

Greene King Retailing Limited

Annual Report and Financial Statements

1 May 2016

Registered number: 05265451



Company information

Directors	R Anand K Davis J Forrest C Houlton R Lewis K Millbanks
Company secretary	Mrs L A Keswick
Registered number	05265451
Registered office	Westgate Brewery Bury St Edmunds Suffolk IP33 1QT
Auditor	Ernst & Young LLP One Cambridge Business Park Cambridge CB4 0WZ

Strategic report

The directors present their Strategic report for the 52 week period ended 1 May 2016.

Business review and future outlook

The company's principal activity during the period continued to be the management of securitised public houses, and the retailing of beers, wines, spirits and soft drinks.

The company's strategy is to improve growth through increasing its exposure to the more attractive categories in the company's markets, such as food, coffee, wine and rooms, and by increasing the level of influence and control the company has over its offers in these categories. In order to achieve this most efficiently the company aims to grow its managed pub business and improve the overall quality of the estate through targeted acquisition and investment in its people, offers and assets. The company aims to improve the quality and sustainability of its tenanted and leased business, by improving the customer offer, investing in core assets and disposing of non-profitable assets.

The key financial and other performance indicators during the period were as follows:

	52 weeks to 1 May 2016 £m	52 weeks to 3 May 2015 £m	Change %
Revenue	688	677	+ 1.7%
Pre-exceptional operating profit	168	150	+12.0%
Pre-exceptional operating margin	24.4%	22.2%	
EBITDA	198	185	+ 7.1%
Outstanding bond issuance	1,208	1,241	- 2.7%
Number of pubs at period end			
- Tenanted	780	818	- 4.6%
- Managed	694	688	+ 0.9%

This has been another successful period for Greene King Retailing Limited with record revenue, up 1.7% to £688m. Pre-exceptional operating margin increased to 24.4% due to the impact of the changing channel mix, as the managed business grows its share of revenue.

The increase in the proportion of managed pubs has driven substantial growth in EBITDA per pub during the period, up 8.9% to £134,000. The debt service ratio has remained stable at 1.5.

During the period the company disposed of 41 tenanted pubs for a net profit on disposal of £19m. The company acquired 11 managed pubs for a consideration of £41m.

Principal risks and uncertainties

Formal risk management processes are in place across the company to identify and evaluate risks, taking into account the likelihood of their occurrence and the scale of potential impact on the business.

The principal risks and uncertainties facing the company are broadly grouped as - economic and market risks, financial risks, regulatory risks and operational and people risks.

Economic and market risks

The wider economic situation within the UK continues to affect consumer confidence, particularly in light of the referendum vote to leave the European Union, and the company also faces increasing competitor activity. The consequential impact could reduce revenue, profitability and lead to lower growth rates.

The company aims to mitigate this risk by focusing on value, service and quality to appeal to a broad range of consumers and to ensure there is a broad geographical spread of pubs including London and the South East. The company continues with innovation projects, training and support for tenants.

Strategic report (continued)**Financial risks**

The company's financing structure requires it to be able to repay capital borrowed and interest on time and to ensure that the Group operates within certain financial covenants. Breaching the financial covenants would have a significant impact on the company's ability to reinvest cash back into the business.

The company's long term strategy and yearly business plans are formulated to ensure that financial covenants can be met and management monitor this on a regular basis.

Regulatory risks

Legislation such as the National Living Wage and the apprenticeship levy will drive up costs as will any increases in rates charged on our pubs and restaurants. Legislation impacting consumers, including the sale of alcohol, could potentially damage demand leading to reduced revenue.

We have developed a plan which will in part mitigate the cost impact of the National Living Wage and the apprenticeship levy over the next three years. We will monitor legislative developments and actively engage with government where necessary. Our diversified offer includes soft drinks, coffee, food and accommodation to reduce our reliance on alcohol-based revenue.

The company is required to comply with a wide range of health and safety legislation, including in the areas of food safety and fire safety. Serious illness, injury or even loss of life to one of the company's customers, employees or tenants could have a significant impact on the company's reputation.

The company has a comprehensive range of formally documented policies and procedures in place, including centrally managed system of compliance key performance indicator tracking and internal and independent audits to ensure compliance with current legislation and approved guidance. Safety measures are in place, including a supplier assurance programme, to ensure that product integrity is maintained and that all food and drink products are fully traceable.

Failure to respond to the threats to our Pub Partners business posed by the introduction of the 'market rent only' (MRO) option and the statutory code could lead to loss of income and profits in Pub Partners from reduced beer margin and penalties for breach of the statutory code. We have developed agreements that are exempt from the MRO option with plans to adopt these where possible. Site by site plans are in place to mitigate the risks and an up-weighted compliance team is in place with training for all relevant employees and enhanced processes and procedures in place to reduce risks.

Operational and people risks

The company procures the secondment of employees from two other companies, Greene King Services Limited and Greene King Retail Services Limited, both of whom are fellow subsidiaries of Greene King plc.

The company is reliant on the quality of its employees and licensees. A failure to attract, develop, retain and motivate the best employees at all levels of the organisation and the best tenants may mean that the company is not able to execute its business plans and strategy.

A branded recruitment plan is in place with a strong pipeline of suitable candidates. Remuneration packages are benchmarked to ensure they remain competitive and career development programmes are in place to retain key employees.

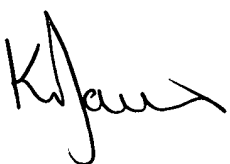
The company is reliant on information systems and technology for many aspects of the business. A significant cyber security breach could impact on our ability to do business impacting revenue and profitability or cause reputational damage or financial damage from fines or compensation.

The company's networks are protected by firewalls and anti-virus protection systems with back-up procedures also in place. Plans are in place to further enhance controls in this area including ongoing investment. We constantly monitor threats to data protection by viruses, hacking and breach of access controls, with additional controls added during the year. A data governance committee drives improved behaviours and management response to the risks.

The company is reliant on a number of key suppliers and third party distributors. Supply disruption could impact customer satisfaction, leading to loss of revenue. Key supplier or distributor withdrawal or long-term failure could reduce revenues or lead to increased costs. Back-up plans are maintained in the event of the failure or loss of a key supplier.

This report was approved by the board on 22 Dec 2016 and signed on its behalf.

K Davis
Director



Directors' report

The directors present their annual report and financial statements for the 52 week period ended 1 May 2016.

Results and dividends

The profit after tax and interest was £53m (2015 - profit of £2m) and the directors do not recommend the payment of a dividend (2015 - £nil).

Directors and their interests

The directors during the period and to the date of this report, except stated otherwise, were as follows:

R Anand	
SJ Connor	(resigned 31 March 2016)
K Davis	
J Forrest	(appointed 10 February 2016)
C Houlton	
R Lewis	
K Millbanks	
J Webster	(resigned 31 December 2015)

None of the directors held any interest in the share capital of the company during either the current or prior periods.

The interests of the directors in the shares of the ultimate parent company, Greene King plc, are shown in the financial statements of that company, where they are directors of Greene King plc.

Future developments

The company intends to continue operating the areas of management of public houses, and the retailing of beers, wines, spirits and soft drinks for the foreseeable future.

Indemnity provision / directors' liabilities

The company has indemnified the directors of the company in respect of proceedings brought by third parties. Such qualifying third party indemnity provision remains in place at the date of this report.

Post balance sheet events

On 26 May 2016 the company issued £300m A6 bonds maturing March 2035 at a coupon of 4.0643% and £40m AB2 bonds maturing March 2036 at a coupon of 6.0552%. Both bonds were issued to Greene King Finance plc. In addition, Greene King plc advanced a further subordinated loan balance of £112.0m at an interest rate of 12.5% repayable upon repayment of the group's securitised bonds in March 2036.

£116.6m of these proceeds were used by the group to meet the mark to market amount of certain derivatives financial liabilities. These interest rate swaps had a nominal value of £302.9m and a carrying value at 1 May 2016 of £121.1m.

A further £60m was used to acquire the £60m ABI secured note issued by Greene King Finance plc from Greene King plc. In accordance with the terms of these notes, following this transaction, the notes were cancelled.

The remaining proceeds were used in the acquisition of 89 trading pubs from Greene King Brewing and Retailing Limited for £308.9m.

On the same date the company also disposed of 20 trading pubs to Greene King Brewing and Retailing Limited for consideration of £17.2m.

Employment and recruitment policies

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

The company values colleague engagement across the business and produces a monthly publication that is circulated to all employees containing company news and articles, which is circulated to all colleagues. In addition, the company provides regular briefings and presentations to staff on the company's performance and strategy as well as annual and interim results. The company operates an HMRC approved share save scheme open to all employees which helps to align employees with the performance of the company. The current scheme is due to expire later in the year and a resolution to approve a new scheme will be proposed at the AGM.

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

Directors report (continued)

Financial instruments

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

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

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.

Further details on risks and uncertainties on the use of financial instruments are set out in the Strategic report and note 21 to the financial statements.

Going concern

The company's business activity, together with the factors likely to affect its future development, performance and position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposure to price, credit, liquidity and cash flow risk are described in the Strategic report and note 21 to the financial statements.

The directors are of the opinion that the company's forecast and projections, taking account of reasonably possible changes in trading performance and stress testing, show that the company should be able to operate within its current borrowing facilities and comply with its financing covenants.

At the balance sheet date the company had net liabilities of £312m and net current liabilities of £267m. Within the net liabilities is a £394m subordinated loan from other group companies. This loan cannot be repaid until all the securitised debt has been fully repaid.

The directors have prepared the financial statements on a going concern basis as the ultimate parent company, Greene King plc, has given a formal undertaking that it will provide financial support to enable the company to meet its liabilities as they fall due, for at least twelve months from the date of signing these financial statements.

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

Statement as to disclosure of information to auditor

The directors who were members of the board at the time of approving this report are listed above. Having made enquiries of fellow directors and of the company's auditor, each of these directors confirm that:

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

Auditor

In accordance with s.485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor of the company.



Mrs L A Keswick
Company Secretary

Date: 22 DEC 16

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the parent company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent auditor's report

to the members of Greene King Retailing Limited

We have audited the financial statements of Greene King Retailing Limited for the 52 week period ended 1 May 2016 which comprise the income statement, the statement of other comprehensive income, balance sheet, statement of changes in equity, and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including Financial Reporting Standard 101 'Reduced disclosure framework'.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of directors' responsibilities on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 1 May 2016 and of its Profit for the 52 week period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 'Reduced disclosure framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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 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.



Bob Forsyth (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Cambridge, UK

Date: 22 December 2016

Income statement

for the 52 week period ended 1 May 2016

	Notes	52 weeks to 1 May 2016 £m	52 weeks to 3 May 2015 £m
Turnover	3	688	677
Cost of sales		(223)	(221)
Gross profit		465	456
Administrative expenses		(297)	(306)
Exceptional administrative expenses	4	(4)	(16)
Operating profit	5	164	134
Interest receivable and similar income	7	1	2
Interest payable and similar charges	8	(127)	(129)
Profit / (loss) on ordinary activity before taxation		38	7
Tax credit / (expense)	9	15	(5)
Profit for the period		53	2

The notes on pages 11 to 31 form part of these financial statements.

Statement of other comprehensive income

for the 52 week period ended 1 May 2016

	52 weeks to 1 May 2016 £m	52 weeks to 3 May 2015 £m
Profit for the period	53	2
Other comprehensive income		
Items that can be reclassified to profit or loss		
Losses on cash flow hedges taken to equity	(41)	(94)
Transfers to income statement on cash flow hedges	28	29
Tax on items relating to components of other comprehensive income	(2)	13
Other comprehensive loss for the period net of tax	(15)	(52)
Total comprehensive income / (loss) for the period net of tax	38	(50)

The notes on pages 11 to 31 form part of these financial statements.

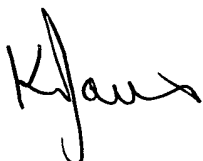
Balance sheet

as at 1 May 2016

	Notes	1 May 2016 £m	3 May 2015 £m
Fixed assets			
Intangible assets	10	294	295
Tangible assets	11	1,433	1,420
Investments	13	22	22
		1,749	1,737
Current assets			
Tangible assets held for sale	12	1	-
Stocks	15	7	7
Debtors: Amounts falling due after more than one year	16	31	31
Debtors: Amounts falling due within one year	16	13	13
Cash at bank and in hand	17	109	34
		161	85
Creditors: amounts falling due within one year			
Current creditors	18	(372)	(282)
Borrowings	20	(34)	(33)
Financial instruments	21	(22)	(27)
Net current liabilities		(267)	(257)
Total assets less current liabilities		1,482	1,480
Creditors: amounts falling due after more than one year			
Non-current	19	(394)	(394)
Borrowings	20	(1,167)	(1,200)
Financial instruments	21	(227)	(209)
Provision for liabilities	22	(6)	(27)
Net liabilities		(312)	(350)
Capital and reserves			
Share capital	23	-	-
Hedging reserve	24	(203)	(188)
Profit and loss account	24	(109)	(162)
Total equity		(312)	(350)

The financial statements were approved and authorised for issue by the board of directors and signed on its behalf on

22 Dec 2016 by:

K Davis
Director


Statement of changes in equity

as at 1 May 2016

	Share Capital £m	Hedging reserves £m	Retained earnings £m	Total equity £m
As at 5 April 2014	-	(136)	(164)	(300)
Comprehensive income for the period				
Profit of the period	-	-	2	2
Losses on cash flow hedges taken to equity	-	(94)	-	(94)
Transfers to the income statement on cash flow hedges	-	29	-	29
Tax on cash flow hedges	-	13	-	13
Total comprehensive loss for the period	-	(52)	2	(50)
At 3 May 2015	-	(188)	(162)	(350)
Comprehensive income for the period				
Profit for the period	-	-	53	53
Losses on cash flow hedges taken to equity	-	(41)	-	(41)
Transfers to the income statement on cash flow hedges	-	28	-	28
Tax on cash flow hedges	-	(2)	-	(2)
Total comprehensive loss for the period	-	(15)	53	38
At 1 May 2016	-	(203)	(109)	(312)

Notes to the financial statements

for the period ended 1 May 2016

I. Accounting policies**Corporate information**

The financial statements of Greene King Retailing Limited for the 52 weeks ended 1 May 2016 were authorised for issue by the board of directors on 22 December 2016. Greene King Retailing Limited is a limited company incorporated and domiciled in England and Wales.

The company's financial statements are presented in Sterling and all values are rounded to the nearest million pounds (£m) except where indicated.

Basis of preparation of financial statements

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (July 15 amendment) and applicable accounting standards. The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortised. Consequently, the company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act.

The company is itself a subsidiary company and is exempt from the requirement to prepare group accounts by virtue of section 400 of the Companies Act 2006, as it is a wholly owned subsidiary of Greene King plc. The results of Greene King Retailing Limited are included in the consolidated financial statements of Greene King plc which are publicly available from Westgate Brewery, Bury St Edmunds, Suffolk, IP33 1QT.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see note 2).

The following principal accounting policies have been applied:

Financial Reporting Standard 101 – Reduced disclosure exemptions

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

- the requirements of paragraph 33(c) of IFRS 5 Non Current Assets Held For Sale and Discontinued Operations;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirements of paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraph 101.8(f) of FRS101 prior period comparative disclosures in relation to fixed assets.

Notes to the financial statements

for the period ended 1 May 2016

1. Accounting policies (continued)**Going concern**

The company's business activity, together with the factors likely to affect its future development, performance and position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposure to price, credit, liquidity and cash flow risk are described in the Strategic report.

The directors are of the opinion that the company's forecast and projections, taking account of reasonably possible changes in trading performance and stress testing, show that the company should be able to operate within its current borrowing facilities and comply with its financing covenants.

At the balance sheet date the company had net liabilities of £312m and net current liabilities of £267m. Within the net liabilities is a £394m subordinated loan from other group companies. This loan cannot be repaid until all the securitised debt has been fully repaid.

The directors have prepared the financial statements on a going concern basis as the ultimate parent company, Greene King plc, has given a formal undertaking that it will provide financial support to enable the company to meet its liabilities as they fall due, for at least twelve months from the date of signing these financial statements.

After making enquiries of the directors of Greene King plc, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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 company and is measured at the fair value of consideration receivable, excluding discounts, rebates, and other sales taxes. 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. 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.

Business combinations and goodwill

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

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

Goodwill is initially measured at cost and represents the excess of the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised over the net identifiable amounts of the assets acquired and liabilities assumed in exchange for the business combination. Assets acquired and liabilities assumed in transactions separate to the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements, are accounted for separately from the business combination in accordance with their nature and applicable IFRSs.

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

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset.

Freehold land is not depreciated. Freehold buildings and long leasehold properties are depreciated to their estimated residual values over periods up to fifty years and short leasehold properties are depreciated to their estimated residual values over the remaining term of the lease. Furniture and equipment assets are depreciated over their estimated useful lives which range from three to twenty years. Where the carrying value of properties may not be recoverable, an impairment in the value of tangible fixed assets is charged to the income statement.

Notes to the financial statements

for the period ended 1 May 2016

1. Accounting policies (continued)

Residual value is reviewed at least at each financial year end and there is no depreciable amount if residual value is the same as, or exceeds, book value. Residual values, useful lives and methods of depreciation are reviewed for all categories of tangible fixed assets and adjusted, if appropriate, at each financial year end.

A fixed asset is de-recognised upon disposal or when no future economic benefits are expected from its use. Profit or loss on de-recognition 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 de-recognition.

Impairment*Tangible fixed assets*

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 company 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 tangible fixed assets are provided in note 11.

Goodwill

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

The group reviews goodwill over the total pub estate. For the purpose of impairment testing, the carrying value of the goodwill is compared to its recoverable amount being the higher of net realisable value and value in use. Where the recoverable amount is less than the carrying value, an impairment loss is recognised immediately in the income statement. This loss cannot be reversed in future periods.

If part of the pub estate is disposed, 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 estate retained. Goodwill amortised prior to the conversion to IFRS on 28 April 2013 has not been reinstated and the net book value of goodwill at that date has been carried forward as the carrying value.

Tangible fixed assets held for sale

Tangible fixed assets are 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. Tangible fixed assets 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.

Stocks

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks 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.

Notes to the financial statements

for the period ended 1 May 2016

1. Accounting policies (continued)**Derivatives and financial instruments**

Financial instruments are recognised when the group becomes party to the contractual provisions of the instrument and de-recognised 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.

Trade receivables

Trade 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.

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

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

Interest rate swaps are initially measured at fair value, if any, and carried on the balance sheet as an asset or liability. Subsequent measurement is at fair value determined by reference to market values for similar instruments. If a derivative does not qualify for hedge accounting the gain or loss arising on the movement in fair value is recognised in the income statement.

Hedge accounting

To qualify for hedge accounting the hedge relationship must be designated and documented at inception. Documentation must include the 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 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 directly in other comprehensive income, whilst any ineffective portion is recognised immediately in the income statement.

Amounts taken to other comprehensive income 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 other comprehensive income are held there until the previously hedged transaction affects profit or loss. If the hedged transaction is no longer expected to occur, the cumulative gain or loss recognised in other comprehensive income is immediately transferred to the income statement.

Trade payables

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

Amounts owed to other group companies

Amounts owed by or to other Greene King group companies, are classified as current receivables or payables unless there is a formal loan arrangement in place that specifies repayment over a period longer than one year from the balance sheet date.

Notes to the financial statements

for the period ended 1 May 2016

1. Accounting policies (continued)**Income tax**

Income tax comprises both the income tax payable based on profits for the period 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 directly in other comprehensive income and equity is recognised in other comprehensive income 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 relating to items recognised directly in other comprehensive income and equity is recognised in other comprehensive income and equity respectively.

Operating leases

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

Exceptional items

Exceptional items are defined as items of income or expense which, because of their nature, size or expected frequency, merit separate presentation to allow a better understanding of the underlying performance in the period.

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 first issued in November 2009 and has since been amended several times. A complete version of the standard was issued in July 2014 and is a replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 covers the classification, measurement and derecognition of financial assets and financial liabilities, together with a new hedge accounting model and the new expected credit loss model for calculating impairment. The new standard becomes effective for annual periods beginning on or after 1 January 2018, subject to EU adoption. The group is currently considering the impact of IFRS 9 on its consolidated results and financial position.

IFRS 15 Revenue from contracts with customers

The IASB issued IFRS 15 Revenue from contracts with customers in May 2014. The new standard provides a single, five-step revenue recognition model, applicable to all sales contracts, which is based upon the principle that revenue is recognised when the control of goods or services is transferred to the customer. This standard replaces all existing revenue recognition guidance under current IFRS and becomes effective for annual periods beginning on or after 1 January 2018. The group is currently considering the impact of IFRS 15 on its consolidated results and financial position.

Notes to the financial statements

for the period ended 1 May 2016

1. Accounting policies (continued)**IFRS 16 Leases**

In January 2016, the IASB issued IFRS 16, Leases which requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new standard, IFRS 15, Revenue from Contracts with Customers, has been applied, or is applied at the same date as IFRS 16. The group is currently considering the impact of adopting IFRS 16 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.

2. Judgements in applying accounting policies and key sources of estimation uncertainty

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.

The estimates and judgments considered to be significant are detailed below:

Taxation

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

Impairment of goodwill

The company 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 10. 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 tangible fixed assets

The company determines whether tangible fixed assets are impaired where there are indicators of impairment. This requires an estimation of the value-in-use and fair value less costs of disposal at a site 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 11 describes the assumptions used in the impairment testing of tangible fixed assets together with an analysis of the sensitivity to changes in key assumptions.

Residual values

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

Derivative financial instruments and hedge accounting

Estimates are required when calculating the fair value of the company's interest rate swaps. Note 21 describes the key assumptions and valuation model inputs used in the determination of these fair values.

Business combinations

For the business combination the assets acquired and liabilities assumed have been valued at fair value. This requires a number of estimates with the details on the fair valuation being disclosed in note 14.

Notes to the financial statements

for the period ended 1 May 2016

3. Turnover

Turnover, which is stated net of value added tax, is derived from the provision of goods and services in the United Kingdom which fall within the group's continuing ordinary activity. The principal business activity is the management of securitised public houses. Turnover is analysed as follows:

	52 weeks to 1 May 2016 £m	52 weeks to 3 May 2015 £m
Goods	629	616
Services	59	61
	688	677

Turnover from services includes rent receivable from licensed properties of £31m (2015: £33m).

4. Exceptional items

	52 weeks to 1 May 2016 £m	52 weeks to 3 May 2015 £m
Net impairment of property, plant and equipment (note 11)	24	17
Net profit on disposal of property, plant and equipment	(19)	(1)
Insurance proceeds	(1)	-
	4	16

During the period the group recognised a net impairment loss of £24m (2015 - £17m) in respect of its licenced estate. This is comprised of an impairment charge of £58m (2015: £17m) and reversal of previously recognised impairment losses of £34m (2015: £nil). The impairment charge includes £1m in respect of properties damaged by fire in the year. The remaining impairment charge 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 changes to estimates of fair value less costs of disposal. In addition to this 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 the period, the group received further insurance compensation to meet the costs of restoring sites fire damaged in a previous period totalling £0.5m (2015: £0.1m).

The net profit on disposal of property, plant and equipment and goodwill of £19m (2015 - £1m profit) comprises a total profit on disposal of £29m (2015 - £6m) and a total loss on disposal of £10m (2015 - £5m).

5. Operating profit

	52 weeks to 1 May 2016 £m	52 weeks to 3 May 2015 £m
Operating profit is stated after charging/(crediting):		
Operating lease rentals – minimum lease rentals	1	1
Depreciation of owned tangible fixed assets (note 11)	34	35

The auditor's remuneration for the period of £15,000 (2015: £15,000) has been borne by another group company. There were no non-audit services provided by the auditors (2015: none).

Notes to the financial statements

for the period ended 1 May 2016

6. Employment costs

During the period the company paid £147m (2015 - £139m) to Greene King Brewing and Retailing Limited, a fellow group undertaking. This payment was to procure the secondment of employees from two other companies, Greene King Services Limited and Greene King Retail Services Limited, both of whom are fellow subsidiaries of Greene King plc.

The average number of employees (including executive directors) seconded during the period was as follows:

	52 weeks to 1 May 2016 No.	52 weeks to 3 May 2015 No.
Retailing	14,955	14,793

The figure above includes 7,719 (2015 – 9,355) part-time employees.

Pension contributions and employment taxes in respect of the employees working for the company are borne by fellow group undertakings mentioned above and are also recharged to the company

The directors who held office during the period were also directors of fellow company undertakings. Total emoluments received by these directors totalled £5.5m (2015 - £5.9m), including pension contributions of £0.4m (2015 - £0.5m), paid by the ultimate parent company or other group undertakings. The emoluments received by the highest paid director totalled £2.6m (2015 - £2.1m) including pensions contributions of £0.4m (2015 - £0.5m). The directors do not believe that it is practicable to apportion this amount between qualifying services as directors to the company and of fellow company undertakings. The number of directors who received or exercised share options from Greene King plc during the period was 5 (2015 - 7).

7. Interest receivable and similar income

	52 weeks to 1 May 2016 £m	52 weeks to 3 May 2015 £m
Interest receivable	1	2

8. Interest payable and similar charges

	52 weeks to 1 May 2016 £m	52 weeks to 3 May 2015 £m
Interest payable on bond finance	50	50
Amounts payable on interest rate swap agreements related to bond finance	28	29
Subordinated loans from group undertakings	49	50
	127	129

Notes to the financial statements

for the period ended 1 May 2016

9. Taxation

	52 weeks to 1 May 2016 £m	53 weeks to 3 May 2015 £m
Current income tax		
UK Corporation tax	10	5
	10	5
Deferred taxation		
Origination/reversal of temporary differences in the period	(21)	-
Credit in respect of rate change	(4)	-
	(25)	-
Tax (credit) / expense in the income statement	(15)	5

Reconciliation of tax (credit) / expense for period

The tax expense in the income statement is lower than (2015 - higher) than the standard rate of corporation tax of 20.0% (2015 - 20.9%). The differences are explained below:

	52 weeks to 1 May 2016 £m	52 weeks to 3 May 2015 £m
Profit on ordinary activity before tax	38	7
Profit on ordinary activity multiplied by standard rate corporation tax in the UK of 20.0% (2015 - 20.9%)	8	1
Effects of:		
Expenses not deductible for tax purposes	6	-
Tax relief on disposal of properties	(4)	-
Deferred tax credit in respect of licensed estate	(21)	6
Deferred tax credit in respect of rate change	(4)	-
Group relief received for nil consideration	-	(2)
	(15)	5

During the period a deferred tax charge of £2m (2015: credit of £13m) has been recognised in the Statement of other comprehensive income relating to the net losses on cash flow hedges taken to equity.

Factors that may affect future tax charges

The Finance Act 2013 reduced the rate of corporation tax from 21% to 20% from 1 April 2015.

The Finance Act (No.2) 2015 further reduced the corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020. These further reductions had not been substantively enacted at the balance sheet date and consequently are not included in these financial statements.

The net deferred tax asset has been calculated using the rates at which each temporary difference is expected to reverse. The effect of these rate reductions is no overall increase the net deferred tax asset comprising a credit to the income statement of £4m and a debit to the statement of changes in equity of £4m.

In addition, the Finance Act 2016 further reduces the rate of corporation tax to 17% from April 2020. This further reduction had not been substantively enacted at the balance sheet date so is not included in these financial statements. However, it will reduce the net deferred tax asset at the balance sheet date by £1m and the income tax charge in future periods.

Notes to the financial statements

for the period ended 1 May 2016

10. Goodwill

	£m
Cost	
At 3 May 2015	295
Acquisitions	5
Disposals	(6)
	294
Net book value	
At 1 May 2016	294
At 3 May 2015	295

The group's goodwill is allocated over the total pub estate. Management has assessed there to be one reportable segment. Goodwill disposed of in the period is measured based on the relative values of the operation disposed of and the estate retained.

The recoverable amount 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, the pre-tax discount rate and the growth rate used to extrapolate cash flows beyond the budgeted period.

Budgeted EBITDA is based on past experience adjusted to take account of the impact of expected changes to sales prices, volumes, business mix and margin, based on the current estate and committed capital expenditures.

Cash flows are discounted at 8.65% (2015: 9.0%) which is used as an approximation for the risk-adjusted discount rate of the relevant operating segment. A blended growth rate of 1.88% (1.0%) has been used to extrapolate cash flows. The growth rate is below the long-term average growth rate for the industry and reflects trends in trading performance.

Sensitivity to changes in assumptions

The calculation is most sensitive to changes in the assumptions used for budgeted cash flow, pre-tax discount rate and growth rate. Management consider that reasonable possible changes in assumptions would be an increase in discount 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 none of these changes would have resulted in an impairment of goodwill in the period.

Notes to the financial statements

for the period ended 1 May 2016

11. Tangible fixed assets

	Land & buildings £m	Fixtures, fittings & equipment £m	Total £m
Cost			
At 3 May 2015	1,400	358	1,758
Additions	29	29	58
Acquisitions	24	14	38
Transfers to assets held for sale	(1)	-	(1)
Disposals	(38)	(5)	(43)
At 1 May 2016	1,414	396	1,810
Depreciation			
At 3 May 2015	123	215	338
Charge for the period	5	29	34
Impairment	24	-	24
Transfer to asset held for sale	(1)	-	(1)
Disposals	(15)	(3)	(18)
At 1 May 2016	136	241	377
Net book value			
At 1 May 2016	1,278	155	1,433
At 3 May 2015	1,277	143	1,420

The net book value of land and buildings may be further analysed as follows:

	2016 £m	2015 £m
Freehold	1,210	1,228
Leasehold properties > 50 years unexpired term	40	30
Leasehold properties < 50 years unexpired term	28	19
	1,278	1,277

Impairment

During the period £24m of impairment losses (2015: £17m) were recognised in the income statement as exceptional administrative expenses. This is comprised of an impairment charge of £58m (2015: £17m) and reversal of previously recognised impairment losses of £34m (2015: nil). The recoverable amount for assets impaired was based on value in use of £36m and fair value less cost of disposal of £66m. The recoverable amount for assets with impairment reversal was based on value in use of £150m and fair value less cost of disposal of £4m.

The company considers that each of its individual pubs is a cash generating unit (CGU). Each CGU is reviewed annually for indicators of impairment. When indicators of impairment are identified the carrying value of the CGU is compared to its recoverable amount. The recoverable amount is the higher of the CGU's fair value less costs of disposal and its value-in-use.

The company estimates value-in-use using a discounted cash flow model. The key assumptions used are the discount rate applied to cash flow projections of 8.65% (2015: 9.0%) and the projected cash flows extrapolated using an average growth rate of 1.75% in Pub Company (2015: 1.0%) and 2.50% in Pub Partners (2015: 1.0%) which are below the long-term average growth rate for the industry and reflect trends in trading performance.

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

Notes to the financial statements

for the period ended 1 May 2016

11. Tangible fixed assets (continued)

Estimates of fair value less costs of disposal are based on an external valuation with the latest valuation being performed in 2015/2016. 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 IFRS13 Fair Value Measurement. As they use significant unobservable inputs they are classified within Level 3 of the fair value hierarchy. This hierarchy is further explained in note 21.

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.

Sensitivities to change 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 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:

	2016 £m	2015 £m
Increased impairment resulting from a 10% reduction in fair value less cost of disposal	9	5
Increased impairment resulting from a 1% increase in discount rate	12	4
Increased impairment resulting from a 1% reduction in growth rate	12	4

12. Tangible assets held for sale

At the period end, tangible fixed assets held for sale of £0.6m (2015 - £0.4m) represents pubs that are being actively marketed for sale with expected completion dates within one year. The value of tangible fixed assets held for sale represents the expected net disposal proceeds. The impairment reversal on reclassification to assets held for sale for these sites was £0.1m (2015 - nil), and is included as an exceptional item (see note 4).

13. Investments

	2016 £m	2015 £m
Shares in subsidiaries at cost	22	22

The following were subsidiary undertakings of the company, all subsidiaries were incorporated in England and Wales, they all held property until January 2015, when they all operated as financing companies:

Name of company	Principal Activity	Holding	Shares held
Sapphire Food North East No.1 Limited	Non-trading	Ordinary shares	100%
Sapphire Food South West No.2 Limited	Non-trading	Ordinary shares	100%
Sapphire Food North West No.3 Limited	Non-trading	Ordinary shares	100%
Sapphire Food South East No.4 Limited	Non-trading	Ordinary shares	100%
Sapphire Rural Destinations No.5 Limited	Non-trading	Ordinary shares	100%

Notes to the financial statements

for the period ended 1 May 2016

14. Business combinations

On 1 May 2016 the company acquired 11 sites from Greene King Brewing and Retailing Limited, a fellow group undertaking for consideration of £40.9m settled in cash.

The fair value of the identifiable assets and liabilities acquired as at the date of acquisition were: property plant and equipment of £38.2m, inventory of £0.2m, other payables, including accruals of £2.6m and other receivables, including prepayments of £0.1m. The fair value review of the property plant and equipment was carried out by qualified surveyors employed by the Greene King plc group. Goodwill arising on acquisition was therefore £5.0m as disclosed in note 10. Goodwill has arisen due to deferred tax and the differences between property portfolio value and individual pubs values.

From the date of acquisition to 1 May 2016 the acquired sites contributed revenue of nil and operating profit of nil to Greene King Retailing Limited.

If the acquisition of the 11 sites had taken place at the start of the financial period, the enlarged business would have recognised turnover of £704m and profit before tax of £42m.

15. Stocks

	2016 £m	2015 £m
Finished goods for resale	7	7

During the period the company recognised £223m (2015: £221m) cost of stocks as an expense within cost of sales.

The difference between the purchase price or production cost of finished goods and their replacement cost is not considered to be material.

16. Debtors

	2016 £m	2015 £m
Due after more than one year		
Deferred taxation	31	31
Due within one year		
Trade debtors	8	8
Other debtors	2	2
Prepayments and accrued income	3	3
	13	13

17. Cash and cash equivalents

	2016 £m	2015 £m
Cash at bank and in hand	109	34

Notes to the financial statements

for the period ended 1 May 2016

18. Creditors: amounts falling due within one year

	2016 £m	2015 £m
Corporation tax	7	-
Taxation and social securities	4	3
Accruals and deferred income	42	41
Amounts owed to fellow company undertakings		
Trade creditors	109	229
Accrued interest on subordinated loan	210	9
	372	282

Trade creditors and other payables are non-interest bearing. Interest payable included within accruals and deferred income is mainly settled quarterly throughout the year, in accordance with the terms of the related financial instrument.

During the year an agreement was reached between fellow group undertakings, whereby £169.6m of interest paid previously under the subordinated loan have been used to settled outstanding trade payables.

19. Creditors: amounts falling due after one year

	2016 £m	2015 £m
Subordinated loan	394	394
	394	394

The subordinated loan is not repayable until all other borrowings have been repaid. This is currently scheduled to be December 2036. Interest accrues at 12.5% per annum and can only be paid if the Greene King Retailing Parent Limited group, which incorporates this entity, meets its financial covenants.

Notes to the financial statements

for the period ended 1 May 2016

20. Borrowings

	Within one year £m	2016 After one year £m	Total £m
Securitised debt with Greene King Finance plc			
Term Advances A1	9	105	114
Term Advances A2	5	233	238
Term Advances A3	12	61	73
Term Advances A4	-	259	259
Term Advances A5	8	235	243
Term Advances AB1	-	60	60
Term Advances B1	-	121	121
Term Advances B2	-	100	100
	34	1,174	1,208
Deferred issue costs	-	(7)	(7)
	34	1,167	1,201

	Within one year £m	2015 After one year £m	Total £m
Securitised debt with Greene King Finance plc			
Term Advances A1	9	114	123
Term Advances A2	5	238	243
Term Advances A3	12	73	85
Term Advances A4	-	259	259
Term Advances A5	7	243	250
Term Advances AB1	-	60	60
Term Advances B1	-	121	121
Term Advances B2	-	100	100
	33	1,208	1,241
Deferred issue costs	-	(8)	(8)
	33	1,200	1,233

Securitised debt

Greene King Finance plc had issued various tranches of bonds totalling £1,500.0m, in connection with the securitisation of 1,474 of Greene King plc group's pubs held by Greene King Retailing Limited. Greene King Retailing Limited has issued Term advances to Greene King Finance plc with similar terms to the bonds issued by Greene King Finance plc. The bonds are secured over the properties and their future income streams.

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

Notes to the financial statements

for the period ended 1 May 2016

21. Financial instruments

The primary treasury objectives of the company 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 company. If appropriate, the company uses financial instruments and derivatives to manage these risks.

The principal financial instruments held for the purpose of raising finance for operations are securitised loans with Greene King Finance plc and a subordinated loan with Greene King plc.

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

The main risks from the company'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 company 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 company's policy is to keep 100% of its variable rate bond finance at fixed rates of interest to mitigate the interest rate risk, this is done through the use of interest rate swaps. At the period end 100% of variable rate bond finance were fixed after taking account of interest rate swaps.

	Repayment date	Nominal interest rate	Nominal value 2016 £m	Carrying value net of deferred issue costs 2016 £m
Securitised debt with Greene King Finance plc				
Term Advances A1	2012 to 2031	Variable	114	113
Term Advances A2	2005 to 2031	5.32%	238	236
Term Advances A3	2006 to 2021	Variable	73	73
Term Advances A4	2021 to 2034	5.11%	259	257
Term Advances A5	2008 to 2033	Variable	243	243
Term Advances AB1	2033 to 2036	Variable	60	60
Term Advances B1	2031 to 2034	5.70%	121	120
Term Advances B2	2034 to 2036	Variable	100	99
			1,208	1,201

The interest on the A1, A3, A5, AB1 and B2 Term Advances is payable at three month sterling LIBOR plus a margin of 0.95%, 1.25%, 2.5%, 5.25% and 2.08% respectively. Repayment is made on quarterly dates within the date ranges shown above.

Hedging

The company's policy is to hedge exposure to interest rate risk. Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is recognised.

At 1 May 2016 the company held 5 (2015: 5) interest rate swap contracts for a nominal value of £590m (2015: £618m), entered into as part of the securitisation and subsequent securitisation taps.

A fair value liability of £249m (2015: £236m) has been recognised on the balance sheet in respect of these contracts which are designated cash flow hedges against £590m (2015: £618m) of variable rate bonds, receiving a variable rate of interest based on LIBOR and paying a weighted average fixed rate of 7.4% (2015: 7.3%). The contract maturity dates range from September 2021 to March 2036. The bonds and 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.

Notes to the financial statements

for the period ended 1 May 2016

Liquidity risk

The group mitigates liquidity risk by managing cash generated by its operations combined with long-term debt. 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 (2015: 60 days). Excess cash used in managing liquidity is placed on interest-bearing deposit with maturities fixed at no more than 1 month.

The table below summarises the maturity profile of the company's financial instruments at 1 May 2016 and 3 May 2015 based on contractual undiscounted payments including interest.

Period ended 1 May 2016	Within one year £'000	One to two years £'000	Two to five years £'000	More than five years £'000	Total £'000
Subordinated loan:					
- Capital	-	-	-	393,670	393,670
- Interest	-	-	-	1,195,127	1,195,127
	-	-	-	1,588,797	1,588,797
Term loans:					
- Capital	34,772	36,766	123,395	1,012,795	1,207,728
- Interest	49,376	49,466	143,315	416,536	658,693
	84,148	86,232	266,710	1,429,331	1,866,421
Interest rate swaps settled net	26,058	23,714	63,016	164,045	276,833
	110,206	109,946	329,726	3,182,173	3,732,051
Period ended 3 May 2015	Within one year £'000	One to two years £'000	Two to five years £'000	More than five years £'000	Total £'000
Subordinated loan:					
- Capital	-	-	-	393,670	393,670
- Interest	-	-	-	1,043,060	1,043,060
	-	-	-	1,436,730	1,436,730
Term loans:					
- Capital	32,893	34,772	116,723	1,056,233	1,240,621
- Interest	46,935	48,107	146,452	416,119	657,613
	79,828	82,879	263,175	1,472,352	1,898,234
Interest rate swaps settled net	27,301	23,544	53,702	162,471	267,018
	107,129	106,423	316,877	3,071,553	3,601,982

Credit risk

Financial assets include cash and cash equivalents and trade receivables. Credit risk is the risk of default by the counterparty to discharge their obligation and the maximum exposure of the group is the carrying amount on 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.

Capital risk management

Debt and equity are considered to be the group's capital. The Greene King group monitors capital using free cash flow debt service coverage and EBITDA debt service coverage. For the period to 1 May 2016 the free cash flow to debt service coverage ratio was 1.5 times and the EBITDA to debt service ratio was 1.8 times.

Notes to the financial statements

for the period ended 1 May 2016

Fair values

Set out below is a comparison of carrying amounts and fair values of all of the company's financial instruments:

		1 May 2016		3 May 2015	
	Hierarchical classification	Fair value £'m	Carrying value £'m	Fair value £'m	Carrying value £'m
Financial liabilities:					
Securitised debt with Greene King Finance plc	1	(1,208)	(1,201)	(1,297)	(1,233)
Derivative financial instruments	2	(249)	(249)	(236)	(236)
Subordinated loan	2	(394)	(394)	(394)	(394)
Trade creditors	2	(109)	(109)	(229)	(229)
Accruals	2	(42)	(42)	(41)	(41)
Interest payable on subordinated loan	2	(210)	(210)	(9)	(9)
Financial assets					
Cash and cash equivalents	2	109	109	34	34
Trade debtors	2	7	7	8	8

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:

- The fair value of the securitised debt with Greene King Finance plc is considered to be the same as the bond finance issued by that entity given the proceeds of the issues of bond finance are lent to Greene King Retailing Limited as part of a securitisation of a portion of Greene King plc group's pubs business. The maturity dates and loan payment dates of the term advances correspond to the terms of the relevant class of bonds. These fair values are based on quoted market prices.
- Interest rate swaps are valued by discounting all future cash flows by the market yield curve at the balance sheet date and adjusting for, where appropriate, the company'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.

The fair value of other financial assets and liabilities are not materially different from their carrying value.

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 1 May 2016 and 3 May 2015 there were no transfers between levels 1, 2 or 3 fair value measurements.

Notes to the financial statements

for the period ended 1 May 2016

22. Deferred taxation

	£m
At 3 May 2015	4
Credited to income statement	25
Charged to equity	(2)
Arising on business combinations	(2)
At 1 May 2016	25

	2016 £m	2015 £m
Deferred tax liability		
Accelerated capital allowances	(14)	(16)
Rolled over gains and property revaluation	(6)	(27)
	(20)	(43)
Deferred tax asset (note 16)		
Derivatives	45	47
Net deferred tax asset / (liability)	25	4

Deferred tax assets and liabilities have been offset as follows:

	2016 £m	2015 £m
Deferred tax liability	(20)	(43)
Offset against deferred tax assets	14	16
Deferred tax liability	(6)	(27)
Deferred tax asset	45	47
Offset against deferred tax liabilities	(14)	(16)
Deferred tax asset	31	31

Notes to the financial statements

for the period ended 1 May 2016

23. Share capital

	2016 £	2015 £
Allotted, called up and fully paid		
1 Ordinary share of £1	1	1

The directors of the company have no rights to subscribe for additional shares in the company.

24. Reserves**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.

25. Commitments under operating leases

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

	2016 £m	2015 £m
Not later than 1 year	1	1
Later than 1 year and not later than 5 years	3	3
Later than 5 years	36	36
	40	40

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

	2016 £m	2015 £m
Not later than 1 year	29	27
Later than 1 year and not later than 5 years	89	77
Later than 5 years	58	45
	176	149

Future minimum rentals include £1.4m receivable in respect of non-cancellable subleases.

26. Related party transactions

During the period the company entered into transactions, in the ordinary course of business, with other related parties. The company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with related parties that are wholly owned subsidiaries of the Greene King plc group. Amounts shown as owed to and by group subsidiaries are all held with fellow group undertakings. There were no transactions entered into during the financial year or trading balances outstanding at the balance sheet date with other related parties.

Notes to the financial statements

for the period ended 1 May 2016

27. Post balance sheet events

On 26 May 2016 the company issued £300m A6 bonds maturing March 2035 at a coupon of 4.0643% and £40m AB2 bonds maturing March 2036 at a coupon of 6.0552%. Both bonds were issued to Greene King Finance plc. In addition, Greene King plc advanced a further subordinated loan balance of £112.0m at an interest rate of 12.5% repayable upon repayment of the group's securitised bonds in March 2036.

£116.6m of these proceeds were used by the group to meet the mark to market amount of certain derivatives financial liabilities. These interest rate swaps had a nominal value of £302.9m and a carrying value at 1 May 2016 of £121.1m.

A further £60m was used to acquire the £60m AB1 secured note issued by Greene King Finance plc from Greene King plc. In accordance with the terms of these notes following this transaction the notes were subsequently cancelled.

The remaining proceeds were used in the acquisition of 89 trading pubs from Greene King Brewing and Retailing Limited for £308.9m.

Given the proximity of the acquisition to the date of issue of these financial statements management are yet to conclude an assessment of the fair value of the assets and liabilities acquired.

On the same date the company also disposed of 20 trading pubs to Greene King Brewing and Retailing Limited for consideration of £17.2m.

28. Ultimate parent company

At 1 May 2016, the directors consider the immediate parent undertaking and immediate controlling party of Greene King Retailing Parent Limited to be Greene King plc, a company incorporated in England and Wales.

The ultimate controlling party is also Greene King plc, a company registered in England and Wales. This is the parent undertaking of the smallest and largest group which includes the results of the company and for which group accounts are prepared. Copies of its group accounts are available from Westgate Brewery, Bury St Edmunds, Suffolk, IP33 1QT.