   In addition to salary, all employees, including executive directors, have the opportunity to build their shareholding in a tax-efficient way by participating in the Target Group's HMRC approved sharesave scheme, allowing employees to buy Target shares on a discounted basis. Executive directors are also entitled to additional remuneration, including annual performance bonus and participation in the Target Group's long term incentive plan, subject to the directors' remuneration policy of the Target Group as approved by the Target Shareholders approved at the 2017 annual general meeting of Target.

   In each of the 52 weeks ended 29 April 2018 and 28 April 2019, the Target Group spent over £3 million in learning, training and development, focusing particularly on its digital training platform, TAP. Over 300,000 training hours were spent on TAP in the 52 weeks ended 28 April 2019 with over 100,000 courses completed. The Target Group invested in enhanced staff benefits, including launching a Friends and Family discount scheme, and launching Shine, a programme developed to equip its employees with better work-life balance management skills.

(b) *Gearing ratio*

The following table sets forth the Target Group's net debt, total equity and gearing ratio for the 52 weeks ended on each of 30 April 2017, 29 April 2018 and 28 April 2019:

		52 weeks ended		
		30 April 2017	**29 April 2018**	**28 April 2019**
Net debt	*£ million*	2,074.5	2,032.3	1,943.3
Total equity	*£ million*	1,944.2	2,056.9	2,107.9
Gearing ratio	*%*	106.7	98.8	92.2

See "E. Management Discussion and Analysis of the Target Group" below for further details about the Target Group's credit metrics.

(c) *Exposure to fluctuations in exchange rates and related hedges*

The Target Group's activities are predominantly domestic, and the Target Group did not have material exposure to fluctuations in exchange rates and did not enter into material related hedges for the 52 weeks ended on each of 30 April 2017, 29 April 2018 and 28 April 2019.

(d) *Contingent liabilities*

As at each of 30 April 2017, 29 April 2018 and 28 April 2019, the Target Group did not have material contingent liabilities and guarantees on a group consolidated basis.

3. It is stated in the Scheme Document that, following the restatement of historic deferred tax balances, details of which are set out in Notes 1&10 to the published accounts for the 52 weeks ended 28 April 2019, Greene King continues to review its deferred tax position which could result in subsequent financial statements being adjusted for items relating to prior years.

E. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

1. The following is an extract of the management discussion and analysis of the results of the Target Group for the 52 weeks ended 30 April 2017 from the 2017 annual report of Target.

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.

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).

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

2. The following is an extract of the management discussion and analysis of the results of the Target Group for the 52 weeks ended 29 April 2018 from the 2018 annual report of Target.

Income statement

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

1. Adjusted measures exclude the impact of exceptional and non-underlying items.

2. An explanation of the group's use of alternative performance measures (APMs), including definitions and reconciliations, is included in the glossary*.

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

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

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

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

* Included in the 2018 Target Annual Report.

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

Tax

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

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

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

Exceptional and non-underlying items

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

1. A £5.6m charge for legal, professional and integration costs following the Spirit acquisition and in relation to group refinancing activities and defending uncertain tax positions.

2. A net impairment charge of £70.4m (2017: £58.6m). Of this total, a net £63.3m charge was made against the carrying value of pubs and other assets.

3. A net surplus on disposal of property, plant and equipment of £19.7m (2017: £3.4m).

4. The £10.6m credit for exceptional and non-underlying finance costs includes a £19.2m gain in respect of the mark-to-market movements in the fair value of interest rate swaps not qualifying for hedge accounting, £11.6m of costs recycled from the hedging reserve in respect of settled interest rate swap liabilities and a £3.0m gain on the settlement of financial liabilities.

5. The exceptional and non-underlying tax credit of £13.6m consists of a £0.2m tax charge on exceptional items, a £2.9m tax credit on non-underlying items, a £3.1m tax charge in respect of prior periods and a £14.0m tax credit in respect of the licensed estate.

Cash flow and capital structure

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

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

2. Adjusted measures exclude the impact of exceptional and non-underlying items.

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

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

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

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

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

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

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

In line with our strategic priorities, the group's objective is to maximise the strength and flexibility of its balance sheet, and maintain a capital structure aimed at meeting the short, medium and longer-term funding requirements of the business. The principal elements of the group's capital structure are its revolving credit facilities that were £277m drawn at the year end and two long-term asset-backed financing vehicles.

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

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

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

Balance sheet

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

Pensions

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

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

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

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

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

Return on capital employed

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

Dividend

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

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

Richard Smothers
Chief financial officer
27 June 2018

3. The following is an extract of the management discussion and analysis of the results of the Target Group for the 52 weeks ended 28 April 2019 from the 2019 annual report of Target.

INCOME STATEMENT

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

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

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

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

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

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

Pub Company operating margin (%)

F18 reported margin	15.2
Underlying trading	0.5
Investment	0.0
Estate optimisation	0.2
Inflation	-2.2
Mitigation	1.5
F19 reported margin	15.2

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

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

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

TAX

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

The group generates revenue, profits and employment that deliver substantial tax revenues for the UK government in the form of VAT, duties, income tax and corporation tax. In the year, total tax revenues paid and collected by the group were £550m (2018: £580m). The group's tax policy, which has been approved by the board, has the objective of ensuring that the group fulfils its obligations as a responsible UK taxpayer.

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

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

EXCEPTIONAL AND NON-UNDERLYING ITEMS

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

1. A £6.2m charge for employee related costs, which included one off additional defined contribution pensions payments as well as a material restructuring cost associated with changes to management. A further £0.4m of legal and professional fees were incurred in relation to group refinancing activities and defending uncertain tax positions.

2. A net impairment charge of £56.7m (2018: £70.4m). Of this total, a net £55.0m charge was made against the carrying value of property, plant and equipment.

3. A net profit on disposal of property plant and equipment of £17.0m (2018: £33.0m).

4. A past service cost of £4.9m, across both the Greene King and Spirit pension schemes, for guaranteed minimum pension equalisation following the High Court judgment on this issue in relation to the Lloyds Banking Group's defined benefit pension scheme.

5. The £20.6m charge (2018: £10.6m credit) for exceptional and non-underlying finance costs included a £5.4m loss (2018: £19.2m gain) in respect of the mark-to-market movements in the fair value of interest rate swaps not qualifying for hedge accounting, £10.7m costs (2018: £11.6m) recycled from the hedging reserve in respect of settled interest rate swap liabilities and a £4.1m loss (2018: £3.0m profit) on the settlement of financial liabilities.

6. The exceptional and non-underlying tax charge of £5.3m consisted of a £9.2m tax charge in respect of prior years, a £4.1m tax charge in respect of the uncertain tax provision explained above, a £0.9m charge in respect of deferred tax rate changes, a £5.5m credit in respect of non-underlying items and a £3.4m credit in respect of other exceptional items.

CASH FLOW AND CAPITAL STRUCTURE

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

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

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

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

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

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

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

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

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

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

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

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

In line with our strategic priorities, the group's objective is to maximise the strength and flexibility of its balance sheet, and to maintain a capital structure which meets the short, medium and long-term funding requirements of the business. The principal elements of the group's capital structure are its £750m revolving credit facilities, which were £192m drawn at the year end, and two long-term asset-backed financing vehicles.

At the year end the Greene King securitisation had secured bonds with a group carrying value of £1,537.5m (2018: £1,343.5m) and an average life of nine years (2018: ten years), secured against 1,539 pubs (2018: 1,429 pubs) with a group carrying value of £2.0bn (2018: £1.3bn). The Spirit debenture had secured bonds with a carrying value of £379.5m (2018: £563.6m) and an average life of eight years (2018: nine years), secured against 695 pubs (2018: 872 pubs) with a group carrying value of £0.8bn (2018: £1.0bn).

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

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

BALANCE SHEET

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

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

PENSIONS

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

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

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

Total cash contributions in the year were £3.3m.

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

RETURN ON CAPITAL EMPLOYED

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

DIVIDEND

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

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

IFRS 16

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

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

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

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

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

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

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

Richard Smothers
Chief financial officer
26 June 2019

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") presented below is prepared to illustrate the financial effect on the financial position of the Group as if the Acquisition had been completed on 30 June 2019.

The Unaudited Pro Forma Financial Information has been prepared by the Directors of the Company for illustrative purposes only and because of its hypothetical nature, it may not purport to present the true picture of the financial effect on the financial position of the Group upon the completion of the Acquisition as at 30 June 2019 or at any future dates.

The Unaudited Pro Forma Financial Information has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Acquisition as if the Acquisition had been completed on 30 June 2019.

The Unaudited Pro Forma Financial Information is prepared based on the unaudited consolidated statement of financial position of the Group as at 30 June 2019 as extracted from the published interim report of the Group for the six months ended 30 June 2019 and the audited group balance sheet of the Target Group as at 28 April 2019 as extracted from the Target Group's reports set out in Appendix IV to this circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the Acquisition and (ii) factually supportable, as if the Acquisition had been completed on 30 June 2019.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular.

2. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

The completion of the Acquisition and the Target Group as a wholly owned subsidiary of the Group

	The Group as at 30 June 2019	The Target Group as at 28 April 2019	The Target Group as at 28 April 2019	Reclassifications		IFRS 16 Adjustments for the Target Group		Other Adjustments		Unaudited pro forma combined statement of assets and liabilities of the Enlarged Group
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*		*(Note 5)*	*(Note 3)*			
	HK$ Million	*£ Million*	*HK$ Million*	*HK$ Million*		*£ Million*	*HK$ Million*	*HK$ Million*		*HK$ Million*
Non-current assets										
Fixed assets	39,872	3,537.0	35,087					3,671	(Note 9)	78,630
Investment properties	123,772	–	–					(3,671)	(Note 9)	120,101
Right-of-use assets						900	8,928	(2,932)	(Note 9)	5,996
Goodwill	–	1,104.7	10,959					3,200	(Note 6)	14,159
Intangibles	–	112.2	1,113			(102)	(1,012)			101
Joint ventures	59,394	–	–							59,394
Associates	7,205	–	–							7,205
Investments	19,087	–	–					(172)	(Note 6)	18,915
Loan receivables	3,789	–	–	134	(i)					3,923
Financial assets	–	13.4	133	(133)	(i)					–
Prepayments	–	0.1	1	(1)	(i)					–
Derivative financial instruments	3,233	–	–							3,233
Deferred tax assets	2,691	9.5	94			15	149			2,934
Post-employment assets	–	32.4	321							321
	259,043	4,809.3	47,708	–		813	8,065	96		314,912
Current assets										
Inventories	–	51.1	507							507
Properties for sale	142,806	–	–							142,806
Financial assets	–	9.0	89	(89)	(ii)					–
Debtors, prepayments and others	5,192	–	–	1,213	(iii)	(11)	(109)			6,296
Trade and other receivables	–	89.7	890	(890)	(iii)					–
Prepayments	–	32.6	323	(323)	(iii)					–
Loan receivables	10,129	–	–	89	(ii)					10,218
Bank balances and deposits	59,402	185.3	1,838					(25,389)	(Note 8)	35,851
	217,529	367.7	3,647	–		(11)	(109)	(25,389)		195,678
Property, plant and equipment held for sale	–	6.4	63	–		–	–	–		63
	217,529	374.1	3,710	–		(11)	(109)	(25,389)		195,741

	The Group as at 30 June 2019	The Target Group as at 28 April 2019	The Target Group as at 28 April 2019	Reclassifications	IFRS 16 Adjustments for the Target Group		Other Adjustments		Unaudited pro forma combined statement of assets and liabilities of the Enlarged Group
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 3)*			
	HK$ Million	*£ Million*	*HK$ Million*	*HK$ Million*	*£ Million*	*HK$ Million*	*HK$ Million*		*HK$ Million*
Current liabilities									
Bank and other loans	3,720	66.2	657						4,377
Creditors, accruals and others	16,837	408.9	4,056		(5)	(50)			20,843
Customers' deposits received	32,985	–	–						32,985
Lease liabilities	–	–	–		35	348	(49)	(Note 9)	299
Off-market contract liabilities	–	17.8	177		(18)	(177)			–
Derivative financial instruments	–	21.7	215						215
Provisions	–	31.3	310		(3)	(30)			280
Provision for taxation	2,948	13.2	131						3,079
	56,490	559.1	5,546	–	9	91	(49)		62,078
Net current assets (liabilities)	161,039	(185.0)	(1,836)	–	(20)	(200)	(25,340)		133,663
Non-current liabilities									
Bank and other loans	57,443	2,062.4	20,459						77,902
Creditors, accruals and others	–	1.7	17						17
Lease liabilities	–	–	–		1,100	10,912	(4,538)	(Note 9)	6,374
Deferred tax liabilities	11,969	–	–						11,969
Off-market contract liabilities	–	219.2	2,174		(219)	(2,174)			–
Derivative financial instruments	304	208.3	2,066						2,370
Provisions	–	23.5	233		(18)	(179)			54
Pension obligations	173	1.3	13						186
	69,889	2,516.4	24,962	–	863	8,559	(4,538)		98,872
Net assets	350,193	2,107.9	20,910	–	(70)	(694)	(20,706)		349,703

Notes:

(1) The balances have been extracted from the unaudited consolidated statement of financial position of the Group as at 30 June 2019 contained in the published interim report of the Group for the six months ended 30 June 2019.

(2) The balances have been extracted from the audited group balance sheet of the Target Group as at 28 April 2019 contained in the Target Group's reports set out in Appendix IV to this Circular.

(3) GBP are translated into HK$ at the rate of GBP1: HK$9.92 as at 30 June 2019.

(4) Reclassifications are to align the classifications of the respective amounts of financial statement line items as shown on the group balance sheet of the Target Group to those of the consolidated statement of financial position of the Group:

(i) from "Financial assets (non-current)" and "Prepayments (non-current)" of the Target Group to "Loan receivables (non-current)" of the Group for trade loans and other insignificant non-current assets of the Target Group;

(ii) from "Financial assets (current)" of the Target Group to "Loan receivables (current)" of the Group for trade loans of the Target Group; and

(iii) from "Prepayments (current)" and "Trade and other receivables (current)" of the Target Group to "Debtors, prepayments and others" of the Group for prepayments and trade and other receivables of the Target Group.

(5) The adjustments show the estimated effect of adopting IFRS 16 "Leases" of the Target Group. The adjustments are extracted from the notes to the audited consolidated financial statements of the Target Group for the 52 weeks ended 28 April 2019 contained in the Target Group's reports set out in Appendix IV to this Circular.

(6) The goodwill of the Target Group is not recognised as it is not considered as identifiable assets acquired in accordance with IFRS 3 "Business Combinations".

The total consideration (the "Total Consideration") for the Acquisition is based on (i) the carrying amount of HK$172 million as at 30 June 2019 in relation to the 0.9% shares of the Target already acquired by the Group on or before 30 June 2019; (ii) the amount paid for acquisition of the 2% shares of the Target after 30 June 2019; and (iii) consideration for the remaining 97.1% shares of the Target to be acquired by the Group upon completion of the Acquisition.

The excess of the Total Consideration over the carrying amount of net assets of the Target Group, after adjusting the effect of IFRS 16 and the elimination as mentioned in Note (9) below, amounting to approximately HK$14,159 million as at 30 June 2019 is recognised as goodwill for illustrative purposes. Estimated transaction costs and stamp duty are accounted for as expenses.

(7) Pursuant to IFRS 3, the fair values of identifiable assets acquired and liabilities assumed of the Target Group at the date of completion of the Acquisition shall be recognised and any excess of the Total Consideration over the fair values of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3 of the Target Group shall be recognised as goodwill. As the fair values of the identifiable net assets of the Target Group may be different from the carrying values of the net assets of the Target Group as at 30 June 2019, actual excess of the Total Consideration over the fair values of the identifiable net assets of the Target Group and the final amounts of assets and liabilities of the Target Group recognised may be different from the amounts above.

(8) The items (ii) and (iii) of the Total Consideration as aforementioned in Note (6) above and estimated transaction costs and stamp duty are assumed to be satisfied by bank balances and deposits of the Group for illustrative purposes.

(9) The adjustments show the effect of elimination for leasing of pubs by the Group to the Target Group had the Target Group become a subsidiary of the Group and reclassification of the relevant pubs from "Investment properties" to "Fixed assets" of the Group had the pubs been used by the Enlarged Group.

The following is the text of a report received from Deloitte Hong Kong, Certified Public Accountants, Hong Kong, for inclusion in this circular, in respect of the unaudited pro forma financial information of the Enlarged Group.

3. REPORT FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

To the Directors of CK Asset Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of CK Asset Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 June 2019 and related notes as set out on pages V-2 to V-4 of Appendix V of the circular issued by the Company dated 17 September 2019 (the "**Circular**"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on page V-1 of Appendix V of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed recommended cash acquisition by CK Noble (UK) Limited of the entire issued and to be issued share capital of Greene King plc which is listed on the London Stock Exchange (the "**Acquisition**") on the Group's financial position as at 30 June 2019 as if the Acquisition had taken place at 30 June 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the period ended 30 June 2019, on which no auditor's report or review report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and

- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 17 September 2019 (Hong Kong time)

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. INTERESTS OF DIRECTORS

2.1 Interests in shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors adopted by the Company (the "**Model Code**") to be notified to the Company and the Hong Kong Stock Exchange, were as follows:

Long Position in Shares

(i) The Company

		Number of Ordinary Shares					
Name of Director	Capacity	Personal Interest	Family Interest	Corporate Interest	Other Interest	Total	Approximate % of Shareholding
Li Tzar Kuoi, Victor	Beneficial owner, interest of child or spouse, interest of controlled corporations & beneficiary of trusts	220,000	405,200	95,061,850 *(Note 1)*	1,160,195,710 *(Note 2)*	1,255,882,760	34.00%
Kam Hing Lam	Beneficial owner & interest of child or spouse	51,040	57,360	–	–	108,400	0.0029%
Chow Nin Mow, Albert	Beneficial owner	66	–	–	–	66	≃ 0%
Hung Siu-lin, Katherine	Beneficial owner	43,256	–	–	–	43,256	0.0012%
Donald Jeffrey Roberts	Beneficial owner	167,396	–	–	–	167,396	0.0045%

(ii) Associated Corporations

			Number of Ordinary Shares					
Name of Company	**Name of Director**	**Capacity**	**Personal Interest**	**Family Interest**	**Corporate Interest**	**Other Interest**	**Total**	**Approximate % of Shareholding**
Precise Result Global Limited	Li Tzar Kuoi, Victor	Beneficiary of trusts	–	–	–	15 *(Note 3)*	15	15%
Jabrin Limited	Li Tzar Kuoi, Victor	Beneficiary of trusts	–	–	–	2,000 *(Note 3)*	2,000	20%
Mightycity Company Limited	Li Tzar Kuoi, Victor	Beneficiary of trusts	–	–	–	168,375 *(Note 3)*	168,375	1.53%

Notes:

(1) The 95,061,850 shares of the Company comprise:

(a) 35,728,850 shares held by certain companies of which Mr. Li Tzar Kuoi, Victor is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings.

(b) 39,113,000 shares held by Li Ka Shing Foundation Limited ("LKSF"). By virtue of the terms of the constituent documents of LKSF, Mr. Li Tzar Kuoi, Victor may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at general meetings of LKSF.

(c) 20,220,000 shares held by a wholly-owned subsidiary of Li Ka Shing (Overseas) Foundation ("LKSOF"). By virtue of the terms of the constituent documents of LKSOF, Mr. Li Tzar Kuoi, Victor may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at general meetings of LKSOF.

(2) The 1,160,195,710 shares of the Company comprise:

(a) 1,003,380,744 shares of the Company held by Li Ka-Shing Unity Trustee Company Limited ("TUT1") as trustee of The Li Ka-Shing Unity Trust ("UT1") and its related companies in which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings ("TUT1 related companies"). Mr. Li Ka-shing is the settlor of each of The Li Ka-Shing Unity Discretionary Trust ("DT1") and another discretionary trust ("DT2"). Each of Li Ka-Shing Unity Trustee Corporation Limited ("TDT1", which is the trustee of DT1) and Li Ka-Shing Unity Trustcorp Limited ("TDT2", which is the trustee of DT2) holds units in UT1 but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust. The discretionary beneficiaries of each of DT1 and DT2 are, inter alia, Mr. Li Tzar Kuoi, Victor, his wife and children, and Mr. Li Tzar Kai, Richard.

The entire issued share capital of TUT1, TDT1 and TDT2 are owned by Li Ka-Shing Unity Holdings Limited ("Unity Holdco"). Mr. Li Ka-shing and Mr. Li Tzar Kuoi, Victor are respectively interested in one-third and two-thirds of the entire issued share capital of Unity Holdco. TUT1 is only interested in the shares of the Company by reason only of its obligation and power to hold interests in those shares in its ordinary course of business as trustee and, when performing its functions as trustee, exercises its power to hold interests in the shares of the Company independently without any reference to Unity Holdco or any of Mr. Li Ka-shing and Mr. Li Tzar Kuoi, Victor as a holder of the shares of Unity Holdco as aforesaid.

As Mr. Li Tzar Kuoi, Victor is a discretionary beneficiary of each of DT1 and DT2, and by virtue of the above, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the said shares of the Company held by TUT1 as trustee of UT1 and TUT1 related companies under the SFO as a Director of the Company.

(b) 72,387,720 shares of the Company held by Li Ka-Shing Castle Trustee Company Limited ("TUT3") as trustee of The Li Ka-Shing Castle Trust ("UT3") and its related companies in which TUT3 as trustee of UT3 is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings ("TUT3 related companies"). Mr. Li Ka-shing is the settlor of each of the two discretionary trusts ("DT3" and "DT4"). Each of Li Ka-Shing Castle Trustee Corporation Limited ("TDT3", which is the trustee of DT3) and Li Ka-Shing Castle Trustcorp Limited ("TDT4", which is the trustee of DT4) holds units in UT3 but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust. The discretionary beneficiaries of each of DT3 and DT4 are, inter alia, Mr. Li Tzar Kuoi, Victor, his wife and children, and Mr. Li Tzar Kai, Richard.

The entire issued share capital of TUT3, TDT3 and TDT4 are owned by Li Ka-Shing Castle Holdings Limited ("Castle Holdco"). Mr. Li Ka-shing and Mr. Li Tzar Kuoi, Victor are respectively interested in one-third and two-thirds of the entire issued share capital of Castle Holdco. TUT3 is only interested in the shares of the Company by reason only of its obligation and power to hold interests in those shares in its ordinary course of business as trustee and, when performing its functions as trustee, exercises its power to hold interests in the shares of the Company independently without any reference to Castle Holdco or any of Mr. Li Ka-shing and Mr. Li Tzar Kuoi, Victor as a holder of the shares of Castle Holdco as aforesaid.

As Mr. Li Tzar Kuoi, Victor is a discretionary beneficiary of each of DT3 and DT4, and by virtue of the above, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the said shares of the Company held by TUT3 as trustee of UT3 and TUT3 related companies under the SFO as a Director of the Company.

(c) 84,427,246 shares of the Company held by a company controlled by TDT3 as trustee of DT3.

(3) These companies are subsidiaries of the Company and such shares are held through TUT1 as trustee of UT1. By virtue of Mr. Li Tzar Kuoi, Victor's deemed interests as described in Note (2)(a) above, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to such shares under the SFO as a Director of the Company.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

2.2 Interests in assets, contracts or arrangements of the Group

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group or the Target Group since 31 December 2018, being the date to which the latest published audited accounts of the Group were made up.

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any of the Directors was materially interested and which was significant in relation to the businesses of the Group or of the Target Group taken as a whole.

2.3 Competing Businesses

2.3.1 Principal Business Activities of the Group

The principal business activities of the Group comprise the following:

(1) property development and investment;

(2) hotel and serviced suite operation;

(3) property and project management;

(4) interests in Real Estate Investment Trusts;

(5) ownership and leasing of movable assets; and

(6) investment in infrastructure and utility asset operation.

2.3.2 Interests in Competing Businesses

As at the Latest Practicable Date, the interests of Directors in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group (the "**Competing Businesses**"), as required to be disclosed pursuant to the Listing Rules, were as follows:

Name of Director	Name of Company	Nature of Interest	Competing Businesses *(Note)*
Victor T K Li	CK Hutchison Holdings Limited	Chairman and Group Co-Managing Director	(5) & (6)
	CK Infrastructure Holdings Limited	Chairman	(5) & (6)
	CK Life Sciences Int'l., (Holdings) Inc.	Chairman	(1)
	HK Electric Investments and HK Electric Investments Limited	Non-executive Director and Deputy Chairman	(6)
	Husky Energy Inc.	Co-Chairman	(6)
	Power Assets Holdings Limited	Non-executive Director	(6)
Kam Hing Lam	CK Hutchison Holdings Limited	Deputy Managing Director	(5) & (6)
	CK Infrastructure Holdings Limited	Group Managing Director	(5) & (6)
	CK Life Sciences Int'l., (Holdings) Inc.	President and Chief Executive Officer	(1)
	Hui Xian Asset Management Limited	Chairman	(1), (2), (3) & (4)
Ip Tak Chuen, Edmond	ARA Asset Management Holdings Pte. Ltd.	Director	(3) & (4)
	CK Hutchison Holdings Limited	Deputy Managing Director	(5) & (6)
	CK Infrastructure Holdings Limited	Deputy Chairman	(5) & (6)
	CK Life Sciences Int'l., (Holdings) Inc.	Senior Vice President and Chief Investment Officer	(1)
	Hui Xian Asset Management Limited	Non-executive Director	(1), (2), (3) & (4)
Chiu Kwok Hung, Justin	ARA Asset Management Holdings Pte. Ltd.	Director	(3) & (4)
	ARA Asset Management (Fortune) Limited	Non-executive Director	(3) & (4)
	ARA Asset Management (Prosperity) Limited	Chairman	(3) & (4)
Chow Wai Kam, Raymond	AVIC International Holding (HK) Limited	Non-executive Director	(1)

Note: Such businesses may be conducted through subsidiaries, associated companies or by way of other form of investments. Please refer to "*2.3.1 Principal Business Activities of the Group*" above for the types of the Competing Businesses.

As at the Latest Practicable Date, save as disclosed above, none of the Directors or their respective close associates (as if each of them was treated as a controlling shareholder under Rule 8.10 of the Listing Rules) had any interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

2.4 Common directors

As at the Latest Practicable Date, the following Directors are also directors of certain companies which have an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (the "**Relevant Companies**"):

Name of Director	Relevant Companies in which the Director is also a director
Li Tzar Kuoi, Victor	Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust
	Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust
	Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust
Pau Yee Wan, Ezra	Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust
	Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust
	Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust

3. DIRECTORS' SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group and/or the Target Group (excluding contracts expiring or determinable by the relevant member of the Group and/or the Target Group within one year without payment of compensation (other than statutory compensation)).

4. MATERIAL CONTRACTS

Save for the Cooperation Agreement, there are no material contracts (not being a contract entered into in the ordinary course of business) have been entered into by members of the Group and/or of the Target Group within the two years immediately preceding the Latest Practicable Date.

5. MATERIAL LITIGATION

As at the Latest Practicable Date, no members of the Group or the Target Group were engaged in any litigation of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group or the Target Group.

6. EXPERTS

6.1 Qualification of experts

The following are the names and qualification of the experts who have given its opinion or advice which are contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants, Hong Kong
Christie & Co	Property valuer
Colliers International Property Advisors UK LLP	Property valuer

6.2 Interests of experts

As at the Latest Practicable Date, none of Deloitte Touche Tohmatsu, Christie & Co or Colliers International Property Advisors UK LLP (collectively, the "**Experts**") was interested in any securities of any member of the Group or of the Target Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group or of the Target Group, and none of the Experts had any direct or indirect interest in any assets which had been, since 31 December 2018 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by, or leased to, or were proposed to be acquired or disposed of by, or leased to, any member of the Group or of the Target Group.

7. CONSENTS

Each of Deloitte Touche Tohmatsu, Christie & Co and Colliers International Property Advisors UK LLP has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or references to its name in the form and context in which they respectively appear in this circular.

8. MISCELLANEOUS

(i) The registered office of the Company is situated at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and the principal place of business of the Company in Hong Kong is situated at 7th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

(ii) The Company's Hong Kong share registrar and transfer office is Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(iii) The Company's principal share registrar and transfer office is Maples Fund Services (Cayman) Limited, PO Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102, Cayman Islands.

(iv) The company secretary of the Company is Ms. Eirene Yeung. Ms. Eirene Yeung is a solicitor of the High Court of the Hong Kong Special Administrative Region and a non-practising solicitor of the Senior Courts of England and Wales. Ms. Eirene Yeung is also a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators.

(v) The English text of this circular shall prevail over the Chinese text in the event of any inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Clifford Chance at 27th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours from 9:00 a.m. (Hong Kong time) to 5:00 p.m. (Hong Kong time) on any weekday, except Saturdays, Sundays and public holidays, during the period of 14 days from the date of this circular:

(i) the amended and restated Memorandum and Articles of Association of the Company;

(ii) the Confidentiality Agreement entered into between the Company and the Target dated 17 July 2019;

(iii) the Cooperation Agreement;

(iv) the letter from the Board, the text of which is set out in the Letter from the Board;

(v) the annual reports of the Company for each of the financial years ended 31 December 2016, 2017 and 2018;

(vi) the interim report of the Company for the six months ended 30 June 2019;

(vii) the audited financial information of the Target Group for each of the 52 weeks ended 30 April 2017, 29 April 2018 and 28 April 2019 prepared in accordance with IFRS EU, as set out in Appendix IV to this circular;

(viii) the report from Deloitte Touche Tohmatsu in relation to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to this circular;

(ix) the reports from Christie and Colliers in relation to the valuation of certain properties of the Target Group dated 16 September 2019;

(x) the written consents referred to in the section headed "*7. Consents*" in this Appendix; and

(xi) this circular.

CK ASSET HOLDINGS LIMITED
長江實業集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1113)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of CK Asset Holdings Limited (the "**Company**") will be held at the Grand Ballroom, 1st Floor, Harbour Grand Hong Kong, 23 Oil Street, North Point, Hong Kong on **Wednesday, 9 October 2019** at 11:00 a.m. (Hong Kong time) (or, in the event that a black rainstorm warning signal or tropical cyclone warning signal no. 8 or above is in force in Hong Kong at 9:00 a.m. (Hong Kong time) on that day, at the same time and place on Thursday, 10 October 2019 (Hong Kong time)) for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) the major transaction that is contemplated by the Company proceeding with the Acquisition, through CK Noble (UK) Limited, its wholly-owned subsidiary:

(i) by means of a scheme of arrangement under the Companies Act on the terms and conditions of the Acquisition agreed pursuant to the Cooperation Agreement and on the terms and conditions contained in the Scheme Document (each such terms and expressions as defined in the circular of the Company dated 17 September 2019 (the "**Circular**") of which the notice convening this meeting forms part, a copy of the Circular marked "**A**" together with a copy of the Cooperation Agreement marked "**B**" and a copy of the Scheme Document marked "**C**" having been tabled before the Meeting and initialled by the Chairman of the Meeting for the purpose of identification); or

(ii) by means of a Takeover Offer, if the Company and CK Noble (UK) Limited elect to implement the Acquisition by means thereof, pursuant to the terms and conditions thereof set out in the Cooperation Agreement; or

(iii) in any other manner through which the entire issued or to be issued share capital of Greene King plc will be acquired by CK Noble (UK) Limited,

be and is hereby approved; and

(b) the directors of the Company, acting collectively and individually, be and are hereby authorised to take all such steps, do all such acts and things and to sign, execute, seal (where required) and deliver all such documents which he/she may in his/her absolute discretion, consider necessary, appropriate, desirable or expedient in connection with or to implement or give effect to the above resolution and all of the transactions contemplated thereunder."

By Order of the Board

Eirene YEUNG
Executive Committee Member
& Company Secretary

Hong Kong, 17 September 2019

Notes:

1. Unless otherwise defined in this notice or the context requires otherwise, terms defined in the Circular shall have the same meanings when used in this notice.

2. At the Meeting, the Chairman of the Meeting will put the above resolution to be voted by way of a poll under Article 81 of the Company's Amended and Restated Articles of Association.

3. Any member entitled to attend and vote at the Meeting is entitled to appoint more than one proxy in accordance with the relevant provisions of the Amended and Restated Articles of Association of the Company to attend and on a poll, vote in his/her stead. A proxy need not be a member of the Company.

4. To be valid, the proxy form together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority must be deposited at the Company's principal place of business in Hong Kong at 7th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong not less than 48 hours before the time appointed for the holding of the Meeting or any adjournment thereof (as the case may be).

5. Completion and return of the proxy form will not preclude a member from attending and voting in person at the Meeting or any adjournment thereof (as the case may be) should the member so desire and, in such event, the proxy form shall be deemed to be revoked.

6. For the purpose of determining the entitlement to attend and vote at the Meeting, the Register of Members of the Company will be closed from Thursday, 3 October 2019 (Hong Kong time) to Wednesday, 9 October 2019 (Hong Kong time) (or Thursday, 10 October 2019 (Hong Kong time) in the event that the Meeting is to be held on Thursday, 10 October 2019 (Hong Kong time) because of a black rainstorm warning signal or tropical cyclone warning signal no.8 or above is in force in Hong Kong (as detailed in note 7 below)), both days inclusive, during which period no transfer of Shares will be effected. In order to be entitled to attend and vote at the Meeting, all share certificates with completed transfer forms, either overleaf or separately, must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. (Hong Kong time) on Wednesday, 2 October 2019.

7. The Meeting will be held at the Grand Ballroom, 1st Floor, Harbour Grand Hong Kong, 23 Oil Street, North Point, Hong Kong on Wednesday, 9 October 2019 at 11:00 a.m. (Hong Kong time) as scheduled regardless of whether or not an amber or red rainstorm warning signal or a tropical cyclone warning signal no. 3 or below is in force in Hong Kong at any time on that day.

   However, if a black rainstorm warning signal or a tropical cyclone warning signal no. 8 or above is in force in Hong Kong at 9:00 a.m. (Hong Kong time) on Wednesday, 9 October 2019, the Meeting will not be held on that day but will be automatically postponed and, by virtue of this notice, be held at the same time and place on Thursday, 10 October 2019 (Hong Kong time) instead.

   Members who have any queries concerning these arrangements, please call the Company at (852) 2128 8888 during business hours from 9:00 a.m. (Hong Kong time) to 5:00 p.m. (Hong Kong time) on Mondays to Fridays, excluding public holidays.

   Members should make their own decision as to whether they would attend the Meeting under bad weather conditions at their own risk having regard to their own situation and if they should choose to do so, they are advised to exercise care and caution.

8. In the case of joint holders of a share of the Company, any one of such joint holders may vote at the Meeting, either personally or by proxy, in respect of such share as if he/she/it was solely entitled thereto. If more than one of such joint holders are present at the Meeting, the more senior shall alone be entitled to vote in respect of the relevant joint holding. For this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the Register of Members of the Company in respect of the relevant joint holding.

9. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.

*This circular is available in both English and Chinese versions ("**Circular**"). Shareholders who have received either the English or the Chinese version of this Circular may request a copy in the other language by writing to the Company c/o the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong or by email to ckah.ecom@computershare.com.hk.*

This Circular (both English and Chinese versions) has been posted on the Company's website at www.ckah.com. Shareholders who have chosen (or are deemed to have consented) to read the Company's corporate communications (including but not limited to the Circular) published on the Company's website in place of receiving printed copies thereof may request the printed copy of the Circular in writing to the Company c/o the Company's Hong Kong Share Registrar or by email to ckah.ecom@computershare.com.hk.

Shareholders who have chosen (or are deemed to have consented) to receive the corporate communications using electronic means through the Company's website and who for any reason have difficulty in receiving or gaining access to the Circular posted on the Company's website will upon request in writing to the Company c/o the Company's Hong Kong Share Registrar or by email to ckah.ecom@computershare.com.hk promptly be sent the Circular in printed form free of charge.

Shareholders may at any time choose to change their choice as to the means of receipt (i.e. in printed form or by electronic means through the Company's website) and/or the language of the Company's corporate communications by reasonable prior notice in writing to the Company c/o the Company's Hong Kong Share Registrar or sending a notice to ckah.ecom@computershare.com.hk.