

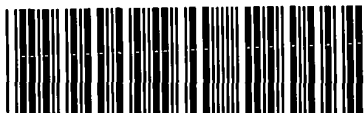
Greene King Retailing Limited

Annual Report and Financial Statements

30 April 2017

Registered number: 05265451

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COMPANIES HOUSE

Company information

Directors	R Anand K Davis J Forrest R Lewis P Thomas (appointed 28 March 2017) C Chesser (appointed 19 May 2017)
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 30 April 2017.

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 reducing the size of the estate.

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

	52 weeks to 30 April 2017 £m	52 weeks to 1 May 2016 £m	Change %
Revenue	815	688	+ 18.5%
Pre-exceptional operating profit	195	168	+16.1%
Pre-exceptional operating margin	23.9%	24.4%	
EBITDA	234	198	+ 18.2%
Outstanding bond issuance	1,444	1,208	+ 19.5%
Number of pubs at period end			
- Tenanted	733	780	- 6.0%
- Managed	731	694	+ 5.3%

EBITDA represents earnings before interest, tax, depreciation, amortisation and exceptional items.

This has been another successful period for Greene King Retailing Limited with record revenue, up 18.5% to £815m.

The increase in the proportion of managed pubs has driven substantial growth in pre-exceptional EBITDA per pub during the period, up 19.2% to £160,000. The debt service ratio has remained relatively stable at 1.7.

During the period the company disposed of 47 tenanted and 52 managed pubs for a net profit on disposal of £11m. The company acquired 89 managed pubs for a consideration of £308.4m.

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 strategic risks, economic and market risks, financial risks, and operational and people risks.

Strategic risks

The failure to adopt the right strategy for the company or poor execution of the company's strategy could lead to reduced revenue, profitability and lower growth rates than our strategic objectives.

The failure to deliver an appealing customer offer, to identify and respond to fast-changing consumer tastes and habits (including the use of digital media), to respond to increased competition, to price products appropriately and to align the portfolio to the market could all lead to reduced revenue, profitability and lower market share and growth rates than anticipated.

The company mitigates these risks through identifying a range of consumer trends and developed plans to respond to them, including the piloting of new brands or variations of existing brands and the sale of non-core sites. We use guest satisfaction tools and net promoter scores to collect customer feedback and measure performance of our pubs. Each brand has its own pricing strategy and discounting and promotions are carefully targeted. Competitor activity is monitored at both a strategic and tactical level, and we provide training, support and a range of innovative agreements for our tenants, so that they are also able to compete in their markets.

We support and train our employees to ensure service standards meet guest expectations and continue to improve, and we are increasing our use of social media to enhance our communications with our guests and other consumers.

Strategic report (continued)**Economic and market risks**

We are at risk of a weakening economy and softer consumer confidence in the UK, particularly given the recent UK general election and as Brexit negotiations unfold. We also face significant cost headwinds, including wage cost inflation as a result of the introduction of the National Living Wage, higher business rates and increased costs of goods, which could all lead to reduced revenue, profitability and lower growth rates.

The company aims to mitigate this risk by focusing on value, service and quality and are continuing to invest in our pubs, as well as piloting new brands and variations of existing brands, to ensure that our pubs appeal to a broad range of consumers. Plans have been developed to mitigate much of the anticipated cost increases facing the business, including better procurement and labour scheduling and otherwise reducing our cost base. We have a broad geographic spread of pubs across the country, including in London and the south east.

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 company 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, which in turn would damage our reputation and ongoing creditworthiness.

The company's long term strategy and business plans are formulated to ensure that financial covenants can be met and monitored on a regular basis. Working capital is carefully forecast, regularly reviewed and closely managed by the finance teams.

Operational and people risks

The company is reliant on the quality of its employees and licensees. If we are unable to recruit, develop and retain key employees it may be more difficult to execute our business plans and strategy, impacting our revenue and profitability. For our Pub Partners division we face similar issues with regard to licensees.

A branded recruitment plan to ensure that we attract suitable candidates and operate a range of apprenticeship programmes. Career development plans are in place to retain key employees, whilst remuneration packages are benchmarked to ensure that they remain competitive. We have recently launched our new values programme, Winning Ways, to improve engagement across the business.

Where appropriate exit interviews are conducted to enable action plans to be developed to deal with key leaver reasons, and our annual employee engagement survey is used to obtain direct feedback from employees on a range of issues. Managers are tasked with developing action plans to deal with the feedback received.

For our tenanted pub business we have a range of tenancy agreements, training programmes and support available to attract and retain the best quality licensees.

The company is reliant on information systems and technology for many aspects of the business. A significant cyber security breach or other loss of data could impact our ability to do business, impacting both revenue and profitability. In addition we could suffer reputational damage and financial damage from fines or compensation. Deliberate acts of cyber crime are on the increase, targeting all markets and heightening risk exposure.

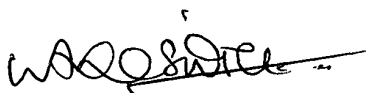
A data governance group oversees improvements in systems and processes, including information security, designed to maintain securely employee, customer and other data held by the company, and also seeks to raise awareness of issues among employees and ensure their compliance with our IT policies.

A range of enhanced controls have been introduced across the business by the company's information security team to improve the security of our networks and systems, including encryption, enhanced access and information handling controls. Our networks are protected by firewalls and anti-virus protection systems, and threats to our data security, by viruses, hacking or breach of access controls, are constantly monitored.

The company is reliant on a number of key suppliers and third party distributors. Supply disruption could impact customer satisfaction and lead to loss of revenue whilst the long term failure or withdrawal of a key supplier or distributor could also lead to increased costs.

We maintain back up plans in case of the failure by or loss of a key supplier, and we expect our key suppliers to maintain disaster recovery plans which we review on a regular basis. Regular monitoring is undertaken of KPIs applicable to both third party suppliers and distributors, with issues flagged for resolution.

This report was approved by the board on 25 Jan 2018 and signed on its behalf.



Mrs L A Keswick
Company Secretary

Directors' report

The directors present their annual report and financial statements for the 52 week period ended 30 April 2017.

Results and dividends

The profit after tax and interest was £27m (2016: £53m) and the directors do not recommend the payment of a dividend (2016: £nil).

Directors and their interests

The directors who served during the period were:

R Anand
K Davis
J Forrest
C Houlton (resigned 2 May 2017)
R Lewis
K Millbanks (resigned 19 May 2017)
P Thomas (appointed 28 March 2017)

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.

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 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 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.

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 bank loans and overdrafts, securitised bonds, cash and short term deposits. Other financial instruments arise directly from the operations of the company, such as trade receivables and payables.

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.

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.

Directors' report (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 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 £268m and net current liabilities of £263m. Within the net liabilities is a £506m 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.

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:

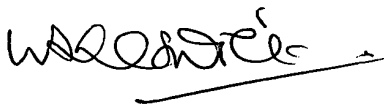
- to the best of their knowledge and belief, there is no information relevant to the preparation of this report of which the company's auditor is unaware; and
- they have taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish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

Post balance sheet events

There are no post balance sheet events requiring disclosure in the financial statements.

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: 25 Jan 2018

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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework.' 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 30 April 2017 which comprise the income statement, the statement of other comprehensive income, balance sheet, statement of changes in equity, and the related notes 1 to 27. 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 30 April 2017 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.

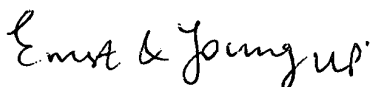
Opinion on other matter prescribed by the Companies Act 2006

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.



Lloyd Brown (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, UK

Date:

25 January 2018

Income statement

for the 52 week period ended 30 April 2017

	Notes	52 weeks to 30 April 2017 £m	52 weeks to 1 May 2016 £m
Turnover	3	815	688
Cost of sales		(242)	(223)
Gross profit		573	465
Administrative expenses		(378)	(297)
Exceptional and non-underlying administrative income / (expenses)	4	8	(4)
Operating profit	5	203	164
Interest receivable and similar income	7	1	1
Interest payable and similar charges	8	(138)	(127)
Exceptional finance costs	8	(34)	-
Profit on ordinary activity before taxation		32	38
Tax (charge) / credit	9	(5)	15
Profit for the period		27	53

The notes on pages 11 to 32 form part of these financial statements.

Statement of other comprehensive income

for the 52 week period ended 30 April 2017

	52 weeks to 30 April 2017 £m	52 weeks to 1 May 2016 £m
Profit for the period	27	53
Other comprehensive income		
Items that can be reclassified to profit or loss		
Losses on cash flow hedges taken to equity	(39)	(41)
Transfers to income statement on cash flow hedges	61	28
Tax on items relating to components of other comprehensive income	(5)	(2)
Other comprehensive profit / (loss) for the period net of tax	17	(15)
Total comprehensive income for the period net of tax	44	38

The notes on pages 11 to 32 form part of these financial statements.

Balance sheet

as at 30 April 2017

	Notes	30 April 2017 £m	1 May 2016 £m
Fixed assets			
Intangible assets	10	329	294
Tangible assets	11	1,667	1,433
Investments	13	22	22
		2,018	1,749
Current assets			
Tangible assets held for sale	12	2	1
Stocks	15	7	7
Debtors: Amounts falling due after more than one year	16	12	31
Debtors: Amounts falling due within one year	16	11	13
Cash at bank	17	112	109
		144	161
Creditors: amounts falling due within one year	18	(345)	(372)
Borrowings	20	(49)	(34)
Financial instruments	21	(13)	(22)
Net current liabilities		(263)	(267)
Total assets less current liabilities		1,755	1,482
Creditors: amounts falling due after more than one year	19	(506)	(394)
Borrowings	20	(1,383)	(1,167)
Financial instruments	21	(134)	(227)
Provision for liabilities	22	-	(6)
Net liabilities		(268)	(312)
Capital and reserves			
Share capital	23	-	-
Hedging reserve	24	(186)	(203)
Profit and loss account	24	(82)	(109)
Total equity		(268)	(312)

The financial statements were approved and authorised for issue by the board of directors and signed on its behalf on 25 Jan 2018 by:



K Davis
Director

Statement of changes in equity

as at 30 April 2017

	Share Capital £m	Hedging reserves £m	Retained earnings £m	Total equity £m
As 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)/income for the period	-	(15)	53	38
At 1 May 2016	-	(203)	(109)	(312)
Comprehensive income for the period				
Profit for the period	-	-	27	27
Losses on cash flow hedges taken to equity	-	(39)	-	(39)
Transfers to the income statement on cash flow hedges	-	61	-	61
Tax on cash flow hedges	-	(5)	-	(5)
Total comprehensive income for the period	-	17	27	44
At 30 April 2017	-	(186)	(82)	(268)

Notes to the financial statements

for the period ended 30 April 2017

I. Accounting policies

Corporate information

The financial statements of Greene King Retailing Limited for the 52 weeks ended 30 April 2017 were authorised for issue by the board of directors on [redacted]. 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 publically 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.

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.

Notes to the financial statements

for the period ended 30 April 2017

I. 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 £268m and net current liabilities of £263m. Within the net liabilities is a £506m 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.

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.

Notes to the financial statements

for the period ended 30 April 2017

1. Accounting policies (continued)

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.

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 are measured at the lower of carrying amount and fair value less costs of disposal and are 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.

Notes to the financial statements

for the period ended 30 April 2017

1. Accounting policies (continued)

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.

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.

Notes to the financial statements

for the period ended 30 April 2017

I. Accounting policies (continued)

Derivatives and financial instruments (continued)

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.

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:

Notes to the financial statements

for the period ended 30 April 2017

1. Accounting policies (continued)

New standards and interpretations not applied (continued)

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was issued in July 2014 and is a replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 covers the classification, measurement and derecognition of financial assets and financial liabilities, together with a new hedge accounting model and the new expected credit loss model for calculating impairment. The new standard becomes effective for annual periods beginning on or after 1 January 2018, subject to EU adoption. An initial assessment indicates that the adoption of IFRS 9 will not have a material impact on its consolidated results and financial position.

IFRS 15 Revenue from contracts with customers

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

IFRS 16 Leases

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

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

IAS 7 Disclosure Initiative – Amendment to IAS 7

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

IFRIC 23 – Uncertainty over income tax treatments

The IASB issued IFRIC 23 – Uncertainty over income tax treatments in June 2017 to clarify application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments, effective 1 January 2019. Given the timing of the release the Group will assess the impact of this standard in the coming period.

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

- IAS 12 Recognition of Deferred Tax Assets for Unrealised Loss;
- The IASB's annual improvement process, 2014-2016.

Notes to the financial statements
for the period ended 30 April 2017

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 20 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 30 April 2017

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 30 April 2017 £m	52 weeks to 1 May 2016 £m
Goods	765	629
Services	50	59
	815	688

Turnover from services includes rent receivable from licensed properties of £29m (2016: £31m).

4. Exceptional items

	52 weeks to 30 April 2017 £m	52 weeks to 1 May 2016 £m
Net impairment of property, plant and equipment (note 11)	3	24
Net profit on disposal of property, plant and equipment	(11)	(20)
	(8)	4

During the period the company recognised a net impairment loss of £3m (2016: £24m) in respect of its licenced estate. This is comprised of an impairment charge of £33m (2016: £58m) and reversal of previously recognised impairment losses of £30m (2016: £34m). The impairment charge includes £nil (2016: £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.

The net profit on disposal of property, plant and equipment and goodwill of £11m (2016: £20m) comprises a total profit on disposal of £19m (2016: £30m) and a total loss on disposal of £8m (2016: £10m).

5. Operating profit

	52 weeks to 30 April 2017 £m	52 weeks to 1 May 2016 £m
Operating profit is stated after charging/(crediting):		
Operating lease rentals – minimum lease rentals	1	1
Depreciation of owned tangible fixed assets (note 11)	40	34

The auditor's remuneration for the period of £15,000 (2016: £15,000) has been borne by another group company. There were no non-audit services provided by the auditors (2016: none).

Notes to the financial statements

for the period ended 30 April 2017

6. Employment costs

During the period the company paid £187m (2016 - £147m) 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 30 April 2017 No.	52 weeks to 1 May 2016 No.
Retailing	16,779	14,955

The figure above includes 10,061 (2016 - 7,719) 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 £3.5m (2016 - £5.5m), including pension contributions of £0.4m (2016 - £0.4m), paid by the ultimate parent company or other group undertakings. The emoluments received by the highest paid director totalled £1.2m (2016 - £2.6m) including pensions contributions of £0.2m (2016 - £0.4m). 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 6 (2016 - 5).

7. Interest receivable and similar income

	52 weeks to 30 April 2017 £m	52 weeks to 1 May 2016 £m
Interest receivable	1	1

8. Interest payable and similar charges

	52 weeks to 30 April 2017 £m	52 weeks to 1 May 2016 £m
Interest payable on bond finance	59	50
Amounts payable on interest rate swap agreements related to bond finance	16	28
Subordinated loans from group undertakings	63	49
Non-exceptional finance costs	138	127
Exceptional finance costs	34	-
Finance costs	172	127

Exceptional finance costs of £34m have been recognised following the settlement of a number of the group's swap liabilities. These were settled at a discount recognising a £12m exceptional gain. The cash cost of settling this was £114m. The swaps concerned were hedging cashflows relating to the A5 bond and floating rate bank loans. These cashflows 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 £47m has been recognised in respect of this during the period.

Notes to the financial statements

for the period ended 30 April 2017

9. Taxation

	52 weeks to 30 April 2017 £m	52 weeks to 1 May 2016 £m
Current income tax		
UK Corporation tax	4	10
Adjustment in respect of prior periods	3	-
	7	10
Deferred taxation		
Origination/reversal of temporary differences in the period	2	(21)
Adjustment in respect of prior periods	(3)	-
Credit in respect of rate change	(1)	(4)
	(2)	(25)
Tax expense / (credit) in the income statement	5	(15)

Reconciliation of tax expense / (credit) for period

The tax expense in the income statement is lower than (2016: lower than) than the standard rate of corporation tax of 19.9% (2016: 20.0%). The differences are explained below:

	52 weeks to 30 April 2017 £m	52 weeks to 1 May 2016 £m
Profit on ordinary activity before tax	32	38
Profit on ordinary activity multiplied by standard rate corporation tax in the UK of 19.9% (2016 – 20.0%)	6	8
Effects of:		
Expenses not deductible for tax purposes	2	6
Tax relief on disposal of properties	(2)	(4)
Deferred tax credit in respect of licensed estate	-	(21)
Deferred tax credit in respect of rate change	(1)	(4)
	5	(15)

During the period a deferred tax charge of £5m (2016: £2m) 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 (No.2) 2015 reduced the corporation tax rate from 20% to 19% from 1 April 2017 and the Finance Act 2016 further reduced the rate to 17% from 1 April 2020. These reductions had been substantively enacted at the balance sheet date and are therefore 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 to reduce the net deferred tax asset by £1m comprising a credit to the income statement of £1m and a debit to the statement of changes in equity of £2m.

Notes to the financial statements

for the period ended 30 April 2017

10. Goodwill

	£m
Cost	
At 1 May 2016	294
Acquisitions	39
Disposals	(4)
	329
Net book value	
At 30 April 2017	329
At 1 May 2016	294

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% (2016: 8.65%) which is used as an approximation for the risk-adjusted discount rate of the relevant operating segment. A blended growth rate of 1.96% (1.88%) 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 30 April 2017

11. Tangible fixed assets

	Land & buildings £m	Fixtures, fittings & equipment £m	Total £m
Cost			
At 1 May 2016	1,414	396	1,810
Additions	26	27	53
Acquisitions	255	24	279
Transfers to assets held for sale	(2)	-	(2)
Disposals	(77)	(20)	(97)
At 30 April 2017	1,616	427	2,043
Depreciation			
At 1 May 2016	136	241	377
Charge for the period	7	33	40
Impairment	3	-	3
Transfer to asset held for sale	-	-	-
Disposals	(30)	(14)	(44)
At 30 April 2017	116	260	376
Net book value			
At 30 April 2017	1,500	167	1,667
At 1 May 2016	1,278	155	1,433

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

	2017 £m	2016 £m
Freehold	1,421	1,210
Long-term leasehold properties	79	68
	1,500	1,278

Impairment

During the period £3m of impairment losses (2016: £24m) were recognised in the income statement as exceptional administrative expenses. This is comprised of an impairment charge of £33m (2016: £58m) and reversal of previously recognised impairment losses of £30m (2016: £34m). The recoverable amount for assets impaired was based on value in use of £6m and fair value less cost of disposal of £27m. The recoverable amount for assets with impairment reversal was based on value in use of £22m and fair value less cost of disposal of £8m.

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% (2016: 8.65%) and the projected cash flows extrapolated using an average growth rate of 1.75% in Pub Company (2016: 1.75%) and 2.50% in Pub Partners (2016: 2.50%) which are below the long-term average growth rate for the 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 30 April 2017

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 2016/2017. 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:

	2017 £m	2016 £m
Increased impairment resulting from a 10% reduction in fair value less cost of disposal	9	9
Increased impairment resulting from a 1% increase in discount rate	7	12
Increased impairment resulting from a 1% reduction in growth rate	7	12

12. Tangible assets held for sale

At the period end, tangible fixed assets held for sale of £2m (2016: £1m) 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 £nil (2016: £nil), and is included as an exceptional item (see note 4).

13. Investments

	2017 £m	2016 £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	100%	Ordinary shares
Sapphire Food South West No.2 Limited	Non-trading	100%	Ordinary shares
Sapphire Food North West No.3 Limited	Non-trading	100%	Ordinary shares
Sapphire Food South East No.4 Limited	Non-trading	100%	Ordinary shares
Sapphire Rural Destinations No.5 Limited	Non-trading	100%	Ordinary shares

Notes to the financial statements

for the period ended 30 April 2017

14. Business combinations

On 27 May 2016 the company acquired 89 sites from Greene King Brewing and Retailing Limited, a fellow group undertaking for consideration of £308m 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 £279m, inventory of £1m, other payables, including accruals of £2m and other receivables, including prepayments of £2m. 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 £39m 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 30 April 2017 the acquired sites contributed revenue of £115m and operating profit of £29m to Greene King Retailing Parent Limited.

15. Stocks

	2017 £m	2016 £m
Finished goods for resale	7	7

During the period the company recognised £242m (2016: £223m) 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

	2017 £m	2016 £m
Due after more than one year		
Deferred taxation	12	31
Due within one year		
Trade debtors	7	8
Other debtors	1	2
Prepayments and accrued income	3	3
	11	13

17. Cash at bank

	2017 £m	2016 £m
Cash at bank	112	109

Notes to the financial statements

for the period ended 30 April 2017

18. Creditors: amounts falling due within one year

	2017 £m	2016 £m
Corporation tax	4	7
Taxation and social securities	4	4
Accruals and deferred income	44	42
Amounts owed to fellow company undertakings		
Trade creditors	56	109
Accrued interest on subordinated loan	237	210
	345	372

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.

19. Creditors: amounts falling due after one year

	2017 £m	2016 £m
Subordinated loan	506	394
	506	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 30 April 2017

20. Borrowings

	Within one year £m	2017 After one year £m	Total £m
Securitised debt with Greene King Finance plc			
Term Advances A1	10	95	105
Term Advances A2	6	226	232
Term Advances A3	13	48	61
Term Advances A4	-	259	259
Term Advances A5	8	227	235
Term Advances A6	13	277	290
Term Advances AB2	-	40	40
Term Advances B1	-	121	121
Term Advances B2	-	100	100
	50	1,393	1,443
Deferred issue costs	(1)	(10)	(11)
	49	1,383	1,432

	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

Securitised debt

Greene King Finance plc has issued various tranches of bonds in connection with the securitisation of 1,464 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.

In May 2016 Greene King Finance plc issued an additional £300m of secured loan notes with a fixed coupon at 4.06% (tranche A6) in connection with the securitisation of an additional 89 sites.

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 30 April 2017

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 2017 £m	Carrying value net of deferred issue costs 2017 £m
Securitised debt with Greene King Finance plc				
Term Advances A1	2012 to 2031	Variable	105	103
Term Advances A2	2005 to 2031	5.32%	232	230
Term Advances A3	2006 to 2021	Variable	61	61
Term Advances A4	2021 to 2034	5.11%	259	258
Term Advances A5	2008 to 2033	Variable	235	235
Term Advances A6	2016 to 2036	4.06%	290	286
Term Advances AB2	2033 to 2036	6.06%	40	40
Term Advances B1	2031 to 2034	5.70%	121	120
Term Advances B2	2034 to 2036	Variable	100	99
			1,443	1,432

The interest on the A1, A3, A5 and B2 Term Advances is payable at three month sterling LIBOR plus a margin of 0.95%, 1.25%, 2.5% 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 30 April 2017 the company held 4 (2016: 5) interest rate swap contracts for a nominal value of £501m (2016: £590m), entered into as part of the securitisation and subsequent securitisation taps. In addition the group holds 1 (2016: 1) forward starting swap commencing when the B1 Term Advances 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%.

A fair value liability of £147m (2016: £249m) has been recognised on the balance sheet in respect of these contracts which are designated cash flow hedges against £501m (2016: £590m) of variable rate bonds, receiving a variable rate of interest based on LIBOR and paying a weighted average fixed rate of 3.3% (2016: 5.1%). 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.

Notes to the financial statements

for the period ended 30 April 2017

21. Financial instruments (continued)

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.

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 (2016: 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 30 April 2017 and 1 May 2016 based on contractual undiscounted payments including interest.

Period ended 30 April 2017	Within one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Subordinated loan:					
- Capital	-	-	-	506	506
- Interest	-	-	-	1,439	1,439
	-	-	-	1,945	1,945
Term loans:					
- Capital	50	52	173	1,169	1,444
- Interest	58	57	156	391	662
	108	109	329	1,560	2,106
Interest rate swaps settled net	14	13	39	96	162
	122	122	368	3,601	4,213
Period ended 1 May 2016					
Subordinated loan:					
- Capital	-	-	-	394	394
- Interest	-	-	-	1,195	1,195
	-	-	-	1,589	1,589
Term loans:					
- Capital	35	37	123	1,013	1,208
- Interest	49	49	144	416	658
	84	86	267	1,429	1,866
Interest rate swaps settled net	26	24	63	164	277
	110	110	330	3,182	3,732

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.

Notes to the financial statements

for the period ended 30 April 2017

21. Financial instruments (continued)**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 30 April 2017 the free cash flow to debt service coverage ratio was 1.7 times and the EBITDA to debt service ratio was 2.0 times.

Fair values

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

	Hierarchical classification	30 April 2017 Fair value £'m	Carrying value £'m	1 May 2016 Fair value £'m	Carrying value £'m
Financial liabilities:					
Securitised debt with Greene King Finance plc	1	(1,518)	(1,432)	(1,208)	(1,201)
Derivative financial instruments	2	(147)	(147)	(249)	(249)
Subordinated loan	2	(506)	(506)	(394)	(394)
Trade creditors	2	(56)	(56)	(109)	(109)
Accruals	2	(44)	(44)	(42)	(42)
Interest payable on subordinated loan	2	(237)	(237)	(210)	(210)
Financial assets					
Cash and cash equivalents	1	112	112	109	109
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 30 April 2017 and 1 May 2016 there were no transfers between levels 1, 2 or 3 fair value measurements.

Notes to the financial statements

for the period ended 30 April 2017

22. Deferred taxation

	£m
At 1 May 2016	25
Credited to income statement	2
Charged to equity	(5)
Arising on business combinations	(10)
At 30 April 2017	12

	2017 £m	2016 £m
Deferred tax liability		
Accelerated capital allowances	(26)	(14)
Rolled over gains and property revaluation	-	(6)
	(26)	(20)
Deferred tax asset (note 16)		
Derivatives	38	45
Net deferred tax asset	12	25

Deferred tax assets and liabilities have been offset as follows:

	2017 £m	2016 £m
Deferred tax liability	(26)	(20)
Offset against deferred tax assets	26	14
Deferred tax liability	-	(6)
Deferred tax asset	38	45
Offset against deferred tax liabilities	(26)	(14)
Deferred tax asset	12	31

Notes to the financial statements

for the period ended 30 April 2017

23. Share capital

	2017 £	2016 £
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**Profit and loss account**

Profit and loss account reserve represents accumulated retained earnings.

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:

	2017 £m	2016 £m
Not later than 1 year	1	1
Later than 1 year and not later than 5 years	3	3
Later than 5 years	35	36
	39	40

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

	2017 £m	2016 £m
Not later than 1 year	26	29
Later than 1 year and not later than 5 years	68	89
Later than 5 years	54	58
	148	176

Future minimum rentals include £1.2m 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 30 April 2017

27. Ultimate parent company

At 30 April 2017, the directors consider the immediate parent undertaking and immediate controlling party of Greene King Retailing Limited to be Greene King Retailing Parent Limited, a company incorporated in England and Wales.

The ultimate controlling party is 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.