Independent auditor's report

To the members of Greene King plc

Our opinion on the financial statements

In our opinion:

- Greene King plc's group financial statements and company financial statements (the financial statements) give a true and fair view of the state of the group's and of the company's affairs as at 29 April 2018 and of the group's profit for the 52 weeks then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation.

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

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

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

Basis for opinion

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

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

Conclusions relating to principal risks, going concern and viability statement

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

- the disclosures in the annual report set out on pages 33 to 37 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 32 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on pages 73 to 74 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 32 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

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

Key audit matters

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

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

Independent auditor's report continued

To the members of Greene King plc

Key audit matters continued

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

Key audit matters continued

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

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

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

Independent auditor's report continued

To the members of Greene King plc

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each division.

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

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

Our application of materiality

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

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

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

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

Performance materiality

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

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

Audit work on each division for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each division is based on the relative scale and risk of the division to the group as a whole and our assessment of the risk of misstatement at that division. In the current year, the range of performance materiality allocated to divisions was £2.3m to £8.0m (2017: £2.7m to £8.1m).

Reporting threshold

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

We agreed with the audit and risk committee that we would report to them all uncorrected audit differences in excess of £0.6m (2017: £0.7m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

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

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

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

We have nothing to report in this regard.

Other information continued

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

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

Matters on which we are required to report by exception

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

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

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

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the company.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

Independent auditor's report continued

To the members of Greene King plc

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

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

Our approach was as follows:

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

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

Other matters we are required to address

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

Use of our report

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

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

Notes:

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

Group income statement

For the 52 weeks ended 29 April 2018

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

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

Group statement of comprehensive income

For the 52 weeks ended 29 April 2018

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

Group balance sheet

As at 29 April 2018

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

Signed on behalf of the board on 27 June 2018

P E Yea
Director

R Anand
Director

Group cash flow statement

For the 52 weeks ended 29 April 2018

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

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

Group statement of changes in equity

For the 52 weeks ended 29 April 2018

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

Notes to the accounts

For the 52 weeks ended 29 April 2018

1 Accounting policies

Corporate information

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

Statement of compliance

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

Basis of preparation

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

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

Basis of consolidation

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

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

Going concern

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

Changes in accounting policies

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

Those standards and interpretations include:

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

Significant accounting policies

Property, plant and equipment

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

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

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

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

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

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

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

Intangible assets

Operating lease intangibles

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

Brand intangibles

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

1 Accounting policies continued

Significant accounting policies continued

Business combinations and goodwill

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

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

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

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

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

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

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

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

Impairment

Property, plant and equipment

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

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

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

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

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

Goodwill

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

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

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

Financial instruments

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

Financial assets

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

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

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

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

1 Accounting policies continued

Significant accounting policies continued

Trade and other receivables

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

Inventories

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

Cash and cash equivalents

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

Property, plant and equipment held for sale

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

Interest-bearing loans and borrowings

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

Finance costs and income

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

Derivative financial instruments and hedge accounting

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

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

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

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

Hedge accounting

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

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

Cash flow hedge accounting

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

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

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

Trade payables

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

Provisions

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

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

1 Accounting policies continued

Significant accounting policies continued

Off-market contract liabilities

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

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

Pensions and other post-employment benefits

Defined benefit pension schemes

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

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

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

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

Defined contribution pension schemes

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

Share-based payments

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

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

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

Own shares

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

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

Revenue

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

Supplier rebates

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

Operating leases

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

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

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

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

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

1 Accounting policies continued

Significant accounting policies continued

Finance leases

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

Merger reserve

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

Taxes

Income tax

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

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

Deferred tax

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

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

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

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

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

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

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

Uncertain tax positions

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

Exceptional and non-underlying items and adjusted profitability measures

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

– operating profit before exceptional and non-underlying items;

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

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

– adjusted basic earnings per share.

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

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

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

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

1 Accounting policies continued

Significant accounting policies continued

Exceptional and non-underlying items and adjusted profitability measures continued

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

Exceptional items:

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

Non-underlying items may include:

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

New standards and interpretations not applied

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

IFRS 9 Financial Instruments

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

IFRS 16 Leases

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

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

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

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

1 Accounting policies continued

New standards and interpretations not applied continued

IFRS 16 Leases continued

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

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

IFRIC 23 Uncertainty over Income Tax Treatments

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

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

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

Significant accounting judgments and estimates

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

Taxation

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

Share-based payments

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

Pension assets and liabilities

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

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

Impairment of goodwill

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

Impairment of property, plant and equipment and intangible assets

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

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

Residual values and useful lives

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

Property provisions

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

2 Segment information

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

Pub Company: Managed pubs and restaurants

Pub Partners: Tenanted and leased pubs

Brewing & Brands: Brewing, marketing and selling beer

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

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

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

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

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

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

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

2 Segment information continued

Management reporting and controlling systems

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

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

3 Revenue

Revenue is analysed as follows:

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

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

4 Operating costs

Operating profit is stated after charging/(crediting):

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

Fees paid to the auditor during the year consisted of:

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

5 Exceptional and non-underlying items

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

Exceptional operating costs

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

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

Non-underlying operating costs

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

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

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

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

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

Exceptional and non-underlying finance costs

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

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

5 Exceptional and non-underlying items continued

Exceptional and non-underlying finance costs continued

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

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

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

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

Exceptional tax

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

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

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

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

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

Non-underlying tax

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

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

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

6 Employment costs

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

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

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

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

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

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

7 Finance (costs)/income

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

8 Share-based payment plans

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

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

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

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

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

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

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

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

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

8 Share-based payment plans continued

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

SAYE

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

LTIP

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

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

SAYE and LTIP

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

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

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

9 Pensions

Defined contribution pension schemes

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

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

Defined benefit pension schemes and post-employment benefits

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

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

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

9 Pensions continued

Defined benefit pension schemes and post-employment benefits continued

Net interest on net defined liability:

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

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

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

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

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

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

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

9 Pensions continued

Defined benefit pension schemes and post-employment benefits continued

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

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

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

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

Presented in the balance sheet as follows:

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

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

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

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

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

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

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

10 Taxation

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

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

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

Reconciliation of income tax expense for the year

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

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

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

10 Taxation continued

Deferred tax

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

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

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

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

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

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

10 Taxation continued
Deferred tax continued

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

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

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

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

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

Factors that may affect future tax charges

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

11 Dividends paid and proposed

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

Dividends on own shares have been waived.

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

12 Earnings per share

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

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

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

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

13 Goodwill and other intangible assets

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

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

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

All goodwill was recognised as part of business combinations.

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

The carrying amount of goodwill is allocated as follows:

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

13 Goodwill and other intangible assets continued

Goodwill disposed of in the year

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

Goodwill impairment testing

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

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

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

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

Sensitivity to changes in assumptions

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

14 Property, plant and equipment

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

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

14 Property, plant and equipment continued

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

The net book value of land and buildings comprises:

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

Review of property, plant and equipment

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

Valuation

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

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

Charges over assets

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

Assets held under finance leases

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

Future capital expenditure

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

Impairment of property, plant and equipment

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

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

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

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

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

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

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

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

14 Property, plant and equipment continued

Impairment of property, plant and equipment continued

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

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

Sensitivity to changes in assumptions

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

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

15 Financial assets

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

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

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

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

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

16 Subsidiary undertakings

The subsidiary undertakings are:

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

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

16 Subsidiary undertakings continued

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

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

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

16 Subsidiary undertakings continued

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

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

17 Inventories

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

18 Trade and other receivables

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

Trade and other receivables are non-interest bearing.

The ageing analysis of trade receivables is as follows:

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

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

19 Cash and cash equivalents

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

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

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

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

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

20 Property, plant and equipment held for sale

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

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

21 Trade and other payables

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

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

22 Borrowings

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

Bank overdrafts

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

FINANCIAL STATEMENTS

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For the 52 weeks ended 29 April 2018

22 Borrowings continued

Bank loans – unsecured

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

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

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

Greene King secured financing vehicle

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

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

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

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

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

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

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

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

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

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

Liquidity facility

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

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

22 Borrowings continued

Spirit secured financing vehicle

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

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

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

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

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

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

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

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

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

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

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

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

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

Obligations under finance leases

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

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

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

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For the 52 weeks ended 29 April 2018

23 Financial instruments

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

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

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

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

Interest rate risk

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

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

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

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

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

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

Liquidity risk

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

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

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

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

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

23 Financial instruments continued

Liquidity risk continued

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

Credit risk

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

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

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

Financial instruments qualifying for hedge accounting

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

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

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

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

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

Financial instruments not qualifying for hedge accounting

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

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

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

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

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

23 Financial instruments continued

Financial instruments not qualifying for hedge accounting continued

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

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

Fair values

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

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

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

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

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

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

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

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

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

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

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

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

23 Financial instruments continued

Hierarchical classification of financial assets and liabilities measured at fair value

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

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

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

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

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

Capital risk management

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

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

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

24 Off-market contract liabilities and provisions

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

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

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

Off-market contract liabilities

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

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

Property leases

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

Notes to the accounts continued

For the 52 weeks ended 29 April 2018

24 Off-market contract liabilities and provisions continued

Indirect tax provisions

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

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

25 Share capital

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

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

26 Reserves

Share premium account

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

Merger reserve

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

Capital redemption reserve

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

Hedging reserve

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

Own shares

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

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

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

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

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

Goodwill

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

27 Working capital and non-cash movements

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

28 Analysis of and movements in net debt

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

1. Includes short-term deposits.

2. Includes derivative asset balances.

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Notes to the accounts continued

For the 52 weeks ended 29 April 2018

29 Financial commitments

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

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

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

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

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

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

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

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

30 Related party transactions

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

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

Compensation of directors and other key management personnel of the group

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

Key management personnel

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

Directors' interests in an employee share-based payment plan

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

31 Post balance sheet events

Final dividend

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

Borrowings and financial instruments

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

Company balance sheet

As at 29 April 2018

Registered number: 24511

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

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

Signed on behalf of the board on 27 June 2018

P E Yea
Director

R Anand
Director

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.

Notes to the company accounts continued

For the 52 weeks ended 29 April 2018

32 Accounting policies continued

Significant accounting judgments and estimates

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

33 Profit for the period

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

34 Auditor's remuneration

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

35 Directors' remuneration and employee costs

Details of directors' remuneration are contained in the directors' remuneration report on pages 64 to 69. The company has no employees other than directors and the directors are not remunerated through this company. Details of share options issued by the company are given in note 8.

36 Investments

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

Principal subsidiaries

For a full list of all subsidiaries see note 16.

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

37 Creditors

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

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

38 Borrowings

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

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

Bank loans due after one year are repayable as follows:

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

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

39 Allotted and issued share capital

Allotted, called up and fully paid	**2018 £m**	2017 £m
Ordinary shares of 12.5p each		
310.0m shares (2017: 309.9m)	**38.7**	38.7

Further information on share capital is given in note 25.

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

40 Reserves

Share premium account

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

Merger reserve

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

Other reserve

The other reserve consists of £3.3m (2017: £3.3m) capital redemption reserve arising from the purchase of own share capital and £90.6m (2017: £90.6m) arising from transfer of revalued assets to other group companies and will only be realised when the related assets are disposed of by the group.

Own shares

Own shares relates to shares held in treasury and by the employee benefit trust. Movement in own shares is described in note 26.

41 Contingent liabilities

The company has provided a guarantee to the Greene King Pension Scheme in respect of the payment obligations to the scheme of its subsidiary Greene King Services Limited. In the event that these obligations are not met the company will become liable for amounts due to the pension scheme; such an event is not considered probable.

Details of the group's pension schemes are included in note 9.

42 Post balance sheet events

Final dividend

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

Glossary – alternative performance measures

The performance of the group is assessed using a number of alternative performance measures (APMs).

The group's results are presented both before and after exceptional and non-underlying items. Adjusted profitability measures are presented excluding exceptional and non-underlying items as we believe this provides both management and investors with useful additional information about the group's performance and aids a more effective comparison of the group's trading performance from one period to the next and with similar businesses. Adjusted profitability measures are reconciled to unadjusted IFRS results on the face of the income statement with details of exceptional and non-underlying items provided in note 5.

In addition, the group's results are described using certain other measures that are not defined under IFRS and are therefore considered to be APMs. These measures are used by management to monitor ongoing business performance against both shorter-term budgets and forecast but also against the group's longer-term strategic plans. The definition of each APM presented in this report and, also, where a reconciliation to the nearest measure prepared in accordance with IFRS can be found is shown below.

APMs used to explain and monitor group performance:

Measure	Definition	Location of reconciliation to GAAP measure
Group EBITDA	Earnings before interest, tax, depreciation, amortisation, exceptional and non-underlying items. Calculated by taking operating profit before exceptional and non-underlying items and adding back depreciation and amortisation.	Group cash flow statement
Operating profit before exceptional and non-underlying items	Group operating profit excluding exceptional and non-underlying items.	Group income statement
Operating profit margin	Operating profit margin is calculated by dividing operating profit before exceptional and non-underlying items by revenue.	
Net interest before exceptional items	Group finance costs excluding exceptional and non-underlying items.	Note 7 to the financial statements
Profit before tax and exceptional and non-underlying items (PBTE)	Group profit before tax excluding exceptional and non-underlying items.	Group income statements
Adjusted basic earnings per share	Earnings per share excluding the impact of exceptional and non-underlying items.	Note 12 to the financial statements
ROI	Return on investment across all our core pub businesses. Calculated as the average incremental increase in pub EBITDA post-investment divided by the total core capex invested in completed developments.	Note A below
Net debt: EBITDA	Net debt as disclosed on the group balance sheet divided by annualised EBITDA.	Note B below
Free cash flow	EBITDA less working capital and non-cash movements (excluding exceptional items), tax payments (excluding amounts paid in respect of settlements of historic tax positions and adjusted for the impact of HMRC payment regime changes), interest payments (excluding payment of interest in respect of tax settlements), core capex, dividends and other non-cash movements.	Note C below
Fixed charge cover	Calculated by dividing EBITDAR less maintenance capex by the sum of interest paid and rental costs.	Note D below
ROCE%	Return on capital employed. Calculated by dividing annualised pre-exceptional operating profit by periodic average capital employed. Capital employed is defined as total net assets excluding deferred tax balances, derivatives, post-employment liabilities and net debt.	Note E below
Core capex	Capital expenditure excluding amounts relating to the group's brand swap programme, Spirit integration, other acquisitions and in respect of new build sites.	Note F below
Non-returning capex	Pub investment not expected to generate incremental revenues for the group.	Note F below

APMs used to explain and monitor the performance of the group business segments:

Measure	Definition	Location of reconciliation to GAAP measure
Pub Company like-for-like (LFL) sales growth	Pub Company LFL sales include revenue from the sale of drink, food and accommodation but exclude machine income. LFL sales performance is calculated against a comparable 52-week period in the prior year for pubs that were trading for the entirety of both 52-week periods. The calculations include figures for acquired Spirit pubs for a comparable 52-week period in both the current and comparative financial year.	Note G below
Pub Company operating profit before exceptional and non-underlying items	Pub Company operating profit excluding exceptional and non-underlying items.	Note 2 to the financial statements
Pub Company EBITDA	Pub Company earnings before interest, tax, depreciation, amortisation and exceptional and non-underlying items.	Note 2 to the financial statements
Pub Company EBITDA per pub	Calculated by dividing Pub Company EBITDA by the average number of pubs trading in a financial period.	
Pub Partners like-for-like net profit growth	Pub Partners' LFL profit includes pub operating profit and central overheads but excludes exceptional items. LFL profit performance is calculated against a comparable 52-week period in the prior year for pubs that were trading for the entirety of both 52-week periods. The calculation includes figures for acquired Spirit pubs for a comparable 52-week period in both the current and comparative financial year.	Note H below
Pub Partners EBITDA	Pub Partners earnings before interest, tax, depreciation, amortisation and exceptional and non-underlying items.	Note 2 to the financial statements
Pub Partners EBITDA per pub	Calculated by dividing Pub Partners EBITDA by the average number of pubs trading in a financial period.	
Pub Partners operating profit before exceptional items	Pub Partners operating profit excluding exceptional and non-underlying items.	Note 2 to the financial statements
Brewing & Brands EBITDA	Brewing & Brands earnings before interest, tax, depreciation, amortisation and exceptional and non-underlying items.	Note 2 to the financial statements
Brewing & Brands operating profit before exceptional items	Brewing & Brands operating profit excluding exceptional and non-underlying items.	Note 2 to the financial statements

In addition the group uses the following non-financial KPIs to assess performance against its strategic objectives:

Measure	Definition
Brewing & Brands OBV growth (%)	Year-on-year growth in the volume of sales of beer brewed at our Greene King and Belhaven breweries.
Pub Company net promoter score (NPS) %	Calculated by asking customers how likely they are to recommend the pub on a scale of 0–10 (10 being the most favourable). The percentage of responses where the score is 0–6 (brand detractors) is subtracted from the percentage of responses where the score is 9 or 10 (brand promoters) to give the NPS. Scores of 7 or 8 (passive responses) are ignored.
Team turnover	The percentage of leavers against the average headcount over a rolling annual period, excluding any student leavers.
Team engagement	The proportion of respondents who selected the response 'I feel engaged and committed at present'.

APM reconciliations

A Return on investment

Return on investment is calculated by dividing the total annualised up-lift in EBITDA from all core development schemes completed in the financial year by the total amount invested in those schemes.

Total capital investment quoted below is the total spent on schemes completed in the year and is not intended to reconcile to total in-year capital expenditure presented in note G below.

	Source	**2018 £m**	2017 £m
Incremental annualised EBITDA	Non-GAAP	**15.5**	11.8
Total core capital investment in completed schemes	Non-GAAP	**50.0**	48.2
Return on investment		**31.0%**	24.5%

B Net debt: EBITDA

	Source	**2018 £m**	2017 £m
Net debt	Group balance sheet	**2,032.3**	2,074.5
EBITDA	Cash flow statement	**486.6**	524.1
Net debt: EBITDA		**4.2x**	4.0x

Glossary – alternative performance measures continued

APM reconciliations continued

C Free cash flow

	Source	2018 £m	2017 £m
EBITDA	Cash flow statement	**486.6**	524.1
Working capital and other movements	Note 9	**(46.8)**	(29.2)
Add back: exceptional items	Note 9	**23.9**	14.4
		463.7	509.3
Tax payments	Cash flow statement	**(44.8)**	(48.6)
Add back: exceptional tax payments	Non-GAAP	**9.4**	20.6
Add back: impact of changes to payment regimes	Non-GAAP	**26.0**	—
		(9.4)	(28.0)
Interest received	Cash flow statement	**1.0**	1.0
Interest paid	Cash flow statement	**(130.2)**	(148.1)
Add back: exceptional interest paid	Non-GAAP	**2.1**	12.2
		(127.1)	(134.9)
Core capex	Note F below	**(132.2)**	(126.0)
Net repayment/(advance) of free trade loans	Cash flow statement	**2.5**	0.2
Equity dividends paid	Note 6	**(102.9)**	(100.1)
Other non-cash movements	Note 10	**(4.7)**	(0.9)
Free cash flow		**89.9**	119.6

D Fixed charge cover

	Source	2018 £m	2017 £m
EBITDA	Cash flow statement	**486.6**	524.1
Operating lease rentals	Non-GAAP	**90.2**	91.0
Add back: off-market lease liability and other property provisions utilised in the period	Non-GAAP	**(20.2)**	(21.2)
Non-returning capex	Note F below	**(79.6)**	(75.7)
		477.0	518.2
Net interest paid	Cash flow statement	**129.2**	147.1
Add back: exceptional interest paid	Non-GAAP	**(2.1)**	(12.2)
Operating lease rentals	Non-GAAP	**90.2**	91.0
		217.3	225.9
Fixed charge cover		**2.2x**	2.3x

E Return on capital employed

	Source	2018 £m	2017 £m
Operating profit before exceptional and non-underlying items	Income statement	**373.1**	411.5
Average capital employed:			
Net assets	Group balance sheet	**2,056.9**	1,944.2
Add back:			
Deferred tax assets	Group balance sheet	**(29.7)**	(63.1)
Deferred tax liabilities	Group balance sheet	**—**	9.8
Post-employment (assets)/liabilities	Group balance sheet	**(13.6)**	11.2
Derivatives	Group balance sheet	**241.1**	344.8
Net debt	Group balance sheet	**2,032.3**	2,074.5
Capital employed	Non-GAAP	**4,287.0**	4,321.4
Timing adjustment	Non-GAAP	**108.3**	75.2
Average capital employed	Non-GAAP	**4,395.3**	4,396.6
ROCE		**8.5%**	9.4%

The timing adjustment included in the calculation above is the aggregate adjustment required to reconcile closing capital employed at the balance sheet date and the monthly average capital employed calculated throughout the year.

APM reconciliations continued

F Capital investment

	Source	2018 £m	2017 £m
Non-returning capex[1]	Non-GAAP	**79.6**	75.7
Development capex	Non-GAAP	**52.6**	50.3
Core capex	Non-GAAP	**132.2**	126.0
Brand swap and new site investment	Non-GAAP	**61.0**	68.9
Purchase of property, plant and equipment	Cash flow statement	**193.2**	194.9

1. Non-returning capex also referred to as 'maintenance capex'.

G Pub Company like-for-like (LFL) sales

2018 calculations	Source	2018 £m	2017 £m	YoY%
Reported revenue	Note 2	**1,767.7**	1,817.4	-2.7%
Less: non-LFL revenue	Non-GAAP	**(85.5)**	(105.4)	
LFL sales	Non-GAAP	**1,682.2**	1,712.0	-1.7%
Snow impact	Non-GAAP	**8.8**	—	
LFL sales excluding snow impact	Non-GAAP	**1,691.0**	1,712.0	-1.2%

2017 calculations	Source	2017 £m	2016 £m	YoY%
Reported revenue	Note 2	1,817.4	1,688.2	+7.7%
Add: Spirit pre-acquisition LFL sales	Non-GAAP	—	98.3	
Less: non-LFL revenue	Non-GAAP	(119.8)	(113.4)	
LFL sales	Non-GAAP	1,697.6	1,673.1	+1.5%

Non-LFL revenue includes all machine income and the sales from pubs that have not traded for two full financial years. For pubs disposed of in each of the financial years the amounts include all sales prior to disposal; for new pubs acquired or opened during the two-year period the amounts include all post-acquisition sales.

The group LFL sales figures quoted takes account of the sales performance of Spirit pubs that have been owned and operated within the Spirit business for the full two-year period under review. Therefore to arrive at the LFL sales figure for 2016 LFL sales for the seven-week period pre-acquisition have been included.

H Pub Partners LFL net profit

2018 calculations	Source	2018 £m	2017 £m	YoY%
Reported operating profit	Note 2	**91.4**	92.8	-1.5%
Less: other non-LFL adjustments	Non-GAAP	**(5.7)**	(7.4)	
LFL net profit	Non-GAAP	**85.7**	85.4	+0.4%

2017 calculations	Source	2017 £m	2016 £m	YoY%
Reported operating profit	Note 2	92.8	85.3	+8.8%
Add: Spirit pre-acquisition LFL sales	Non-GAAP	—	4.6	
Less: other non-LFL adjustments	Non-GAAP	(7.5)	(8.7)	
LFL net profit	Non-GAAP	85.3	81.2	+5.0%

Non-LFL profit adjustments are in respect of pre-disposal net profit from pubs that were disposed of in the current or prior year.

The LFL profit figures quoted takes account of the profit performance of Spirit pubs that have been owned and operated within the Spirit tenanted and leased business for the full two-year period under review. Therefore to arrive at the LFL net profit figure for 2016 LFL sales for the seven-week period pre-acquisition have been included.