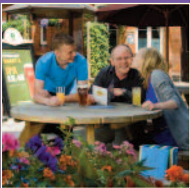
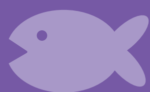
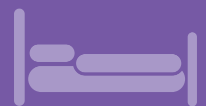
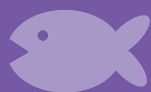
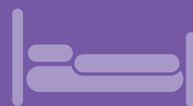
GREENE KING PLC
ANNUAL REPORT **2008/09**











Who we are

Greene King is one of the country's leading brewers and pub retailers. With a long tradition of brewing beer and running pubs, dating back over 200 years, our wide range of pubs, restaurants and hotels, together with our world famous traditional ale brands, makes us what we are today – a leader in our field.

We operate, rent and lease pubs and restaurants throughout England, Wales and Scotland. We brew beer and sell drinks to a wide range of customers across the licensed trade. Our customers are diverse; they range from pub-goers and hotel guests to licensees, supermarkets and national pub chains, yet they all have one thing in common – they all appreciate excellent service, first-class product quality and value for money.

With our base in Suffolk, we serve communities throughout mainland Britain. Our reputation for playing an important role at the heart of those communities is as important to us as our reputation with our shareholders for consistently delivering solid results.

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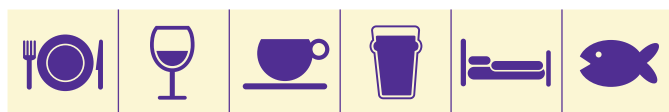
What we do

Greene King's main businesses are Retail (Local Pubs, Destination Pubs and Loch Fyne Restaurants); Pub Partners, our tenancy and leasing division; Brewing Company; and Belhaven, our Scottish business, which operates the same three profit streams separately from the rest of the UK operations. In total we operate about 2,500 pubs and restaurants, two breweries (Bury St Edmunds and Dunbar) and a number of regional depots. Our head office is in Bury St Edmunds, Suffolk, and we also have regional offices in Scotland.



Retail

(Destination Pubs, Local Pubs and Loch Fyne Restaurants)

Our Retail business includes our managed pubs, restaurants and hotels within England and Wales. At year end, we had 772 outlets. The instantly recognisable brands/formats of Hungry Horse, Hardy's House, Old English Inns and Loch Fyne Restaurants all sit within our Retail division. These, together with the 449 pubs in our Local Pubs division, put us firmly in local communities across the country.

Number of pubs

113

Number of pubs

31

Pub Partners

(tenanted and leased pubs)

This business operates all of our tenanted and leased pubs within England and Wales. There were 1,391 pubs within Pub Partners at the year end, split 22% leased and 78% tenancy. Pub Partners' business model is based upon ensuring optimum profit achievement for both licensee and Greene King. Maintaining licensee viability is our main aim and, to help achieve that, we provide industry-leading support and award-winning training programmes.

Tenancy 78%

Leased 22%

Number of outlets

1,391

Brewing Company

(industry-leading brands)

Brewing Company has, for many years, been Britain's leading cask ale brewer, investing more in cask ale than any other brewer and providing top level support and service to customers. We also lead the off-trade premium ale market with our thriving take home business. The business is responsible for brewing, distributing, marketing and selling our wide range of crafted ale brands, including Greene King IPA, Old Speckled Hen and Abbot Ale. Our range also includes Ruddles, St Edmunds and Olde Trip and numerous seasonal beers to help licensees drive cask ale sales. Our aim is to provide the best quality brands and service to our many and varied customers – Greene King outlets, other pub companies, free trade customers and supermarkets.

No.1

cask ale in UK[1]

No.2

premium cask ale in UK[1]

Belhaven

(Scotland)

Belhaven, our Scottish division, mirrors the Greene King model with managed and tenanted pubs operating as well as a brewing business. Its pubs division now comprises over 300 tenanted, leased and managed pubs, from Stranraer in the South to Wick in the North, and its brewing business is conducted from Dunbar. Belhaven continues to be operated quite separately from the other Greene King businesses.

Leading

ale in Scottish on-trade

Number of pubs

325

Percentage contribution to operating profit

- Retail 46.3%
- Pub Partners 31.1%
- Brewing Company 9.3%
- Belhaven 13.3%

Number of inns/hotels

58

Number of restaurants

48

Hungry Horse Every Hungry Horse pub is a friendly local that goes out to impress everyone with its quality family food offer, sense of fun and affordable prices.

Hardy's House A Hardy's House is the best choice for quality pub food, friendly atmosphere and personal touch in its locality – truly providing "something for everyone".

Old English Inns Interesting and characterful hotels with great quality food and drink, where staff are passionate about providing friendly hospitality, whatever your occasion.

Loch Fyne Restaurants Loch Fyne Restaurants, the home of superb seafood and shellfish, has 48 restaurants in the UK, all renowned for their unique buildings and warm ambience. What sets Loch Fyne apart is its approach to environmental issues combined with its attention to detail and focus on quality. It now has sustainability ambassadors in each restaurant who are able to pass on the latest environmental thinking to customers and colleagues alike.

Tenancies Our tenanted model is based on a more hands-on approach to working with our licensees. Pub Partners tenancy agreements are for three years, with a shared repair liability between the tenant and Greene King. These tenancy agreements offer free of tie for wines, spirits and minerals and other flexible options. They are an excellent fit for first-time licensees and those that don't wish to take on the extra responsibility of a lease.

Leases Our leased model offers longer, assignable lease agreements with full repairing and insuring liability sitting with the lessee. Lease agreements are generally for a minimum of ten years with options to increase in five-year periods to a maximum of 25 years, assignable after three years. These lease agreements attract the more entrepreneurial licensees who require more freedom to run the business as they would like.

No.1

premium ale in take home[2]

Greene King IPA Award-winning Greene King IPA retains its top spot as the best selling cask beer in the UK and is making a significant contribution to the resurgence of interest in cask ale, attracting new drinkers to the category. Recently given a new look reflecting its roots in the heart of Suffolk, its association with rugby, as the official beer of England Rugby, Harlequins and Sale Sharks, continues to grow.

Old Speckled Hen Gold medal winner in the prestigious Monde Awards, Old Speckled Hen is the leading premium ale in supermarkets. Its consistent growth since we acquired the brand ten years ago continues apace, and it is also our leading export brand. Its new mate in the coop, Old Crafty Hen, also won a Monde award and has wowed customers in its first year.

Abbot Ale Universally recognised for its outstanding quality, award-winning Abbot Ale is the top-selling premium cask ale in London and one of the top two in Britain. Brewed longer to a unique recipe that uses the finest barley from local farmers, this legendary ale bursts with flavour and retains its place as a favourite with the nation's discerning beer drinkers.

1 AC Nielsen On Trade Survey MAT to March 2009
2 AC Nielsen Scantrack data MAT to 18/04/09

Managed pubs Belhaven operates 96 managed pubs, the vast majority of which are not overtly branded. Food has become an increasingly important part of the operation, with sales growing by 49% in 2008/09 and now representing 25% of total managed pub turnover.

In 2008/09 seven ex-Retail sites were transferred to Belhaven, then extensively refurbished and finally successfully reopened as Eating Inns, a food-led, destination, family brand. The seven sites have all shown substantial year-on-year sales growth.

Tenanted pubs Belhaven operates 229 tenanted and leased pubs (48 tenanted and 181 leased), across most of Scotland. The team prides itself on being the "most considerate landlord" in Scotland and has introduced a package of measures designed to increase tenants cash flow and profitability.

Brewing Belhaven Best consolidated its position as Scotland's leading ale by increasing ale volume market share to over 20% in 2008. Belhaven Best, the official beer of the Scottish Golf Union, has benefited from tightly targeted TV advertising endorsing it as "Scotland's Best". Other Belhaven brands include 80/-, Twisted Thistle and St Andrew's Ale.

Chairman's statement

I am pleased to report that, in very demanding trading conditions, we have once more delivered resilient results. This year was tougher than last, yet we managed to grow our revenue by 1.3%** to £954.6m. Faced with significant margin pressures, we generated operating profit of £216.2m*, which was 6.7% below last year. Our profit before tax was £118.5m, down 15.0% on last year, but ahead of the £115.0m profit forecast at the time of the rights issue. We delivered earnings per share, before exceptional items, of 66.5p, 8.4% below last year.

Rights issue

On 23 April we announced a three-for-five rights issue to raise net proceeds of £207.5m, which will allow us to repurchase some of our securitised debt at significantly below par value and to make selective acquisitions of freehold retail pubs. The rights issue was completed successfully on 29 May 2009 when dealing in the new shares began.

Dividend

Although earnings were lower than last year, our ability to convert profit into cash and to manage our balance sheet tightly has allowed the board to recommend a final dividend payment of 15.1p per share, being the equivalent of 18.7p per share before adjusting for the rights issue. This, and the adjusted total dividend of 22.4p per share, is marginally ahead of last year. The final dividend will be paid on 14 September 2009 to those shareholders on the register at the close of business on 14 August 2009.

Dividend policy

Looking ahead, the board expects to pursue a dividend policy which targets a dividend cover of around two times underlying earnings. At this level, we believe we can maintain a balance between the cash requirement of the business to invest capital in our assets and pay down borrowings, and the need to ensure that shareholders will benefit from our strong cash flow and successful growth.

Acquisitions and disposals

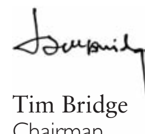
We did not make any acquisitions during the financial year, but have announced an acquisition since the year end, having reached an agreement to purchase 11 high-quality, freehold managed pubs from Punch Taverns for a total consideration of £30.4m. The deal was completed on 1 July 2009.

Despite a difficult property market in the last 12 months, we have improved the average quality of our estate by successfully disposing of 128 of our non-core assets for £44.2m, realising a net profit of £3.7m against book value.

People

For our many long-standing employees and licensees, this year will have been as tough as any of us can remember. However, they, and the many talented and hard-working people who have joined the company in recent years, should be proud of what has been achieved. The pressures have been intense at times, but we continue to see positive thinking, tenacity and hard work throughout the business.

Our strong reputation and continuing success are entirely dependent on everyone's efforts and I would like to express my sincere thanks to you all for your personal contribution. Looking ahead, conditions are likely to remain challenging, but I am confident that the team at Greene King will continue to drive the business forward.

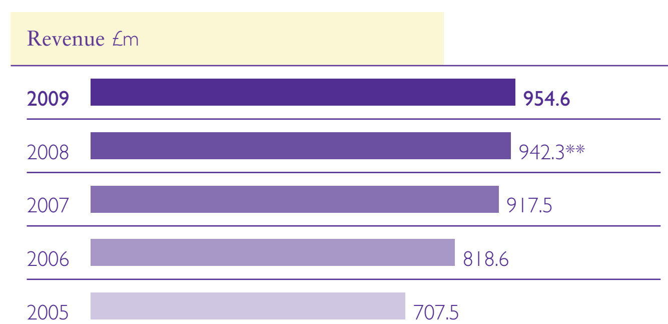


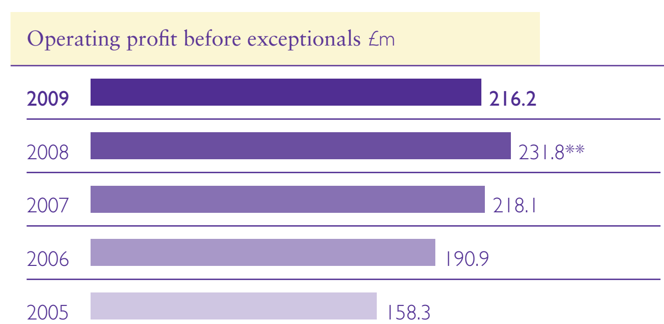
Tim Bridge
Chairman
1 July 2009

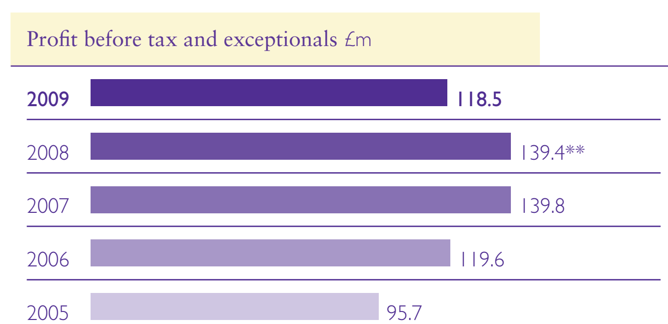
* As throughout, profit figures are shown before exceptional items.
** As throughout, 2007/08 rebased to 52 weeks for comparative purposes.

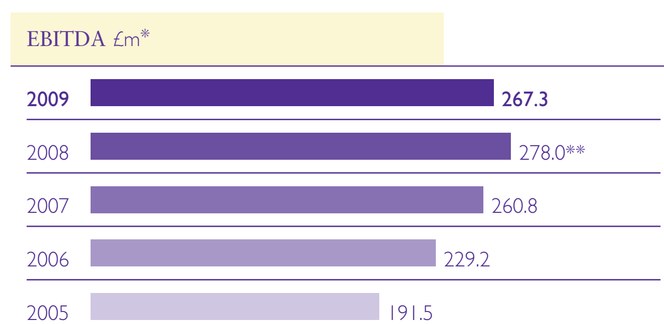
Highlights

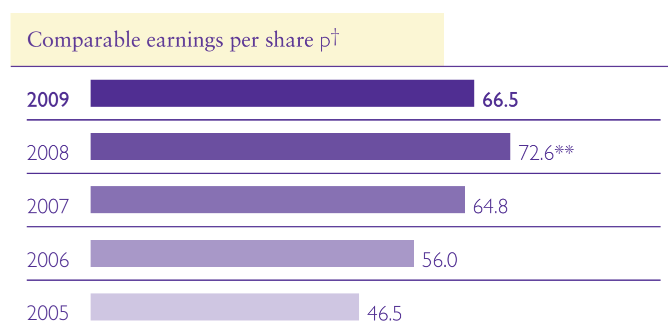
- Profit before tax of £118.5m* vs. £115.0m profit forecast at time of rights issue
- Retail like-for-like sales up 1.7%** whilst maintaining gross margins
- Pub Partners' trends have stabilised
- Belhaven achieved milestone profit of over £30m*; growth of 11.9%**
- Strong market outperformance in Brewing Company; own-brewed volume +1.8%**
- Unique amongst major players in:
  – Continuing to pay down debt (£46.9m)
  – Maintaining capital investment (£84.5m)
  – Holding our dividend
- Successfully completed £207.5m rights issue post year-end:
  – Eleven high-quality pubs acquired (£30.4m)
  – Bonds repurchased (£22.4m nominal)
- Although outlook remains uncertain, current trading is encouraging

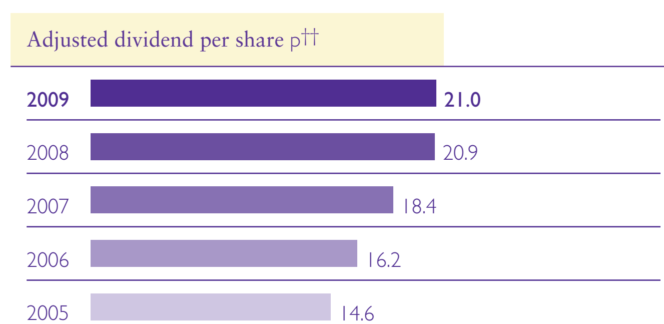












* As throughout, profit figures are shown before exceptional items.
** As throughout, 2007/08 rebased to 52 weeks for comparative purposes.
† All relevant years adjusted for share split.
†† Adjusted dividend per share reflects the impact of the bonus element of the post year end rights issue.

Chief executive's review

These results represent a resilient performance by Greene King in what has proved to be one of the toughest trading periods for many years. For the 52 weeks to 3 May 2009, revenue was £954.6m, 1.3%** ahead of last year, operating profit was £216.2m*, down 6.7% against last year and profit before tax was £118.5m, 15.0% below last year. Adjusted earnings per share were down 8.4% at 66.5p. The board has declared a final dividend of 15.1p per share, marginally ahead of last year, being the equivalent of 18.7p per share before adjusting for the rights issue.

Our consistent and long-term strategy has stood Greene King in good stead through both prosperous times and recessionary periods. The primary objective of our strategy is to create shareholder value by delivering organic growth across our divisions, augmented by value accretive investment in our core brand and property assets, a selective acquisition strategy and the disposal of non-core assets.

The execution of the strategy is driven by a number of key elements of the business model including:

- A commitment to both managed and tenanted pubs supported by a leadership position in brewing.
- A high quality, freehold asset base.
- A focus on generating profitable sales growth for cash generation and brand stability.
- A broad geographic spread but with a primary focus on the prosperous South East and resilient Scotland.
- Decentralised business units and flat management structure to stay close to our customers.

In each of our divisions the operating focus is on achieving profitable sales growth and growing market share. This is achieved by three main elements; firstly, providing value for money offers for customers supported by industry-leading service and standards; secondly, consistently raising the quality and performance bar of employees, licensee partners and suppliers; and thirdly, rigorously controlling costs to preserve cash and help fund internal investment.

We believe we are in a stronger position now than we were two years ago, when the initial warning signs of an impending slowdown appeared at the front line of our businesses. The sector is polarising with the weaker players underperforming and reducing investment, whilst the stronger players have healthier profits and cash conversion, are maintaining investment, accelerating market share gains and selectively targeting acquisitions. Within the overall strategy framework, in order to strengthen our position as one of the stronger players, we have continued to realign our businesses. During the past financial year we have:

- Reduced our net debt by £46.9m.
- Further repositioned our Retail operations toward growth categories such as food, wine and coffee.
- Continued the repositioning and adaptation of the Pub Partners business model.
- Reduced Brewing Company's fixed cost base whilst maintaining sector-leading brand investment.
- Grown food sales in Belhaven Retail to 25% of total sales.

In addition, our successful rights issue, which completed after the year end, will further strengthen our competitive and financial position. We raised £207.5m to selectively acquire freehold, managed pubs and opportunistically pay down our securitised debt at below par values. Already we have moved forward in both aims, buying back £22.4m of our securitised bonds at 51% of their nominal value and acquiring 11 high-quality, freehold, managed pubs from Punch Taverns for £30.4m. We expect to make further progress during the next 12 months.

Current trading

Recent trading, particularly in Retail and Brewing in both England and Scotland, has been strong. In Retail, not only have our invested food-led businesses continued to perform well, but our wet-led businesses have also been stronger. The benefit of the realignment and adaptation of these businesses continues to come through, supported by the recent warmer and drier weather. After eight weeks of the new year to 28 June, like-for-like sales in Greene King Retail are +5.2% and like-for-like sales in Belhaven Retail are +10.2%.

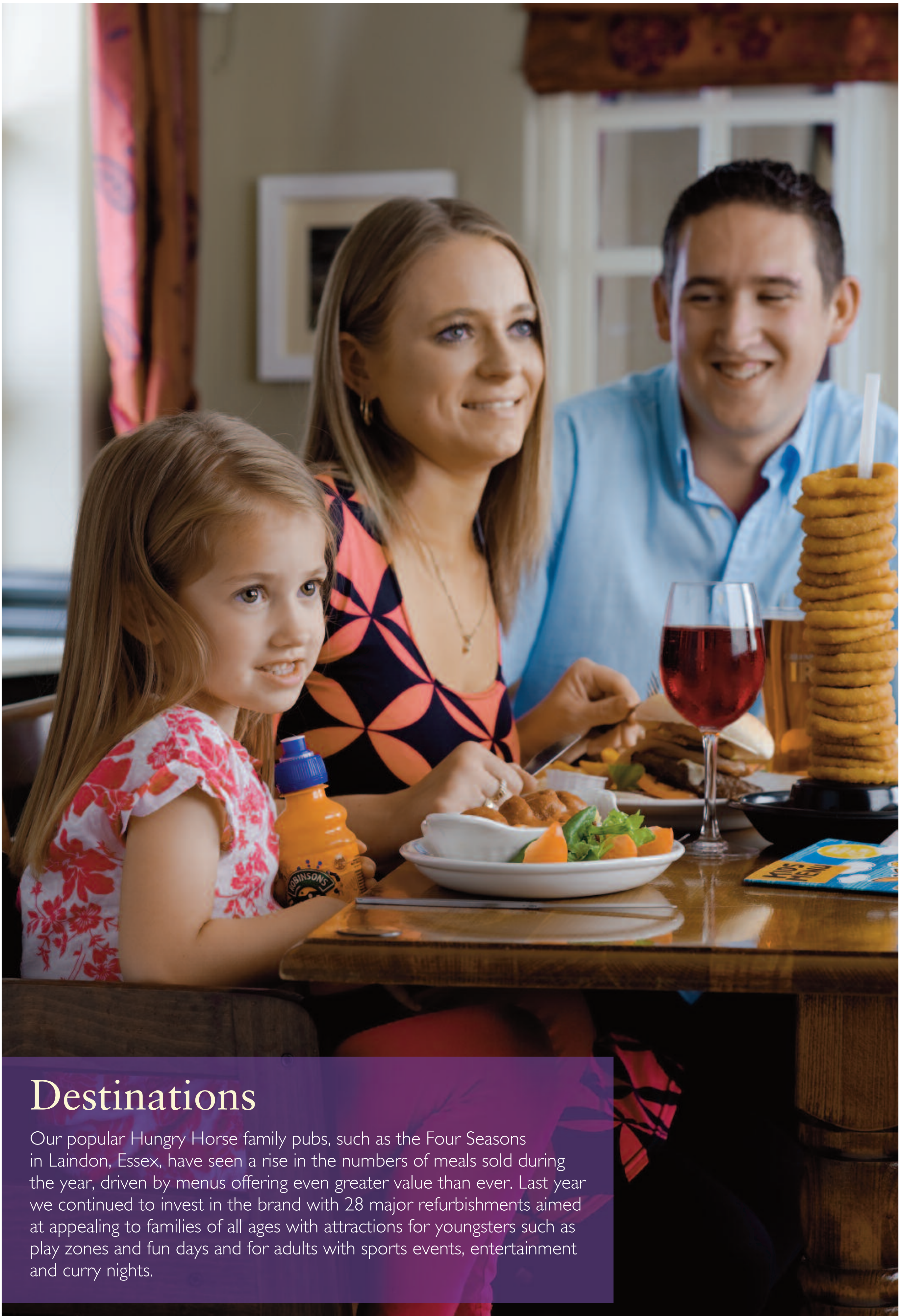
Momentum in our brewing businesses has also been sustained. Own-brewed volumes in Brewing Company remain well ahead of the market at +12.1%, helped by the renewed success of Ruddles in the on-trade and the better weather, whilst Belhaven Best volumes in the year-to-date are +9.0%.

Pub Partners' trends have stabilised and remain in line with the underlying performance from the second half of 2008/09. The actions we have taken to support our licensees are beginning to take effect and we have seen a better volume performance in the past five weeks.

* As throughout, profit figures are shown before exceptional items.
** As throughout, 2007/08 rebased to 52 weeks for comparative purposes.

Locals

Events are playing an increasingly important role for our Local Pubs with promotions offering value for money on food and drink for occasions such as Valentine's Day and Christmas as well as key sporting events. The recent Father's Day promotion proved a great hit with regulars at the Lady Bay in Nottingham.



Destinations

Our popular Hungry Horse family pubs, such as the Four Seasons in Laindon, Essex, have seen a rise in the numbers of meals sold during the year, driven by menus offering even greater value than ever. Last year we continued to invest in the brand with 28 major refurbishments aimed at appealing to families of all ages with attractions for youngsters such as play zones and fun days and for adults with sports events, entertainment and curry nights.

Retail

Greene King Retail achieved sales of £569.5m in the year, 0.3% above last year despite trading in 3% less sites. Operating profit of £105.6m was down 7.6%. After an improved second half, total like-for-like sales were +1.7%, driven by both liquor and food growth, including strong performances from strategically important categories such as cask ale, wine, coffee and soft drinks. Food is now 35% of total Retail sales. Hungry Horse, following its repositioning and upweighted investment programme throughout the past 18 months, achieved like-for-like sales growth of 8.1%. The underlying pub operating margin, excluding the impact of the mainly leasehold Loch Fyne Restaurants, was just 1.2 percentage points down on last year, despite the ongoing machine income decline, fewer sites and above inflationary cost increases.

52 weeks	2007/08	**2008/09**	Change
Average number of sites trading	801	**779**	-2.7%
Revenue	£567.7m	**£569.5m**	+0.3%
EBITDA	£145.1m	**£139.8m**	-3.6%
Operating profit	£114.3m	**£105.6m**	-7.6%
Operating profit margin	20.1%	**18.5%**	-1.6%pts

Enhanced value-for-money across liquor and food has been the main driver of Retail's sales performance. At Hungry Horse, a fall of 9% in the average price of a main meal over the year drove covers up 14%, whilst the introduction of two meals for £9.95 in Inns turned cover decline into cover growth in the second half of the year. In Loch Fyne, we have steered clear of the two-for-one offers that are common place in the restaurant sector, but have broadened our fixed-price menu offer and introduced regional pricing. Our Local Savers value initiative now covers 77 pubs within the Local Pubs estate. At the end of the first quarter, when we launched Local Savers, we reduced liquor prices on a number of key lines in these pubs by 13%, which led to a subsequent 12 percentage points improvement in like-for-like sales for the rest of the year. All main meals on the Local Savers menu are now at £3.50 or below.

Value is not just about price. We have further improved our customer offers, we continue to invest in our sites, we are recruiting better quality employees and we are improving standards and customer service across the business. For example, our "Beds, Baths, Breakfasts" investment in Inns has driven market outperformance with REVPAR up 1.5% in the year. All our Retail businesses take part in Mystery Guest programmes and scores have consistently improved during the year and are benchmarking well against competitors. Sport and other big events have also increased in importance as part of our value offer to our customers, with significant uplifts on key dates through well targeted and communicated activities.

As always, we have managed our costs very tightly. Investing in value for the customer has not been at the expense of gross margins, due to improved liquor and food yields and further menu engineering. Our pub operating margins, due to a number of factors, remain industry-leading: wage efficiencies have improved with the total wage cost falling; and we have increased our use of "smart meters" across the estate to drive outlet electricity usage down 7% this year, partially offsetting much higher rates.

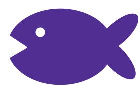
Raising the calibre of our people has been a further focus for the year. We have improved the quality of our operations teams at area and outlet level, taking advantage of our strong appeal in a weaker employment market. We have also stepped up our training programmes across each of the three businesses within Retail, concentrating on improving the internal talent pool. Almost 40% of new House Manager appointments came through our Rising Star training programmes.

Unlike much of the pub and restaurant sector, we have maintained a significant level of investment in our Retail business. During the period, we invested £24.6m of expansionary capital, a further £25.1m was invested in maintaining our pubs and £8.1m was spent on repairs from the revenue account. The focus on Hungry Horse has continued, where we have invested c. £10.0m across 33 developments in the year, whilst we also completed a "sparkle programme" across 20 pubs in the Locals estate. We converted five Greene King sites to Loch Fyne in the year and opened four other new sites.

Estate numbers

We began the financial year with 792 Retail sites. Four new Loch Fyne sites were acquired, 18 pubs were sold and a net six transferred to Pub Partners. The closing balance was 772 sites, segmented as follows:

	Outlets at year end	Outlets trading on average during period
Destination Pubs	275	266
Local Pubs	449	468
Loch Fyne Restaurants	48	45
Total	**772**	**779**



Pub Partners

Revenue at Pub Partners, our tenancy/lease division in England and Wales, was down 5.4% at £155.2m, with operating profit down 11.3% to £70.9m. Operating margins were 45.7%. During the period, a total of £7.0m was invested across the Pub Partners estate, an additional £6.3m went on maintenance capex and £3.3m on repairs from the revenue account. An average of 1,445 sites traded over the period. At the start of the financial year, 1,474 pubs were trading, three were added from acquisitions, while 92 were sold or closed and a net six were transferred in from the Retail division. The closing balance was therefore 1,391 pubs.

52 weeks	2007/08	2008/09	Change
Average number of pubs trading	1,443	**1,445**	NC
Revenue	£164.0m	**£155.2m**	-5.4%
EBITDA	£86.5m	**£78.1m**	-9.7%
Operating profit	£79.9m	**£70.9m**	-11.3%
Operating profit margin	48.7%	**45.7%**	-3.0%pts

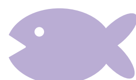
In recognition of the pressures our licensees are facing in the current environment, we have been repositioning and adapting the Pub Partners business model to make it more pragmatic and more agile. In the first half of the year, we split the business into two: in the Core estate we reduced the size of each area to 44 pubs per Business Development Manager (BDM) to get closer to our licensees and to find mutually beneficial solutions more quickly; and in the Independence Pub Company, the flexibility of our agreements is industry-leading. By the year end, we had 12 totally Free of Tie agreements and 46 partially tied agreements, putting Pub Partners firmly in the vanguard of industry business model evolution. During the second half of the year, we also took a prudent view of both inventory values and potential bad debts within the tail-end of the Pub Partners estate, resulting in a P&L charge of £1.9m. Excluding this and investment to strengthen the model, underlying EBITDA per pub was -6.7%.

The most important element of the tenanted/leased model is licensee quality. During the year we received 1,241 applications for our pubs and let 331 pubs, and at the year end there were 495 fully vetted applicants on our database. Our recruitment campaigns are increasingly innovative. Both our Civvy Street and Public Housewives campaigns are proving successful, with the first licensee recruits starting to run their pubs. We continue to offer industry-leading training to new and existing licensees: 137 training courses were held in the year, including 37 "Go for Growth" induction courses. These helped to improve first year licensee retention rates up to 88%. Finally, we launched a specialist tenant trainer programme and we now have 20 licensee trainers providing "on the job" training to new licensees.

However, for some of our licensees, this support has not been sufficient to offset the unprecedented pressures they have faced. For these, we have provided over £4m of additional financial support during the year, via rent concessions and product discounts. This additional support is not given on the basis of "charity", but is conditional on our licensees changing elements of their business to increase their consumer appeal. This support includes "Crunch Time", an initiative to ensure many of our licensees can compete more effectively in the current environment, guaranteeing licensees gross margins on leading products at competitive prices. 120 pubs were fully operational on "Crunch Time" by the year end, a further 80 have signed up since then and the resulting volume performance of these sites is very encouraging so far. We have also introduced the Pelican Buying Company to our licensees, allowing them to benefit, in terms of supplier accessibility and cost savings, from its economies of scale, and we have upgraded our food and marketing support to licensees by further utilising our Retail infrastructure.

As a result of the various initiatives and investment we and our licensees have been making, the vital signs of licensee health have remained stable through the year. At the year end, we only had 30 pubs closed for reopening, just 2% of the entire estate, there were 272 licensees on cash-with-order against 245 at the end of last year and 137 temporary agreements against 131 last year.

We are monitoring developments following the recent Business & Enterprise Committee report. We have been successfully operating a tie for over 200 years with short-term tenancies currently representing 78% of our agreements and long-term leases representing just 22%. Tenancies offer the lowest cost entry route into the pub industry for potential licensees and the model ensures we share in the upside and the downside of an economic cycle with our licensees. We were the first to introduce a Code of Practice in 1998 and it has been continuously evolving since then. Going forward, our business model will continue to adapt in order to ensure Greene King remains appealing and fair to both prospective and existing licensees, whilst delivering attractive returns to our shareholders.



Pub Partners

During the year, we provided over £4 million of additional financial support to our tenants in the form of rent concessions and product discounts. As part of this package of support, Pub Partners launched a major value for money drinks promotion entitled "Crunch Time" which offers top brands at value prices. The Victory, in Walton-on-the-Naze, is one of over 200 pubs across the UK now benefiting from the promotion.

Belhaven

Food has become an increasingly important part of the Belhaven offer where sales rose 49% last year. The seven pubs redeveloped into Eating Inns, such as the SpringKerse View in Stirling, with its new décor, waitress service and great menu offering plenty of value, lead the way with sales almost doubling after refurbishment.

Belhaven

Belhaven revenues grew 9.9% to £136.0m in the year and Belhaven achieved a record operating profit of £30.2m, growth of 11.9% with increased contributions from all three divisions. Even though there were significant cost pressures in the year, very tight cost control in all businesses helped deliver an operating margin of 22.2%, up 0.4 percentage points. The number of pubs trading grew from 321 to 325 and on average 323 pubs were trading during the period. Despite the demanding conditions and senior management change in the year, the Belhaven team has yet again performed very strongly. However, we remain cautious on the outlook, mainly due to the risk to Scottish public sector employment levels as we move into 2010.

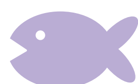
52 weeks	2007/08	**2008/09**	Change
Revenue	£123.7m	**£136.0m**	+9.9%
EBITDA	£31.1m	**£34.9m**	+12.2%
Operating profit	£27.0m	**£30.2m**	+11.9%
Operating profit margin	21.8%	**22.2%**	+0.4%pts

Belhaven's retail operations went from strength to strength during the year. By the year end, like-for-like sales were up 5.4%, driven by food like-for-like sales growth of 16.0% and liquor like-for-like sales growth of 2.6%. Total food revenues were up 49% and food is now 25% of total revenues, up from 15% just two years ago. The seven pubs redeveloped as Eating Inns contributed much of the growth, with average weekly sales growth almost doubling post refurbishment. The average return on investment on these pubs is 25%. The rest of the estate achieved like-for-like sales growth of 3.3%, driven by the repositioning of four high street venue sites into more food-led offers, growing post-refurbishment sales 48%.

Whilst conditions for our licensee partners in Scotland remain challenging, we have further increased our support to them, including towards the end of the year reducing the already unrivalled 40 pubs for each BDM to 36. This ensures we maintain very close relationships with our licensees leading to stronger licensee performance and lower potential risk. At year end, we only had six closed pubs and 20 temporary agreements, in line with the position at the start of the year. Tenanted operating profit rose 12.1% in the year, driven by a 7% increase in the number of pubs, like-for-like rental income growth and improved gross margins.

Yet again Belhaven Best, Scotland's leading ale brand with a 21.5%* share of the Scottish on-trade ale market, outperformed that market. In an ale market down 9.0%*, Belhaven Best grew its volumes in the year, supported by a return to TV advertising in the final quarter. Industry-leading customer service levels and an attractive brand portfolio combined to help our highly motivated and successful free trade team win further market share through growing their free trade account base without sacrificing margin; in the year, trading profit per barrel grew 1.2%.

* AC Nielsen, Volume MAT to March 2009.



Brewing Company

A stronger second half for Brewing Company drove own-brewed volume growth of 1.8% in the year. This led to significant market share gains in a UK ale market down 5.6%**. Revenues grew 8.2% to £93.9m, whilst operating profit was unchanged at £21.2m. The margin decline in the year of 1.8 percentage points is mainly a technical issue driven by a decline in internal volumes, which have no associated revenue, but do contribute to Brewing Company trading profit. However, with a £1.5m increase in fuel, energy and raw materials, we were pleased with second half margins being held to within 80bps of last year.

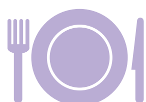
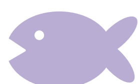
52 weeks	2007/08	2008/09	Change
Revenue	£86.8m	**£93.9m**	+8.2%
EBITDA	£25.1m	**£25.4m**	+1.2%
Operating profit	£21.2m	**£21.2m**	NC
Operating profit margin	24.4%	**22.6%**	-1.8%pts

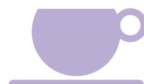
Brewing Company's continued outperformance is driven by a consistent, focused strategy: most importantly, we brew high quality beer from an efficient, single-site brewery; we have a focused brand portfolio, minimising the complexity and cost of a multi-brand strategy; we invest more than any other cask ale brewer; we rigorously attack costs at all levels of the business; we recruit and retain the best people in the market; and we retain a passionate focus on our customers.

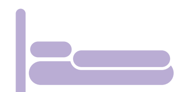
Greene King IPA remains the UK's No.1 cask ale with a 20.5%* volume share of the standard cask ale market and the fastest rate of sale of all brands with over 5%* distribution. During the year, we upgraded our livery and branding to reflect the Suffolk heritage of the brand, we further leveraged our England Rugby sponsorship through Lawrence Dallaglio's role as brand ambassador and we began the roll out of the innovative Cask Revolution font. Old Speckled Hen is the No.1 premium ale in the off-trade with a 13.3%*** volume share of the premium ale market in multiple grocers. In the year we also launched Old Crafty Hen and both brands won gold medals at the recent international Monde awards. Just after the year end, Old Speckled Hen began sponsoring Prime Time TV on the Dave channel.

We have continued to both remove cost and switch from fixed to variable cost to improve efficiency. During the year we outsourced our Totton and Crayford depots to Tradeteam. Not only does this make our business model even more efficient, but increased delivery frequencies should improve customer service levels and lower HGV mileage and CO_2 emissions which will help protect the environment.

* AC Nielsen On-Trade MAT to March 2009.
** BBPA MAT to April 2009.
*** AC Nielsen Off-Trade MAT to April 2009.

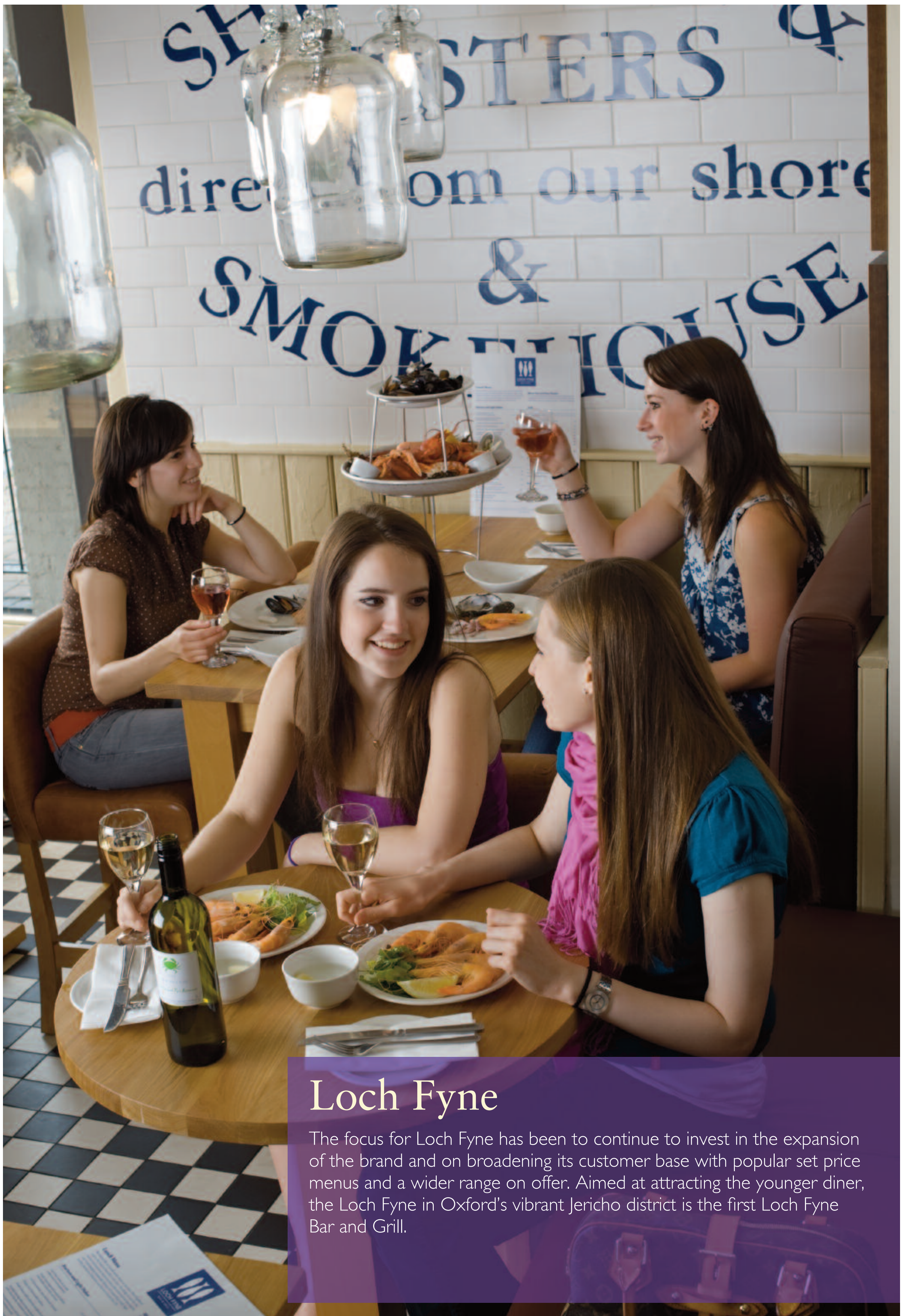







Brewing Company

Greene King IPA was rebranded this year to reflect the proud Suffolk heritage of the UK's No1 cask ale. This year also saw the launch of our new Revolution font – the first major innovation in cask dispense for over 200 years. Revolution offers drinkers a choice of pours – "clean and crisp" (looser bubbles and softer froth), or "smooth and creamy" (a tighter head that holds until the end of the pint).



Loch Fyne

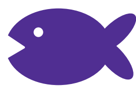
The focus for Loch Fyne has been to continue to invest in the expansion of the brand and on broadening its customer base with popular set price menus and a wider range on offer. Aimed at attracting the younger diner, the Loch Fyne in Oxford's vibrant Jericho district is the first Loch Fyne Bar and Grill.

Chief executive's review

Outlook

I am encouraged by our performance, both last year and through the first few weeks of this year, in what are demanding circumstances. We have strengthened our position within the sector through our resilience, the ongoing realignment of our businesses and, post the year-end, our successful rights issue. Our balance sheet is in good shape, our cash flows are healthy and our profit conversion is strong. We are unique amongst the major companies within our sector in paying down debt, continuing to invest in our business and maintaining dividends to shareholders. Greene King's reputation within the industry ensures our team remains highly motivated to succeed and we continue to attract high calibre people from both within and outside the industry. The future remains uncertain, but I believe we will continue to grow our market share and outperform our competitors, further strengthening our leadership position.

Rooney Anand
Chief executive
1 July 2009



Financial review

We are pleased to report revenue grew to £954.6m, in what has been one of the most challenging trading periods for many years. This represents growth of 1.3% over last year, when adjusted for the 53rd week, and broadly flat growth when adjusted for acquisitions last year. The cost environment has been equally difficult. With £12.4m of non-wage inflation, in large part offset by our continued focus on margins, costs and overheads across our businesses, we were able to hold gross margins. With some resilience in operating margin to within 2.0 percentage points of last year, we delivered operating profit before exceptional items of £216.2m, down by 6.7% against last year on a 52-week basis. Interest costs of £97.7m reflect the excellent and positive cash flows, net of capex, from our core business plus the full year effect of acquisitions last year. Profit before tax and exceptional items was £118.5m, delivering adjusted earnings per share of 66.5p per share, down 8.4% on a 52-week basis.

Investment and disposals

We firmly believe that continuous investment, especially in more challenging times, is important for sustained performance and maintenance of a quality estate. We invested £84.5m in our businesses this year, very slightly lower than the corresponding level of spend last year. This included £31.0m on developments with returns ahead of our cost of capital, £6.4m on single site acquisitions in England and Scotland and £40.1m on ensuring our estate remains in good condition through ongoing repairs and maintenance.

We continually review our portfolio to identify sites for disposal: we aim to sell those of lower quality or limited potential which are not central to our strategy, and those with a higher alternative use value. In a particularly challenging property market during 2008/09, we are pleased to have disposed of 128 sites and other non-trading assets, realising a net exceptional gain of £3.7m against book value and generating cash of £44.2m.

Positive free cash flow post investment

We continue to focus on delivering strong cash flows. EBITDA from operating activities of £267.3m was 3.8% and £10.7m lower than this time last year, based on 52 weeks. Taking into account the disposal proceeds and as a result of strong working capital management holding flat year over year, we generated £46.9m of positive cash flow, after funding interest, dividends and continued investment in the estate. The resilient trading performance and solid cash flows enable us to continue to invest in our businesses, to pay down debt, and to pay dividends.

Dividends

The proposed final dividend of 15.1p per share has been held to give a full year dividend of 22.4p per share, also held flat against the full dividend last year and dividend cover was 2.5x (both adjusted for the effect of the recent rights issue). The board expects to adopt a dividend policy targeting a dividend cover of around two times underlying earnings. This is aimed at ensuring that shareholders continue to benefit from the successful growth and strong cash flows of the group, whilst retaining an appropriate percentage of earnings to maintain investment in the estate and pay down borrowings.

Financing and treasury

Our consistent business strategy and high quality freehold estate supports £1,434m of securitised debt, underpinned by 2,032 pubs, representing approximately 80% of our estate. We also have a five-year syndicated bank borrowing facility of £400m, of which £245m was drawn at the year end and £99m was set aside on short-term deposit. Across both debt structures, there is no refinancing required before March 2012.

At the end of the year, before adjusting for the rights issue, our net debt of £1,558.6m represented a net reduction in debt of £46.9m over last year. With interest rate hedges in place to fix 98% of our debt, we have a strong and efficient balance sheet with a blended interest rate of 6.0%, net debt/EBITDA of 5.8x and fixed charge cover of 2.1x at the year end. Our free cash flow debt service cover ratio of 1.5x in the securitised vehicle means we are comfortably above our covenant levels and have sufficient headroom to continue to be able to financially support our business strategy and growth.

Pensions

The group maintains a defined contribution scheme, which is open to all new employees, and a number of defined benefit schemes, which are all closed to new entrants. Following a turbulent year with movements in both equity markets and corporate bond yields, the net pension liability under IAS 19 now stands at £91.6m.

Exceptional charges

We have recorded £52.1m of operating exceptional items, as a result of their nature or size, and these are shown separately in the income statement to give full visibility of our underlying business performance. Such charges include costs for operational restructuring in preparing the business for continued challenging times and for systems integration work of £6.0m. These were in part offset by £3.7m of net profit on disposed properties and a £3.7m credit from share-based payment schemes which are not going to meet their performance criteria.

We have also reviewed the pubs in the tail of our estate and have recognised an impairment charge of £53.5m against the net book value of a relatively small number of pubs, an increase of £15.5m from the charge made in our interim accounts.

Post our rights issue, we have cancelled a number of interest rate swaps to maintain our 100% fixed interest profile. They have been treated as ineffective in these accounts, resulting in an exceptional financing charge of £12.1m.

Post balance sheet event – rights issue

Our three-for-five rights issue, which we announced in April and completed successfully in May, raised £207.5m net proceeds to be used for both opportunistic repurchase of bond debt and for targeted acquisitions.

Since the year end, we have purchased £22.4m aggregate principal amount of bonds, with a weighted average purchase price of £511.3 per £1,000, as the first step in the use of proceeds for debt repurchase. On 9 June 2009, we announced an agreement to acquire 11 high-quality, freehold, managed pubs from Punch Taverns PLC, for a total consideration of £30.4m. This was likewise the first step in the use of the rights issue proceeds for targeted acquisitions.

Together, had the rights issue, bond repurchase and recent acquisition occurred at the start of the 2008/09 year, our net debt at year end would have been £1,373.8m, net debt/EBITDA would have been 5.1x and fixed charge cover would have been 2.4x.

Summary

In what has been a very challenging year, we believe we are able to report a resilient performance both operationally and financially. Long-term financing at competitive rates, combined with our strong operational cash flows, asset backed-business model and prudent and efficient balance sheet, gives us both options for and some confidence in the future, whilst this challenging economic and trading environment continues.

Ian Bull
Finance director
1 July 2009

Risks and uncertainties

This section highlights some of the key risks and uncertainties which affect Greene King but is not intended to be an exhaustive analysis of all risks facing the business.

Greene King has in place clear risk management processes which are designed to identify and evaluate both internal and external risks facing the company, based on the likelihood of their occurrence and the scale of their potential impact on the company. Each risk has an identified owner within the senior management team, responsible for ensuring that any identified risk improvement measures are implemented in a timely manner so that the impact of the risk can be mitigated.

A company-wide risk committee has been established to discuss in detail and monitor the internal controls which have been put in place to ensure that the risks are appropriately managed. Executive oversight is then carried out by the senior management of each business unit, with the executive directors reviewing group risks on a quarterly basis.

The audit committee receives regular reports on the risk management processes in each of the businesses within Greene King. Once a year it reviews the company's top risks, prior to their submission to the board, which retains ultimate responsibility for the company's risk management framework.

Economic risks

The continuing economic downturn and consequential changes in consumer expenditure, tastes and preferences is having an impact on our business. At the same time, costs are increasing and there is uncertainty across the industry about the impact of future inflationary cost increases. Our licensees are also affected by the current economic climate, leading to the risk of more tenant defaults and business failures.

We constantly look to broaden our appeal to customers by delivering quality and value for money, excellent service and up-to-date product offers. We work hard across the group to continue to drive down costs in all areas whilst at the same time fostering mutually beneficial and long-term relationships with our suppliers. We constantly monitor the vital signs of our licensee health, and look to provide our licensees with additional operational and financial support wherever needed and appropriate.

Property values are also impacted by the economic downturn, and with it our ability to improve the average quality of our estate as extensively. However, we continue to successfully complete non-core asset disposals. Within our estate, operational focus is given to poorer performing sites across our estate in order to optimise their profitability in difficult times.

We have a diversified business encompassing pubs, restaurants, brewing and drinks distribution, as well as a broad geographic spread.

Regulatory risks

Increasing regulatory requirements or costs in areas such as the smoking ban, alcohol tolerance, licensing, health & safety, corporate manslaughter, taxation and the National Minimum Wage impact many parts of our business. Changes in regulations, including the current debate around the beer tie, may have an impact on our business going forward.

We have a range of policies and procedures in place to ensure compliance with existing regulatory requirements, including in relation to health and safety, fire safety and food safety. Improvements are constantly being introduced in relation to the reporting and monitoring of such risks, backed up by investment where appropriate. Compliance systems are regularly reviewed and updated where appropriate. Training systems are in place to ensure that staff are aware of regulatory requirements which impact on them, and careful planning is undertaken to deal with new regulatory requirements. We offer training and support to our licensees in many of these areas.

We will carefully monitor developments in relation to Business and Enterprise Select Committee's report on the beer tie, and aim to ensure that the full facts are given and fully understood if any inquiry takes place.

Supply chain risks

It is fundamental to the operation of our business that we are able to supply our pubs and restaurants, not only with our own beers, but also with the goods and services of third parties, where we are reliant on a number of a key suppliers, particularly in relation to food and alcohol, and third-party distributors.

We work closely with our third-party suppliers, producers and supply chain partners to ensure that our relationships with them are positive and constructive at all times. We also need to minimise the likelihood of failure by or loss of a key supplier and at the same time therefore continuously review our back-up plans to cope with difficulties should such an eventuality rise.

We take a serious approach to risk management in our internal production and distribution activities, always looking to improve and learn from other best-in-class operators. We have an ongoing programme of testing our disaster-recovery systems relating to our brewing operations.

Reputational risks

We are a consumer-facing business in sectors that hold important positions within the UK's culture and heritage. Issues such as a failure to properly execute our branded models, litigation, regulatory intervention and customer complaints could result in damage to our reputation, a loss of trade and a reduction in our perceived valuation by key stakeholders.

We endeavour to maintain tight controls to protect and enhance our reputation and brand values. We focus constantly on consistency and quality, with staff training, targeted investment programmes and mystery guest visits all designed to help maintain standards, and have systems in place to escalate and respond to relevant incidents.

People risks

This is a people business. Having a strong team is a source of material competitive advantage in our managed and tenanted pubs, our brewing operations and our head office.

We aim for an environment where we can recruit the best people and then through training, development and progression ensure we retain them. Our licensee recruitment and training programmes, and the variety of rental agreements on offer, are designed to attract and retain the best quality licensees.

Financial and control risks

We try to foster an entrepreneurial spirit at Greene King, preferring to empower our employees as opposed to excessively controlling them, but recognise the risks associated with this. We also recognise the financial risks associated with the current economic climate.

We run our operations along divisional lines with lean structures to support them and appropriate operational and financial autonomy on a day-to-day basis. In this environment, we seek to ensure that, for both the financial and management controls that we put in place, the balance is right between such controls being effective and appropriate without being unnecessarily controlling and restrictive.

We are keen to maintain our robust financial position, with our strong and prudent balance sheet and so have rigorous controls in place to monitor compliance with the covenants in our borrowing facilities. Whilst we have no refinancing need in relation to either our bank facility or our securitisation vehicle until 2012, we aim to ensure that we will be in the best possible position to be able to refinance in the lead up to that point. For further detail on our financial risks, shareholders are referred to note 24 of the financial statements and to the information on the company's internal controls contained in the corporate governance section on pages 83 to 87.

Key performance indicators

Strategic priority	Performance	Definition
Adjusted earnings per share EPS declined 8.4% to 66.5p, following a number of years of annual EPS growth. This year has presented an unprecedented challenge for the business and this result highlights the resilience of our business model.	**2009** **66.5p** 2008 72.6p* 2007 64.8p	Profit for the period attributable to equity holders, excluding the effect of exceptional items, divided by the weighted average number of shares in issue during the period excluding own shares held.
Adjusted dividend per share On a rights issue adjusted basis and despite the EPS decline, the board has recommended a final dividend payment of 15.1p per share, marginally ahead of last year, producing a total adjusted dividend per share for the year of 21.0p, also marginally ahead of last year.	**2009** **21.0p** 2008 20.9p 2007 18.4p	Total dividend per share paid and proposed in respect of the period.
PBTE Profit before tax and exceptionals declined 15% to £118.5m.	**2009** **£118.5m** 2008 £139.4m* 2007 £139.8m	Group profit for the period after financing charges but before tax and exceptional items.
Operating profit margin Our operating profit margin declined 2.0 percentage points in the year. Despite introducing enhanced value into our business during the year, gross margins remained stable. Margins were mainly impacted by declines in high margin machine income and above inflationary cost rises in utilities and other fixed costs, in part offset by other cost mitigation and savings.	**2009** **22.6%** 2008 24.6% 2007 23.8%	Operating profit, pre-exceptional items, divided by group revenue for the period.
Average profit per outlet In an extremely tough trading environment, Retail average profit per outlet fell 5%, whilst our tenanted/leased estate fell by 11% after we took certain prudent measures to rebase the profitability of the business.	Retail **2009** **£135.6k** 2008 £142.7k* 2007 £141.7k Pub Partners **2009** **£49.1k** 2008 £55.3k* 2007 £52.2k	Operating profit for the period, pre-exceptionals, divided by the average number of pubs in the period.
Fixed charge cover The full-year impact of higher interest payments and of higher rental payments in Loch Fyne, partially offset by organic net debt reduction through strong cash flows of £47m, meant that fixed charge cover fell to 2.1x at the year end. Subsequent to the year end, the impact of the successful rights issue takes fixed charge cover back up to 2.4x on a pro-forma basis.	**2009** **2.1x** 2008 2.3x 2007 2.6x	Fixed charge cover is calculated using the formula EBITDAR (operating profit before depreciation, amortisation, rent and exceptionals) less maintenance capex divided by the sum of interest and rent.

* As throughout, 2007/08 rebased to 52 weeks for comparative purposes.

Corporate social responsibility report

Greene King takes its responsibilities to the environment and our various stakeholder communities very seriously and works hard to ensure we are a good corporate citizen. Our staff work throughout the business to meet high standards of quality, safety and environmental awareness.

Our work on corporate social responsibility falls into four key areas.

Protection

We take pride in ensuring what we do is ethical and sustainable.

Food safety and supply

Food safety and the security of supply are of paramount importance. We require all our suppliers to have either British Retail Consortium (BRC) or Safe and Local Supplier Approval (SALSA) accreditation. Both of these quality marks provide a benchmark for best practice in the food industry, and demonstrate that our suppliers deliver consistent food safety and quality. SALSA accreditation was launched in March 2007 in response to the increased popularity of local and regionally sourced products.

All food products supplied to us must meet our strict labelling requirements and our suppliers must be able to demonstrate full traceability of all products supplied. Our suppliers are required to endorse, support and implement the Food Safety Act 1990, together with any other relevant legislation regarding the supply of goods, and their staff must hold the minimum of a basic hygiene certificate or equivalent. Furthermore, we require that all our suppliers ensure that all products, labour and ingredients fall within ethical guidelines.

Greene King does not use genetically modified foods.

Red Tractor accreditation

Greene King has become the first brewer in the UK to be awarded the prestigious Red Tractor certification for all our beers. Red Tractor is an independent mark that guarantees the quality and origin of ingredients and the ethical production methods of food and drink. Any brand that has been certified comes from farms and producers that meet high standards of food safety and hygiene, animal welfare and environmental protection.

Scores on the doors

Greene King supports the adoption of a national "Scores on the Doors" scheme to give clarity to customers on what standards to expect, and to enable all operators to achieve a recognised industry standard. In areas where this scheme does operate, we have achieved 5-star, excellent ratings in three of our pubs and are now working to ensure all of our pubs reach this standard.

Healthy eating

This year we have worked closely with the Food Standards Agency (FSA) on improving our menus and the nutritional information available to our diners. We are committed to great tasting, quality food, and we focus on providing our customers with choice through a wide range of menu options including fresh fruit, vegetables, fish and lean meat to support a healthy and balanced diet.

We continue to develop lighter options and support our customers to make healthier choices. Baking and grilling are central cooking methods in our kitchens, where no salt is added in the cooking process. We have begun to provide nutritional information to consumers across the Hungry Horse brand and best selling lines, and are currently working towards providing a full nutritional profile for all our dishes. In addition, we are now publishing information for those suffering from coeliac disease on our Inns menus, and, to increase accessibility, we have committed to making all our menus in our Retail division available in Braille and in MP3 format.

By working with the FSA, our suppliers and partners and with the help of our independent nutritionist, we have committed to ensuring that our steps to support the four pillars of healthy eating are based on sound nutrition.

Going forward we have committed to the following:

- We will actively source lower salt, lower saturated fat and lower calorie versions of ingredients during product tender processes.
- We will use the FSA salt guidelines to benchmark our key menu items.

- We will ensure that the FSA is regularly updated on the progress and developments we make and publish specific changes that we make.

- We will provide nutritional information on our menus in Hungry Horse, Hardy's and our Inns division on the next menu change. (This will be provided via various websites and referred to on our menus.)

- We will ensure we can provide information on gluten, fat, saturated fat, salt and sugar content of dishes to customers who have a specific dietary need on all the menus noted above.

Loch Fyne Restaurants
Loch Fyne stands out for its approach to environmental issues – something that has been at the heart of the business since it began. It is committed to independent producers using sustainable methods to produce high quality foods.

Loch Fyne understands that where they source their produce is key. No one works harder than Loch Fyne to make sure that every oyster, salmon and fish that leaves their kitchens is cultivated, farmed or fished in accordance with their strict environmental and quality guidelines.

They take advice from respected marine bodies regarding the fish and seafood they serve. Where species are not plentiful they will find alternatives and will not source fish caught by methods deemed to be harmful to the marine ecosystem such as deep-sea trawlers, beam trawlers or industrial long-liners. The approach at Loch Fyne is being shared with the rest of our retail business as they lead the way on best practice in this area.

All Loch Fyne products are sourced according to quality, provenance and sustainability.

Fair trade
We are proud to serve Fair Trade coffee in our managed pubs, hotels and restaurants in England and Wales.

Health and safety
We are committed to providing a safe and secure environment for both our employees and customers. Championed at board level, health and safety improvements and best practice are a priority.

We have embarked on a capital programme of risk reduction measures to protect our estate from fire and floods and now have over 75% of our estate protected by fire suppression systems.

Our Brewing Company holds two RoSPA Gold Awards and one RoSPA Gold Medal for Occupational Health and Safety.

Healthy children at Hungry Horse

Our new children's menu in Hungry Horse now offers parents peace of mind when choosing for their children. The menu provides the right size portions for the age of child, in line with Government guidelines, and is the first to offer free extra vegetable portions for our young diners.

The menu is set out to help youngsters learn to make choices and contains reduced fat and reduced salt options. It also includes organic pasta dishes and vegetarian options but without taking out any of the fun. And, by adding a portion of free vegetables, the children's menu now enables mums and dads to provide four of their children's 5-A-Day fruit and vegetables in one meal.

In line with our commitment to the FSA, we have now also provided full nutritional information on all our children's meals through a handy nutritional guide on the Hungry Horse website. Credit card-sized versions of these guides will be available in our Hungry Horse pubs over the next few months.

Corporate social responsibility report

Environment

We recognise that all of our operations and the actions of our employees impact on our environment and have undertaken environmental impact assessments to highlight areas where our impact on the environment is most significant.

Our policy is to:

- Comply with all our legal obligations in relation to the environment and to prepare for proposed environmental legislation and regulations.
- Aim for continual improvement in performance in relation to environmental matters throughout all our production, distribution and retailing operations, so that we minimise the extent of the environmental impact of our operations, so far as reasonably practicable, by minimising harmful emissions or effluents, conserving energy and water resources, minimising the use of materials which may be harmful to the environment, and re-using and recycling waste.

Wherever possible we have committed to:

- Set targets and monitor environmental performance to enhance the efficient use of resources and to avoid waste.
- Work with our suppliers and customers to minimise adverse environmental impacts throughout the supply chain.
- Provide the resources for programmes of sustainable environmental performance improvement projects.

We have now identified key priorities aimed at reducing our carbon footprint. The key area of focus for us is the reduction of CO_2 emissions and, therefore, our consumption of electricity, gas and fuel in our pubs, breweries, distribution activities and in our head office.

Key achievements to date include:

- The creation of an environment steering committee which has representatives from all areas of the business and which reports to the board, to drive forward environmental improvements.
- The installation of an increasing number of smart meters for electricity, gas and water across the estate.
- The saving of 200,000 HGV miles pa (net) from the re-organisation of our distribution operations.
- The introduction of nitrogen in the tyres of our distribution fleet vehicles, which gives us more energy efficient vehicles and cuts down on carbon emissions.
- The development of new lightweight bottles that have 25% lower glass content, saving over 100 tonnes of CO_2 emissions.
- The use of lighter boiler fuel which has reduced pollutant emissions by 25%.
- The recycling of over 6,000 tonnes of spent grain and 800 tonnes of yeast annually for animal feed.
- Over 1,300 tonnes of yeast sent to Marmite in 2008/09.
- The recycling of over 50 tonnes of office waste in 2008/09.
- The introduction of energy packs to turn off equipment and lights when a pub is closed.
- The recycling of 1.8 million litres of cooking oil into fuel over the past two years.
- A company-wide "Turn it off" campaign aimed at staff.
- The replacement of thousands of ordinary light bulbs with low-energy ones.

Going forward we intend to:

- Build on this work and set targets for the next few years.
- Explore how we can introduce more energy efficient equipment across our estate.
- Undertake a full review of our waste management plan and reduce our reliance on landfill.

We were also proud to sponsor the Greenest Pub, Club and Hotel category of Suffolk – Creating the Greenest County awards. These awards celebrate the environmental excellence of different organisations across Suffolk and demonstrate how Suffolk's communities, businesses and schools are leading the way on a wide range of environmental areas, from cutting transport to buying local products to protecting local biodiversity.

Environmental data

Consumption/usage	Unit	2007/08	2008/09	Difference	% change
Gas	MWh	206,767	186,102	-20,665	-10.0
Electricity	MWh	203,747	195,503	-8,244	-4.0
Water	m^3	2,205,506	2,083,998	-121,508	-5.5
Other fossil fuel (diesel) of which:	MWh	62,398	61,826	-572	-0.9
Vehicles*	MWh	35,301	35,711	410	1.2
Process	MWh	16,299	15,419	-880	-5.4
Buildings	MWh	10,798	10,696	-102	-0.9
Emissions (CO_2)	tonnes	163,173	154,767	-8,406	-5.2

* Data includes company cars.

People

Employer of choice

Our workforce is our greatest asset – our aim is to be an employer of choice.

Greene King has a proud history of being a first-class employer. Our values of respect, honesty and courage, customer focus, results and execution underpin the way in which we do business.

We recruit, develop, reward and promote our staff on the basis of their skills and suitability for the role. We are committed to ensuring that all employees receive equal treatment regardless of their colour, nationality, race, religion/belief, ethnic origin, sex, marital status, disability, part-time or fixed term status, parental responsibilities, sexual orientation or age. Our flexible benefits enable employees to tailor their benefits to what is important to them, including childcare and healthcare, as well as offering flexible working hours and working from home options where practicable.

We are committed to engaging with our staff through our many communication channels, such as regular business performance updates, and actively encourage feedback directly to our chief executive. We have good consultative and collective bargaining relationships with our trade unions.

All our employees are offered access to a "stakeholder" pensions scheme and many of our employees have benefited from our sharesave scheme, which is open to all staff.

Training

Dedicated training programmes and development courses ensure constant growth both for individuals and the company as a whole. Our induction programme ensures all staff are trained on entry in compliance, licensing, conflict management, food safety and health and safety (including fire safety).

Our new career path, training programme, introduced in Locals in 2008/09, now provides staff with a clear career ladder, with training on every rung, that can take them from team member to business development manager and beyond.

Health and safety

Greene King enjoys a good record on health and safety. We are committed to the promotion of a positive safety culture and to ensuring that we do all we can to protect our staff and customers. This year has seen our organisation awarded a number of prestigious health and safety awards including:

- The RoSPA Gold Award for Occupational Health and Safety for the fifth consecutive year.
- The RoSPA MORR™ award, which rewards excellence in managing occupational road risk and encourages improvement in this key area where the Health and Safety Executive estimates that there may be as many as 1,000 work-related road fatalities per year. In addition, the Department of Transport says that as many as one in three road crashes involves a vehicle being driven for work, and believes that nearly all of the deaths and injuries are preventable
- The British Safety Council International Safety Award which demonstrates that we have in place comprehensive health and safety policies, targeted plans, and a clear commitment to health and safety from the shop floor to the boardroom. To win the award, an organisation must also have demonstrated the competence of those responsible for the management of health and safety, and provide clear evidence about improvements they have achieved in health and safety during the year.

Career ladder

Before joining Greene King, Phil Venables had spent ten years working in the pub trade. In common with many, he found he lacked the opportunity and the training he needed to make a career in pub management. A year ago, Phil joined Greene King Local Pubs, stepped on to the Greene King career ladder and, since then, hasn't looked back.

Phil says: "The training is excellent. I was on the Rising Stars programme for potential house managers. It's a fast-track scheme which takes you on a personalised leadership and management development programme that can see you running your own pub within months."

The career ladder offers team members a clear career path mapped out with development programmes to progress their career at every stage. From joining as a team member through supervisor and assistant manager, to running their own pub and beyond, there is a training programme to meet everyone's aspirations.

As a result of the programme, Phil is now manager of the Red Hart in Hitchin. Since taking over, Phil has applied his training, driven sales and has seen turnover at the pub increase.

Corporate social responsibility report

RoadSafe
In 2008, Greene King became a RoadSafe business champion. RoadSafe aims to reduce road deaths and injuries and promote safer driving. It brings together representatives from Government, the vehicle and component manufacturing and road transport industries, road safety professionals and the specialist media, to work together to find new approaches to reducing casualties amongst vulnerable groups.

FISHnet
In October 2008, Greene King was invited to join the HSE's Food Industry Safety and Health Network (FISHnet). Made up of representatives from the HSE and local companies involved in food and drink manufacture, the network, in conjunction with the HSE, provides seminars covering topics such as migrant workers, falls from height, and workplace transport safety.

Greene King also joined forces with British Sugar in October 2008 to deliver eight, 15-minute sessions on workplace transport safety and pedestrian traffic in the workplace, to around 100 companies in Norfolk.

Place
Our pubs are at the heart of the community they serve, and we are committed to being an active and positive contributor to local communities.

Charity
We recognise the importance of establishing good relationships with the communities in which we operate and work in partnership with a number of charitable organisations.

We appreciate that a mix of financial support, as well as actual involvement with time, skills and donations in kind are all beneficial when investing in charities and communities.

To help either good local, national or international causes, many of our employees, licensees and customers across the UK get involved in raising money through a varied range of activities such as sports events, quizzes, raffles, auctions and karaoke. Last year, our English managed pubs raised in excess of £180,000 for local and national charities. One example of this came in October last year when a number of our Destination Pubs joined together to help raise money for The Royal British Legion during a weekend celebration of "The Best of British". Staff at our Coleshill Hotel really went the extra mile with the help of the Household Cavalry, who donated dinner in the mess and a day's riding with the Blues and Royals to an impressive list of prizes, and raised over £6,000.

By demonstrating to our employees that we are responsive to the charities and organisations they care about most, we facilitate their giving in a variety of ways including product donations, payroll giving and volunteering.

Good neighbours
We strive to be good neighbours. One of the most important constituents in running a good pub is the prevention of disorder and nuisance. Mindful of the need to ensure we get it right, many of our pub managers regularly meet with local residents to openly discuss any issues or concerns and to involve them in consultation on all new developments.

We support initiatives such as Best Bar None, the Home Office endorsed award scheme, aimed at promoting the responsible management and operation of alcohol-licensed premises.

Druids Head is Best Bar None

Best Bar None is an awards scheme for licensed premises, currently running in over 80 locations across the UK. Originally developed in Manchester, the scheme employs a partnership approach between licensed premises, the emergency services and the local authority, to address alcohol related crime, improve the night time environment in towns and city centres and establish a standard of excellence among participating premises.

In Kingston-upon-Thames, where the Manager of the Druids Head, Declan McCullough, has won the coveted award two years running, the scheme targets key areas including security, drink/drunkenness, drugs policy, first aid provision, and information on transport. Premises are asked to complete a questionnaire and the responses are then tested during an inspection.

As the oldest pub in Kingston, the Druids Head has a rich heritage. It has been part of the community for over three centuries. For Declan and his team, the award demonstrates to the local community that he has a well-run pub where the safety of customers and staff is a priority.

So successful is Declan's pub in achieving the award, that Declan himself has now been asked to mentor other local pubs to help them attain the same high standards as the Druids Head. In addition, plans are now under way to develop the scheme nationally.

Responsible retailing

We strive to ensure that alcohol produced or sold by us is consumed responsibly. Our promotional materials carry clear and concise messages encouraging sensible drinking and all bottles, cans and outer packaging for all our beers specify the number of units of alcohol. In addition, they also advise women not to drink during pregnancy.

We comply with the Portman Group's code of practice on the naming, packaging and promotion of alcoholic drinks.

All of our pubs operate Challenge 21 and if you are lucky enough to appear under 21, you can expect to be asked to prove your age. Research shows that pubs turn away over one million customers each month who, when challenged, are unable to provide acceptable proof of age – indicating that the trade is making a huge effort to enforce the law and prevent underage sales.

Partnership

At Greene King we take a partnership approach to working with tenants.

Tenant support

At Greene King we will and do support good businesses. Our support for licensees over the past year has taken a number of different forms, including financial, training and business development advice and support.

This year saw Pub Partners launch a major value for money drinks campaign entitled "Crunch Time" designed to help bring customers out of their homes and back into the pubs. The promotion, which includes free point-of-sale materials, is being supported by Pub Partners to the tune of almost £2m and builds on the extensive support already in place for tenants.

The introduction of Pelican, a new online one-stop shop for licensees, delivered savings on many goods and services licensees need to run their pub.

Tenant training

Our industry-leading and award-winning training for tenants is nationally recognised as some of the best tenant training in the country.

Our induction programme for new tenants, "Going for Growth", equips them with the skills they need to develop a profitable and sustainable business, with independent research showing that 75% of those undertaking the training can expect to see increased profits after attending the course.

Licensee forum

Greene King works in partnership with our licensees and shares ideas and information through our licensee forum.

Established ten years ago, the forum is made up of a wide array of licensees from across the country. It includes wet-led businesses, food-led businesses, single and multiple operators. The forum meets four or five times a year to discuss a range of topics covering the current trading environment, the services provided by Pub Partners, as well as wider industry issues such as the recent BEC report on the tie.

Ted Docherty has been running pubs for 20 years. Currently, Ted operates five successful pubs, three of which are with Greene King. Ted's latest venture combines a fresh fish and pizza offering where customers can choose their fish and how they want it cooked.

Ted joined the forum nine months ago and firmly believes that the mix of type and size of operator on the forum provides an excellent sounding board. Ted says: "The forum is open and honest – it's a great way for Greene King to gauge opinion among a variety of operators. Ideas can be tested to ensure what might work for one type of operator doesn't impact adversely on another type of operator. And it's a great way to share information and find out about proposed new initiatives from Pub Partners."

Board of directors

Rooney Anand
Chief executive
Rooney Anand, age 45, was appointed to the board of Greene King in 2001 as managing director of Brewing Company, having joined the company from Sara Lee, the international consumer goods business, where he was president and managing director of its UK bakery division. He was previously with United Biscuits. In 2005 he was appointed to the role of chief executive.

Ian Bull
Finance director
Ian Bull, age 48, joined Greene King as finance director and was appointed to the board in 2006. He joined from BT Retail, having been CFO, and then subsequently CEO of BT Retail Enterprises. He was previously VP Finance with Disney, covering Europe, Middle East and Africa, having initially joined as finance director for its UK home entertainment business.

David Elliott
Managing director, Pub Partners
David Elliott, age 55, was appointed to the board of Greene King in 1998 when he joined the group as managing director of Pub Partners. He has a wealth of experience in the pub industry, having worked at Scottish & Newcastle Retail in a variety of operational roles.

Jonathan Lawson
Managing director, Local Pubs
Jonathan Lawson, age 38, was appointed to the board of Greene King in April 2007, when he joined the group as managing director of Local Pubs. He was previously retail operations director of Sainsbury's Convenience.

Justin Adams
Managing director, Brewing Company
Justin Adams, age 43, joined Greene King in 2005 as managing director of Brewing Company. He was previously managing director of Maxxium UK and Ireland, a spirits, champagne and wine joint venture company and, before that, managing director of Guinness Germany (Diageo).

Tim Bridge, DL
Chairman

Tim Bridge, age 60, is chairman of Greene King. He joined Greene King in 1970 and was appointed to the board in 1977. He has held a variety of positions within the group, becoming managing director in 1990 and chief executive in 1994. In 2005 he stepped down as chief executive to take over the role of chairman. He is a non-executive director of William Ransom & Son plc and Weatherbys Ventures Ltd.

Norman Murray
Non-executive director

Norman Murray, independent non-executive director, age 61, was appointed to the board in 2004. He is chairman of Cairn Energy plc and a non-executive director of Robert Wiseman Dairies plc. He was also recently president of the Institute of Chartered Accountants in Scotland.

Jane Scriven
Non-executive director

Jane Scriven, independent non-executive director, age 49, was appointed to the board in 2005. She is chairman of Origin8 Deli-Cafés Ltd and a former director of Geest plc, having been responsible for their continental European operations, and previously trained as a solicitor with Norton Rose.

Ian Durant
Non-executive director

Ian Durant, independent non-executive director, age 50, was appointed to the board in 2007. He is finance director of Liberty International plc.

John Brady
Non-executive director

John Brady, independent non-executive director, age 57, was appointed to the board in 2005, having been a director of McKinsey and Company until 2004 and having led their European retail and marketing practices. He is also a non-executive director of Invest Northern Ireland.

Group financial record

For the 52 weeks ended 3 May 2009

Profit and loss account

	2009 (52 weeks) IFRS £m	2008 (53 weeks) IFRS £m	2007 (52 weeks) IFRS £m	2006 (52 weeks) IFRS £m	2005 (52 weeks) IFRS £m
Revenue	**954.6**	960.5	917.5	818.6	707.5
Operating profit before exceptionals	**216.2**	236.2	218.1	190.9	158.3
Profit before taxation	**54.3**	147.9	145.9	120.9	87.6
Profit before taxation and exceptionals	**118.5**	142.0	139.8	119.6	95.7
Basic earnings per share*	**29.5p**	89.9p	71.9p	60.6p	45.0p
Adjusted basic earnings per share*	**66.5p**	74.0p	64.8p	56.0p	46.5p
Adjusted dividend per share*	**21.0p**	20.9p	18.4p	16.2p	14.6p
Adjusted operating profit/revenue	**22.6%**	24.6%	23.8%	23.3%	22.4%
Adjusted tax expense/profit before tax	**25.0%**	28.0%	30.0%	30.5%	30.5%
Adjusted interest cover (times)	**2.2**	2.5	2.8	2.7	2.5
Adjusted dividend cover (times)	**2.5**	2.8	2.8	2.8	2.6

* All relevant years adjusted for share split.

Balance sheet

	£m	£m	£m	£m	£m
Goodwill	**673.8**	673.8	607.7	505.1	360.0
Property, plant and equipment	**1,997.3**	2,057.9	1,985.8	1,771.8	1,572.3
Financial assets	**40.3**	34.8	33.7	34.0	15.2
Working capital	**(143.5)**	(150.2)	(119.9)	(75.0)	(76.1)
Derivatives	**(144.5)**	(5.5)	5.8	(17.3)	–
Provisions	**(221.4)**	(256.6)	(243.4)	(210.4)	(199.3)
Net debt	**(1,558.6)**	(1,605.5)	(1,435.5)	(1,246.7)	(1,020.2)
Net assets	**643.4**	748.7	834.2	761.5	651.9
Gearing	**242%**	214%	172%	164%	156%
Net assets per share*	**474p**	553p	555p	498p	449p

* All relevant years adjusted for share split.

Cash flow and investment

	£m	£m	£m	£m	£m
EBITDA before exceptionals	**267.3**	283.3	260.8	229.2	191.5
Cash inflow from operations	**260.9**	276.0	275.3	217.6	208.7
Interest, tax and dividends	**(154.3)**	(145.7)	(134.6)	(124.8)	(72.3)
Fixed asset purchases	**(95.5)**	(98.3)	(90.9)	(77.9)	(42.9)
Fixed asset sales	**44.2**	41.4	70.3	17.9	45.6
Trade loans and investments	**(6.0)**	(0.4)	0.9	4.1	(0.4)
Acquisitions	**–**	(82.6)	(172.5)	(232.7)	(199.6)
Other	**(2.4)**	(160.4)	(137.3)	(30.7)	(512.7)
Decrease/(increase) in debt	**46.9**	(170.0)	(188.8)	(226.5)	(573.6)

Adjusted earnings per share, operating profit, taxation, interest cover and dividend cover exclude the effect of exceptional items and the amortisation of goodwill. Net assets per share exclude own shares held.

Group income statement

For the 52 weeks ended 3 May 2009

	Note	2009 (52 weeks) Before exceptional items £m	2009 (52 weeks) Exceptional items £m	2009 (52 weeks) Total £m	2008 (53 weeks) Before exceptional items £m	2008 (53 weeks) Exceptional items £m	2008 (53 weeks) Total £m
Revenue	2,3	**954.6**	**–**	**954.6**	960.5	–	960.5
Operating costs	4	**(738.4)**	**(55.8)**	**(794.2)**	(724.3)	(4.9)	(729.2)
Profit on disposal of property, plant and equipment	5	**–**	**3.7**	**3.7**	–	9.8	9.8
Operating profit	2,4	**216.2**	**(52.1)**	**164.1**	236.2	4.9	241.1
Finance income	7,3	**5.8**	**–**	**5.8**	16.4	1.0	17.4
Finance costs	7	**(102.6)**	**(12.1)**	**(114.7)**	(112.0)	–	(112.0)
Net finance (expense)/income from pensions		**(0.9)**	**–**	**(0.9)**	1.4	–	1.4
Profit before tax		**118.5**	**(64.2)**	**54.3**	142.0	5.9	147.9
Tax	10	**(29.6)**	**14.8**	**(14.8)**	(39.7)	16.1	(23.6)
Profit attributable to equity holders of parent		**88.9**	**(49.4)**	**39.5**	102.3	22.0	124.3
Earnings per share							
– basic	12			**29.5p**			89.9 p
– adjusted basic	12	**66.5p**			74.0p		
– diluted	12			**29.4p**			89.7 p
– adjusted diluted	12	**66.2p**			73.8p		
Dividends per share (paid and proposed in respect of the period)	11	**22.4p**			26.0p		
Adjusted dividend per share (paid and proposed in respect of the period)*	11	**21.0p**			20.9p		

* Adjusted dividend per share reflects the impact of the bonus element of the post year end rights issue.

Group balance sheet

As at 3 May 2009

	Note	**As at 3 May 2009 £m**	As at 4 May 2008 £m
Non-current assets			
Property, plant and equipment	15	**1,997.3**	2,057.9
Goodwill	13	**673.8**	673.8
Financial assets	16	**40.3**	34.8
Derivative financial instruments	24	**–**	2.7
Deferred tax assets	10	**73.3**	28.6
Prepayments		**4.2**	5.2
Trade and other receivables	20	**0.2**	0.2
		2,789.1	2,803.2
Current assets			
Inventories	19	**21.9**	17.9
Trade and other receivables	20	**62.0**	51.7
Prepayments		**6.9**	13.0
Derivative financial instruments	24	**–**	0.7
Cash and cash equivalents	21	**120.9**	91.6
		211.7	174.9
Current liabilities			
Borrowings	23	**(38.4)**	(60.6)
Derivative financial instruments	24	**(12.7)**	(1.0)
Trade and other payables	22	**(195.4)**	(198.7)
Income tax payable		**(43.3)**	(39.5)
		(289.8)	(299.8)
Non-current liabilities			
Borrowings	23	**(1,641.1)**	(1,636.5)
Derivative financial instruments	24	**(131.8)**	(7.9)
Deferred tax liabilities	10	**(197.6)**	(211.4)
Post-employment liabilities	9	**(97.1)**	(73.8)
		(2,067.6)	(1,929.6)
Total net assets		**643.4**	748.7
Issued capital and reserves			
Share capital	25	**17.0**	17.0
Share premium	26	**247.5**	247.2
Capital redemption reserve	26	**3.3**	3.3
Hedging reserve	26	**(94.9)**	(3.6)
Own shares	26	**(17.5)**	(17.2)
Retained earnings	26	**488.0**	502.0
Total equity		**643.4**	748.7
Net debt	28	**1,558.6**	1,605.5

Signed on behalf of the board on 1 July 2009

T J W Bridge
Director

R Anand
Director

Group cash flow statement

For the 52 weeks ended 3 May 2009

	Note	2009 (52 weeks) £m	2008 (53 weeks) £m
Operating activities			
Operating profit		**164.1**	241.1
Operating exceptional items		**52.1**	(4.9)
Depreciation		**51.1**	47.1
EBITDA*	2	**267.3**	283.3
Working capital and non-cash movements	27	**(6.4)**	(7.3)
Interest received		**5.8**	16.4
Interest paid		**(100.3)**	(102.8)
Tax paid		**(24.9)**	(25.8)
Net cash flow from operating activities		**141.5**	163.8
Investing activities			
Purchase of property, plant and equipment		**(95.5)**	(98.3)
Purchase of other investments		**(0.3)**	(0.2)
Movements in financial assets		**(6.0)**	(0.4)
Sales of property, plant and equipment		**44.2**	41.4
Acquisition of subsidiaries, net of cash acquired	18	**–**	(82.6)
Net cash flow from investing activities		**(57.6)**	(140.1)
Financing activities			
Equity dividends paid	11	**(34.9)**	(33.5)
Issue of shares	26	**0.4**	5.3
Purchase of own shares	26	**(0.4)**	(150.6)
Financing costs		**(7.7)**	(0.1)
Repayment of borrowings	28	**(361.3)**	(101.8)
Advance of borrowings	28	**349.8**	265.0
Net cash flow from financing activities		**(54.1)**	(15.7)
Net increase in cash and cash equivalents		**29.8**	8.0
Opening cash and cash equivalents	21	**90.7**	82.7
Closing cash and cash equivalents	21	**120.5**	90.7

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

Group statement of recognised income and expense

For the 52 weeks ended 3 May 2009

	Note	2009 £m	2008 £m
Cash flow hedges: losses taken to equity	26	**(144.2)**	(3.2)
Cash flow hedges: ineffective portion transferred to income statement	26	**12.1**	–
Cash flow hedges: losses/(gains) recycled to income on swap terminations	26	**5.3**	(8.1)
Actuarial losses on defined benefit pension schemes	9	**(24.5)**	(31.3)
Tax on items recognised directly in equity	10	**42.4**	12.2
Tax on share-based payments	10	**2.2**	(4.0)
Net expense recognised directly in equity		**(106.7)**	(34.4)
Profit for the period		**39.5**	124.3
Total recognised income and expense for the period attributable to equity holders of parent		**(67.2)**	89.9

Notes to the accounts

For the 52 weeks ended 3 May 2009

1 Accounting policies

Corporate information

The consolidated financial statements of Greene King plc for the 52 weeks ended 3 May 2009 were authorised for issue by the board of directors on 1 July 2009. Greene King plc is a public limited company incorporated and domiciled in England and Wales. The company's shares are listed on the London Stock Exchange.

Statement of compliance

The group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as they apply to the financial statements of the group for the 52 weeks ended 3 May 2009 applied in accordance with the provisions of the Companies Act 2006.

Basis of preparation

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Greene King plc, its subsidiaries and its related party, Greene King Finance plc. Greene King Finance plc is a special purpose entity set up to raise bond finance for the group, which is consolidated as a quasi-subsidiary. The financial statements of subsidiaries are prepared for the same reporting year as the parent company with adjustments made to their financial statements to bring their accounting policies in line with those used by the group.

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

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year with the one exception noted below.

IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction became effective during the financial year. The application of this interpretation by the group has had no impact on the group's financial statements.

Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of the assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities) acquired. Goodwill is not amortised, but is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, and is stated at cost less any impairment in value.

For the purposes of impairment testing goodwill is allocated at business segment level which is the lowest group of cash generating units where goodwill is monitored by management. Allocation is based on expectations of where benefits from the synergies of the combination will result. On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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

Property, plant and equipment

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

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

Freehold land is not depreciated. Freehold and long leasehold buildings are depreciated to their estimated residual values over periods up to 50 years, and short leasehold improvements are depreciated to their estimated residual values over the shorter of the remaining term of the lease or useful life of the asset. 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. Plant and equipment assets are depreciated over their estimated lives which range from three to 20 years.

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

An item of property, plant and equipment is 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.

1 Accounting policies continued

Impairment

Property, plant and equipment

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

An assessment is made at each reporting date as to whether there is an indication of impairment. If an indication exists, the group makes an estimate of the recoverable amount of each asset group, which is the higher of the assets' fair value less costs to sell and value-in-use, calculated using the identified cash flows of the asset groups.

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

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

Details of the impairment losses recognised in respect of property, plant and equipment are provided in note 15.

Goodwill

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

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

Finance costs and income

Finance costs are expensed to the income statement using the effective interest method and are not capitalised. Finance income is recognised in the income statement using the effective interest method.

Inventories

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

Cash and cash equivalents

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

Financial instruments

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

Financial assets

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

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

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

Trade 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.

1 Accounting policies continued

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

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

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

Interest rate swaps are initially measured at fair value, if any, and carried on the balance sheet as an asset or liability. Subsequent measurement is at fair value 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 group's risk management objective and strategy for undertaking the hedge and formal allocation to the item or transaction being hedged. The group also documents how it will assess the effectiveness of the hedge and carries out assessments on a regular basis to determine whether it has been, and is likely to continue to be, highly effective.

Hedges can be classified as either fair value (hedging exposure to changes in fair value of an asset or liability), or cash flow (hedging the variability in cash flows attributable to an asset, liability, or forecast transaction). The group uses 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 equity, whilst any ineffective portion is recognised immediately in the income statement.

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

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

Past service costs are recognised in the income statement on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement or curtailment occurs the obligation and related scheme assets are re-measured and the resulting gain or loss is recognised in the income statement in the same period.

The interest cost on scheme liabilities and the expected return on scheme assets are shown as a net amount on the face of the group income statement.

The defined benefit asset or liability recognised on the balance sheet comprises the present value of the schemes' obligations, less past service costs not yet recognised, and less the fair value of scheme assets. Defined benefit assets are restricted to the extent that they are considered recoverable.

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

Post-employment healthcare benefit
The group also provided certain additional post-employment healthcare benefits to employees which are unfunded. The cost of providing these benefits is determined on the same basis as the defined benefit pension schemes.

1 Accounting policies continued

Share-based payments
Certain employees and directors receive equity-settled remuneration, whereby they render services in exchange for shares or rights over shares. The fair value of the shares and options granted are measured using a Black-Scholes model, at the date at which they were granted. No account is taken in the fair value calculation of any vesting conditions, other than market conditions. The fair value of shares and options granted is recognised as an employee expense with a corresponding increase in equity spread over the period in which the performance conditions are fulfilled ending on the relevant vesting date. The cumulative amount recognised as an expense reflects the extent to which the vesting period has expired, adjusted for the estimated number of shares and options that are ultimately expected to vest. The periodic charge or credit is the movement in the cumulative position from beginning to end of that period.

No expense is recognised for awards that do not ultimately vest provided vesting is not conditional on market related conditions. The dilutive effect of outstanding options is reflected as additional share dilution in calculating earnings per share figures.

In accordance with the exemption allowed under IFRS 1 for first time adopters, no expense is recorded in respect of grants made under the above schemes prior to 7 November 2002 which had not vested by the date of transition to IFRS.

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

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

Revenue
Generally, revenue represents external sales (excluding taxes) of goods and services, net of discounts. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and is measured at the fair value of consideration receivable, excluding discounts, rebates, and other sales taxes or duty. Revenue principally consists of:

Goods
Drink and food sales
Recognised at the point at which goods are provided either wholesale or in the group's outlets.

Services
Accommodation sales
Recognised at the point at which the services are provided.

Rental income
Recognised on a straight-line basis over the lease term.

Machine income
Net takings recognised as earned.

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

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

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

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

1 Accounting policies continued

Deferred tax

Deferred tax is provided 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 equity is recognised in equity and not in the income statement.

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 financial performance in the period.

New standards and interpretations not applied

A number of standards and interpretations were issued by the IASB and IFRC 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 8 – Operating segments effective 1 January 2009
The standard replaced IAS 14 , with revised requirements for the identification, measurement and disclosure of segment information.

IAS 1 (revised) – Presentation of financial statements effective 1 January 2009
The amendment to the standard will require the company to choose whether to rename the primary statements and whether to present the new "statement of comprehensive income" as a single statement replacing the income statement or as two statements.

IAS 23 – Borrowings costs effective 1 January 2009
The revised standard requires the capitalisation of borrowing costs when such costs relate to an asset that necessarily takes a substantial amount of time to get ready for its intended use or sale.

Amendment to IFRS 2 – Share-based payments effective 1 January 2009
The amendment clarifies the definition of vesting conditions and the accounting treatment of cancellations by the counterparty to share-based payment agreements.

Amendment to IFRS 7 – Financial instruments disclosure
The amendment enhances the disclosures relating to fair value measurement and liquidity risk.

In addition, the following standards and interpretations have been issued, none of which are anticipated to significantly impact the group's results or assets and liabilities and are not expected to require additional disclosure:

– IFRS 3 – Business combinations (revised January 2008) effective 1 July 2009
– IAS 27 – Consolidated and separate financial statements (revised January 2008) effective 1 July 2009
– IAS 13 – Customer loyalty programmes effective 1 July 2008

1 Accounting policies continued

Significant accounting judgments and estimates

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

Impairment of property, plant and equipment

The group determines whether property, plant and equipment is impaired where there are indicators of impairment. This requires an estimation of the value-in-use of the cash-generating unit that the assets are grouped within. 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 15 describes the assumptions used in the impairment testing of property, plant and equipment together with an analysis of the sensitivity to changes in key assumptions.

Impairment of goodwill

The group determines whether goodwill is impaired on at least an annual basis. Details of the tests and carrying value of the assets are shown in note 14. 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.

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 economic lives are reassessed annually which may lead to an increase or reduction in depreciation accordingly.

Pension liabilities

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

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. Tax benefits are not recognised unless it is probable that the benefit will be obtained. Tax provisions are made if it is possible that a liability will arise. The group reviews each significant tax liability or benefit to assess the appropriate accounting treatment.

Share-based payments

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

Notes to the accounts

For the 52 weeks ended 3 May 2009

2 Segment information

The group's primary reporting format is business segments which are divided into four core trading segments and are managed separately.

Retail covers the results of managed houses and restaurants, Pub Partners covers the results of tenanted houses, Brewing Company covers brewing beer, marketing and selling, all predominantly in England. Belhaven covers the results of our Scottish operation which includes managed and tenanted houses and brewing and selling beer. Corporate includes central costs and central assets/liabilities.

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

2009 – 52 weeks	Retail £m	Pub Partners £m	Brewing Company £m	Belhaven £m	Corporate £m	Total operations £m
Segment revenue	569.5	155.2	138.4	138.0	–	1,001.1
Less: internal revenue	–	–	(44.5)	(2.0)	–	(46.5)
External revenue	**569.5**	**155.2**	**93.9**	**136.0**	**–**	**954.6**
Operating costs	(463.9)	(84.3)	(72.7)	(105.8)	(11.7)	(738.4)
Segment operating profit (pre-exceptionals)	**105.6**	**70.9**	**21.2**	**30.2**	**(11.7)**	**216.2**
Exceptional items	(27.5)	(17.8)	(1.5)	(5.3)	–	(52.1)
Segment operating profit (post-exceptionals)	**78.1**	**53.1**	**19.7**	**24.9**	**(11.7)**	**164.1**
Net finance costs						(109.8)
Income tax expense						(14.8)
Net profit for the period						**39.5**
Balance sheet						
Segment assets	1,287.8	859.3	243.5	369.2	46.8	2,806.6
Unallocated assets*						194.2
	1,287.8	859.3	243.5	369.2	46.8	3,000.8
Segment liabilities	(65.8)	(8.8)	(41.9)	(30.5)	(48.4)	(195.5)
Unallocated liabilities*						(2,162.0)
	(65.8)	(8.8)	(41.9)	(30.5)	(48.4)	(2,357.4)
Net assets	**1,222.0**	**850.5**	**201.6**	**338.7**	**(1.6)**	**643.4**
Other segment information						
Capital expenditure – tangible assets	54.2	13.3	2.1	14.7	0.2	84.5
Capital expenditure – tangible assets acquired through business combinations	–	–	–	–	–	–
Capital expenditure – goodwill	–	–	–	–	–	–
Depreciation	34.2	7.2	4.2	4.7	0.8	51.1
EBITDA**	139.8	78.1	25.4	34.9	(10.9)	267.3

2 Segment information continued

2008 – 53 weeks	Retail £m	Pub Partners £m	Brewing Company £m	Belhaven £m	Corporate £m	Total operations £m
Segment revenue	578.7	167.2	130.8	127.9	–	1,004.6
Less: internal revenue	–	–	(42.3)	(1.8)	–	(44.1)
External revenue	**578.7**	**167.2**	**88.5**	**126.1**	**–**	**960.5**
Operating costs	(462.2)	(85.8)	(66.9)	(98.6)	(10.8)	(724.3)
Segment operating profit (pre-exceptionals)	**116.5**	**81.4**	**21.6**	**27.5**	**(10.8)**	**236.2**
Exceptional items	(1.3)	2.7	0.2	0.1	3.2	4.9
Segment operating profit (post-exceptionals)	**115.2**	**84.1**	**21.8**	**27.6**	**(7.6)**	**241.1**
Net finance costs						(93.2)
Income tax expense						(23.6)
Net profit for the period						**124.3**
Balance sheet						
Segment assets	1,324.3	882.7	240.0	361.8	45.7	2,854.5
Unallocated assets*						123.6
	1,324.3	882.7	240.0	361.8	45.7	2,978.1
Segment liabilities	(77.5)	(9.6)	(34.3)	(30.1)	(47.2)	(198.7)
Unallocated liabilities*						(2,030.7)
	(77.5)	(9.6)	(34.3)	(30.1)	(47.2)	(2,229.4)
Net assets	**1,246.8**	**873.1**	**205.7**	**331.7**	**(1.5)**	**748.7**
Other segment information						
Capital expenditure – tangible assets	54.3	22.2	3.5	27.0	0.9	107.9
Capital expenditure – tangible assets acquired through business combinations	17.0	25.9	–	–	–	42.9
Capital expenditure – goodwill	57.8	10.5	–	–	–	68.3
Depreciation	31.4	6.8	4.0	4.2	0.7	47.1
EBITDA**	147.9	88.2	25.6	31.7	(10.1)	283.3

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

Geographical segments

The group's secondary format is geographical segments. The group's assets and operations are predominantly located within the UK. As the group has virtually only domestic activities, segment reporting is only required by business segment.

3 Revenue

Revenue is analysed as follows:

	2009 (52 weeks) £m	2008 (53 weeks) £m
Goods	**854.6**	852.7
Services	**100.0**	107.8
Revenue	**954.6**	960.5
Finance income	**5.8**	16.4
Total revenue	**960.4**	976.9

4 Other income and expenses

Operating profit is stated after charging/crediting:

	2009 (52 weeks)			2008 (53 weeks)		
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Changes in inventory of finished goods and work in progress	**12.6**	**–**	**12.6**	11.4	–	11.4
Cost of inventories recognised as an expense	**339.1**	**–**	**339.1**	326.7	–	326.7
Employment costs (note 6)	**218.5**	**(1.4)**	**217.1**	224.1	1.1	225.2
Depreciation of property, plant and equipment	**51.1**	**–**	**51.1**	47.1	–	47.1
Operating lease rentals – minimum lease rentals	**15.2**	**–**	**15.2**	13.7	–	13.7
Net profit on disposal of property, plant and equipment	**–**	**(3.7)**	**(3.7)**	–	(9.8)	(9.8)
Other operating charges	**101.9**	**57.2**	**159.1**	101.3	3.8	105.1
	738.4	**52.1**	**790.5**	724.3	(4.9)	719.4

Fees paid to the auditors during the period consisted of:

	2009 £m	2008 £m
Audit of the group financial statements	**0.2**	0.2
Other fees to auditors		
– auditing of the accounts of subsidiaries	**0.1**	0.1
– other services relating to taxation	**–**	–
– other services relating to the issue of securitised debt	**0.1**	–
– other services	**–**	–
Included in other operating charges	**0.4**	0.3

Fees relating to the issue of securitised debt have been recognised as part of financing issue costs.

In addition to the above the group has incurred £0.2m of non-audit fees in connection with the post year end rights issue described in note 31.

5 Exceptional items

	2009 (52 weeks) £m	2008 (53 weeks) £m
Included in operating profit		
Integration of New Century Inns business	**–**	0.4
Integration of Hardys & Hansons business	**–**	1.3
Divisional restructuring	**2.6**	–
Financial systems integration	**3.4**	1.0
Adjustment to carrying value of goodwill in respect of utilisation of tax losses (note 13)	**–**	2.2
Impairment of property, plant and equipment (note 15)	**53.5**	–
Share-based payment credit	**(3.7)**	–
Net profit on disposal of property, plant and equipment	**(3.7)**	(9.8)
	52.1	(4.9)
Included in financing costs		
Early termination of interest rate swaps and loan facilities	**–**	(1.0)
Ineffective cash flow hedges – transfer from equity (note 24)	**12.1**	–
Total exceptional items before tax	**64.2**	(5.9)

Exceptional divisional restructuring and financial systems integration costs are items of one-off expenditure incurred in connection with the restructuring of certain trading segments within the group and the review of group-wide financial systems.

Integration costs relating to the New Century Inns and Hardys & Hansons businesses are items of one-off expenditure incurred in the prior year to combine the acquired businesses with the rest of the group.

The net profit on disposal of property, plant and equipment of £3.7m (2008: £9.8m) comprises a total profit on disposal of £11.1m (2008: £15.4m) and a total loss on disposal of £7.4m (2008: £5.6m).

The share-based payments credit results from the reversal of the previously recognised expense of share-based payment schemes which are no longer expected to meet their performance criteria.

6 Employment costs

	2009 (52 weeks) £m	2008 (53 weeks) £m
Wages and salaries	**195.7**	196.9
Other share-based payments	**(3.1)**	3.4
Total wages and salaries	**192.6**	200.3
Social security costs	**15.7**	15.6
Other pension costs (note 9)		
– defined benefit	**5.0**	5.2
– defined contribution	**1.5**	3.0
Staff termination costs (included within exceptional divisional restructuring)	**2.3**	1.1
	217.1	225.2

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

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

	2009	2008
Retail	**15,385**	14,848
Pub Partners	**105**	119
Brewing Company	**637**	685
Belhaven	**1,798**	1,634
Corporate	**102**	106
	18,027	17,392

The figures above include 9,191 (2008: 8,796) part-time employees.

Details of directors' emoluments are shown in the directors' remuneration report on pages 79 to 82.

7 Finance (costs)/income

	2009 (52 weeks)			2008 (53 weeks)		
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Bank loans and overdrafts	**(19.5)**	**–**	**(19.5)**	(46.1)	–	(46.1)
Other loans	**(83.1)**	**–**	**(83.1)**	(65.9)	–	(65.9)
Ineffective cash flow hedges						
– transfer from equity (note 24)	**–**	**(12.1)**	**(12.1)**	–	–	–
Total finance costs	**(102.6)**	**(12.1)**	**(114.7)**	(112.0)	–	(112.0)
Bank interest receivable	**5.8**	**–**	**5.8**	16.4	–	16.4
Termination of swaps and loan facilities	**–**	**–**	**–**	–	1.0	1.0
Total finance income	**5.8**	**–**	**5.8**	16.4	1.0	17.4
Net finance costs	**(96.8)**	**(12.1)**	**(108.9)**	(95.6)	1.0	(94.6)

8 Share-based payment plans

The group operates four types of share-based payment arrangements; executive share option plans (ESOS), a senior management long-term incentive plan (LTIP), general employee share option plan (SAYE) and a share incentive plan (SIP).

The general terms of each plan are detailed in the directors' remuneration report on pages 79 to 82. All are equity settled.

The total credit recognised for the period arising from share-based payment transactions is £3.1m (2008: expense of £3.4m), all of which relates to equity-settled transactions.

This includes a charge of £0.6m (2008: £3.4m) included within operating costs and an exceptional credit of £3.7m (2008: £nil).

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

2009	LTIP	ESOS	SAYE
Weighted average share price	**502p**	**560p**	**438p**
Exercise price	**–**	**560p**	**341p**
Expected dividend yield	**4.3%**	**4.3%**	**4.3%**
Risk-free rate of return	**3.1%**	**4.5%**	**1.7%**
Volatility	**38.5%**	**26.2%**	**44.6%**
Expected life (years)	**3.0**	**6.5**	**3.3**
Weighted average fair value of grants in the year	**416p**	**66p**	**110p**

2008	LTIP	ESOS	SAYE
Weighted average share price	808p	1087p	694p
Exercise price	–	1087p	519p
Expected dividend yield	4.9%	4.9%	4.9%
Risk-free rate of return	4.6%	5.5%	4.1%
Volatility	25.3%	18.9%	27.6%
Expected life (years)	3.0	6.5	3.3
Weighted average fair value of grants in the year	698p	289p	189p

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

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

The SIP shares are issued to employees after the period end at the market price ruling at the date of grant. As such, this is their fair value and the assumptions stated above are not relevant for this scheme.

Movement in outstanding options and rights during the period is as follows:

ESOS	Number of options 2009 m	Number of options 2008 m	Weighted average exercise price 2009 p	Weighted average exercise price 2008 p
Outstanding at the beginning of the period	**3.9***	3.5*	**755**	622
Granted	**1.4**	1.1	**560**	1,087
Forfeited	**(0.4)**	(0.3)	**715**	759
Exercised	**(0.1)**	(0.4)	**492**	501
Outstanding at the end of the period	**4.8***	3.9*	**703**	755
Exercisable at the end of the period	**1.5**	1.0	**528**	446

* Balance at the beginning of the period includes 0.3m (2008: 0.3m) shares under options granted pre- 7 November 2002 and 0.3m (2008: 0.3m) at the end of period. The options have not been modified and therefore are not accounted for in accordance with IFRS 2.

8 Share-based payment plans continued

SAYE	Number of options 2009 m	2008 m	Weighted average exercise price 2009 p	2008 p
Outstanding at the beginning of the period	**1.6**	1.4	**557**	590
Granted	**1.0**	0.6	**341**	519
Forfeited	**(0.7)**	(0.3)	**578**	654
Exercised	**(0.2)**	(0.1)	**333**	497
Outstanding at the end of the period	**1.7***	1.6*	**449**	557
Exercisable at the end of the period	**0.4**	0.1	**558**	282

LTIP	Number of shares 2009 m	2008 m
Outstanding at the beginning of the period	**0.8**	0.6
Granted	**0.6**	0.4
Forfeited	**(0.1)**	–
Vested	**(0.2)**	(0.2)
Outstanding at the end of the period	**1.1**	0.8
Exercisable at the end of the period	**–**	–

The options and shares granted under the LTIP are at nil cost therefore the weighted average exercise price for rights outstanding at the beginning and end of the period, granted, forfeited and exercised during the period is £nil (2008: £nil).

ESOS, SAYE and LTIP

Options were exercised on a range of dates. The weighted average share price through the period was 454p in 2009 and 860p in 2008. The rights outstanding at 3 May 2009 under the LTIP had an exercise price of £nil (2008: £nil) and a weighted average remaining contractual life of 1.8 years (2008: 1.7 years). The outstanding options for the ESOS scheme had an exercise price between 370p and 1087p (2008: 370p and 1087p) and for the SAYE scheme between 341p and 865p (2008: 282p and 865p). The weighted average remaining contractual life was 7.3 years for the ESOS (2008: 7.5 years) and 3.3 years for the SAYE scheme (2008: 2.8 years).

SIP

The cost of the SIP is accrued at the year-end based on the expected value of payout. The amount accrued at 3 May 2009 for the current year's service is £nil (2008: £nil) disclosed in note 6. The shares issued during the period to employees were in relation to their services in the prior period. There were no shares issued in the period (2008: £0.3m). The SIP shares are held within an external trust until the employee elects to sell.

9 Pensions

The group maintains a defined contribution scheme, which is open to all new employees, and a number of defined benefit schemes.

The group also has a past service liability in relation to post-employment medical benefits offered to employees to cover any medical costs after employment. The benefit is no longer given to new employees.

Defined contribution pension scheme

Member funds for the defined contribution scheme are held and administered by the Prudential Assurance Company. The total cost recognised in operating profit for the period was £1.5m (2008: £3.0m).

Defined benefit pension schemes and post-employment benefits

The group maintains the following defined benefit schemes which are all closed to new entrants and have had full actuarial valuations in the last four years: Greene King Pension Scheme (closed 2 May 1997, last valued 5 April 2006), Morland Pension Scheme (closed 12 December 2000, last valued 5 April 2006), Belhaven Pension Scheme (closed 31 October 2005, last valued 31 March 2005), and the Hardys & Hansons Pension Scheme (closed 1 July 2003, last valued 30 April 2006). During the period the Tolly Cobbold Pension Scheme (closed 29 July 2002, last valued 1 December 2004) merged with the Greene King Pension Scheme.

Notes to the accounts

For the 52 weeks ended 3 May 2009

9 Pensions continued

Member funds for the defined benefit schemes are held in separate funds independently of the group's finances and are administered by pension trustees. Pension benefits are related to members' final salary at retirement and their length of service. The group has opted to recognise all actuarial gains and losses immediately via the statement of recognised income and expense.

The total cost recognised in the income statement was:

	Pension schemes		Post-employment benefits	
	2009 (52 weeks) £m	2008 (53 weeks) £m	**2009 (52 weeks) £m**	2008 (53 weeks) £m
Current service cost	**(5.0)**	(5.6)	**–**	–
Total recognised in operating profit	**(5.0)**	(5.6)	**–**	–
Expected return on pension scheme assets	**15.7**	15.4	**–**	–
Interest on scheme liabilities	**(16.3)**	(13.7)	**(0.3)**	(0.3)
Total finance (cost)/income recognised	**(0.6)**	1.7	**(0.3)**	(0.3)

The total charge recognised in the statement of recognised income and expense was:

	Pension schemes		Post-employment benefits	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Actual return on scheme assets	**(37.6)**	(2.9)	**–**	–
Less: expected return on scheme assets	**(15.7)**	(15.4)	**–**	–
Experience gains and losses on scheme assets	**(53.3)**	(18.3)	**–**	–
Experience gains and losses arising on scheme liabilities	**2.6**	(1.6)	**–**	–
Losses arising on scheme liabilities due to changes in actuarial assumptions	**26.2**	(11.4)	**–**	–
Actuarial loss recognised through equity	**(24.5)**	(31.3)	**–**	–

The total contributions to the defined benefit pension schemes in the following period are expected to be £7.7m (2008: £7.7m) for the group.

The values of the schemes' liabilities have been determined by a qualified actuary based on the results of the last actuarial valuation, updated to 3 May 2009 using the following principal actuarial assumptions:

	2009	2008
Discount rate	**6.0%**	6.1%
Expected rates of salary increases	**4.2%**	5.5%
Expected pension payment increases	**3.1%**	3.6%
Rate of inflation	**3.2%**	3.7%
Healthcare cost increase	**9.0%**	9.0%
The mortality assumptions imply the following expectations of years of life from age 65:		
Man currently aged 40	**23.3**	23.2
Woman currently aged 40	**26.0**	25.9
Man currently aged 65	**20.9**	20.8
Woman currently aged 65	**23.7**	23.6

Mortality assumptions are based on standard tables adjusted for scheme experience and with an allowance for future improvement in life expectancy. Overall expected rate of return on assets is established by applying brokers' forecasts to each category of scheme asset.

9 Pensions continued

The net liability of the schemes and other post-employment benefit, as recognised in the balance sheet, is summarised below:

	Pension plans: Long term rate of return expected 2009 %	2008 %	Pension plans: Value 2009 £m	2008 £m	Post-employment benefits 2009 £m	2008 £m
Equities	**8.3**	8.8	**118.2**	150.8	**–**	–
With profits	**6.0**	7.7	**1.8**	2.2	**–**	–
Bonds	**5.5**	5.7	**32.8**	26.7	**–**	–
Property	**8.3**	8.8	**1.2**	2.0	**–**	–
Cash	**0.5**	5.0	**5.7**	17.2	**–**	–
Fair value of assets			**159.7**	198.9	**–**	–
Present value of scheme liabilities						
Funded plans			**(251.3)**	(267.3)	**–**	–
Unfunded plans			**–**	–	**(5.5)**	(5.4)
Non current liability recognised			**(91.6)**	(68.4)	**(5.5)**	(5.4)

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

	Pension assets 2009 £m	2008 £m	Pension liabilities 2009 £m	2008 £m	Net pension liability 2009 £m	2008 £m
At beginning of period	**198.9**	201.8	**(267.3)**	(242.0)	**(68.4)**	(40.2)
Current service cost	**–**	–	**(5.0)**	(5.6)	**(5.0)**	(5.6)
Interest cost on benefit obligations	**–**	–	**(16.3)**	(13.7)	**(16.3)**	(13.7)
Expected return on plan assets	**15.7**	15.4	**–**	–	**15.7**	15.4
Contributions paid – employers	**6.9**	7.0	**–**	–	**6.9**	7.0
Contributions paid – employees	**1.1**	1.2	**(1.1)**	(1.2)	**–**	–
Benefits paid	**(9.6)**	(8.2)	**9.6**	8.2	**–**	–
Actuarial (loss)/gain	**(53.3)**	(18.3)	**28.8**	(13.0)	**(24.5)**	(31.3)
At end of period	**159.7**	198.9	**(251.3)**	(267.3)	**(91.6)**	(68.4)

	Post-employment benefits liability 2009 £m	2008 £m
At beginning of period	**(5.4)**	(5.3)
Current service cost	**–**	–
Interest cost on benefit obligations	**(0.3)**	(0.3)
Other finance charge	**–**	–
Benefits paid	**0.2**	0.2
Actuarial gain/(loss)	**–**	–
At end of period	**(5.5)**	(5.4)

9 Pensions continued

History of experience adjustments for the current and previous four periods are as follows:

Pension schemes	**2009 £m**	2008 £m	2007 £m	2006 £m	2005 £m
Defined benefit obligation	**(251.3)**	(267.3)	(242.0)	(218.7)	(177.9)
Plan assets	**159.7**	198.9	201.8	168.5	121.7
Deficit	**(91.6)**	(68.4)	(40.2)	(50.2)	(56.2)
Experience adjustments on scheme liabilities	**(2.6)**	1.6	(5.4)	(13.4)	(10.1)
Percentage of scheme liabilities	**1.0%**	-0.6%	2.2%	6.1%	5.7%
Experience adjustments on scheme assets	**(53.3)**	(18.3)	3.5	24.1	1.1
Percentage of scheme assets	**-33.4%**	-9.2%	1.7%	14.3%	0.9%

Post-employment benefits	**2009 £m**	2008 £m	2007 £m	2006 £m	2005 £m
Benefit obligation	**(5.5)**	(5.4)	(5.3)	(5.2)	(5.1)
Experience adjustments on benefit obligation	**–**	–	–	–	–

The cumulative amount of actuarial gains and losses recognised since 3 May 2004 in the statement of recognised income and expense is £25.9m loss (2008: £1.4m). The amount prior to 3 May 2004 is not determinable as valuations were performed under different accounting and actuarial bases.

10 Taxation

Consolidated income statement

	2009 (52 weeks)			2008 (53 weeks)		
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Income tax						
Corporation tax before exceptional items	**32.3**	**–**	**32.3**	38.2	–	38.2
Recoverable on exceptional items	**–**	**(1.7)**	**(1.7)**	–	(0.4)	(0.4)
Current income tax	**32.3**	**(1.7)**	**30.6**	38.2	(0.4)	37.8
Adjustment in respect of prior periods	**(1.7)**	**–**	**(1.7)**	(1.0)	–	(1.0)
	30.6	**(1.7)**	**28.9**	37.2	(0.4)	36.8
Deferred tax						
Origination and reversal of temporary differences	**(1.0)**	**(13.1)**	**(14.1)**	2.5	(15.7)	(13.2)
Tax charge in the income statement	**29.6**	**(14.8)**	**14.8**	39.7	(16.1)	23.6

Consolidated statement of recognised income and expense

	2009 £m	2008 £m
Deferred tax		
Loss on actuarial valuation of pension liability	**(6.9)**	(8.8)
Net loss on revaluation of cash flow hedges	**(35.5)**	(3.4)
Share-based payment – future taxable benefit	**(2.0)**	7.1
Deferred tax reported in equity	**(44.4)**	(5.1)
Income tax		
Share-based payments – current taxable benefit	**(0.2)**	(3.1)
Total tax reported in equity	**(44.6)**	(8.2)

The tax effect of non-trading exceptionals was a deferred tax credit of £3.4m (2008: £nil).

10 Taxation continued

Reconciliation of income tax expense for period

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

	2009 (52 weeks) £m	2008 (53 weeks) £m
Profit before tax	**54.3**	147.9
Profit before tax multiplied by standard rate corporation tax 28.0% (2008: 29.8%)	**15.2**	44.1
Effects of:		
Expenses not deductible for tax purposes	**0.2**	1.4
Exceptional deferred tax charge/(credit) on indexation of properties	**2.6**	(3.5)
Exceptional tax charge on restriction of indexation on impairment	**1.4**	
Exceptional tax credit on abolition of industrial buildings allowance	**(0.7)**	–
Exceptional deferred tax credit in respect of rate change	**–**	(13.7)
Tax credit on intra group transactions	**(1.7)**	(1.5)
Relief for tax losses not previously recognised (note 13)	**–**	(2.2)
Adjustment in respect of prior periods – income tax	**(1.7)**	(1.0)
Adjustment in respect of prior periods – deferred tax	**(0.5)**	–
Income tax expense reported in the income statement	**14.8**	23.6

The Finance Act 2008 abolished allowances on industrial buildings and hotels on a phased basis. This has resulted in an exceptional deferred tax credit of £0.7m. This is included within the tax credit of £14.8m shown under exceptional items which is also stated after a current tax credit of £1.7m on exceptional integration costs, a deferred tax charge of £1.1m on exceptional share-based payments credit, a deferred tax charge of £2.6m on indexation of properties, a deferred tax charge of £0.9m on disposal of properties, a deferred tax credit of £13.6m on impairment of property, plant and equipment and a deferred tax credit of £3.4m on movements in fair value of interest rate swaps.

The Finance Act 2007 reduced the rate of corporation tax from 30% to 28% with effect from 1 April 2008. The effect of the reduced rate is a deferred tax credit of £13.7m in the prior period. This is included within the tax credit of £16.1m shown under exceptional items in the prior period which is also stated after an income tax charge of £0.3m on exceptional interest income, an income tax credit of £0.8m on exceptional integration costs, a deferred tax credit of £3.5m on indexation of properties and a deferred tax charge of £3.8m on disposal of properties and a £2.2m deferred tax credit for tax losses not previously recognised following the Laurel acquisition.

Deferred tax

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

	2009 £m	2008 £m
Deferred tax liability		
Accelerated capital allowances	**58.5**	61.2
Revaluations of land and buildings	**105.0**	116.3
Rolled over capital gains	**34.1**	30.7
Acquisition fair value adjustments	**–**	3.2
	197.6	211.4
Deferred tax asset		
Pensions and post-employment medical benefits	**(27.2)**	(20.8)
Other accruals and deferred income	**(4.3)**	(3.6)
Derivatives	**(39.0)**	(0.1)
Share-based payment	**(2.8)**	(1.9)
Tax losses carried forward	**–**	(2.2)
	(73.3)	(28.6)
Net deferred tax liability	**124.3**	182.8

10 Taxation continued

	2009 (52 weeks)			2008 (53 weeks)		
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Deferred tax in the income statement						
Accelerated capital allowances	**(3.0)**	**(0.7)**	**(3.7)**	1.8	–	1.8
Rolled over capital gains	**–**	**(10.1)**	**(10.1)**	–	0.2	0.2
Pensions and post-employment medical benefits	**0.5**	**–**	**0.5**	–	–	–
Share-based payments	**–**	**1.1**	**1.1**	0.4	–	0.4
Net loss on revaluation of cash flow hedges	**–**	**(3.4)**	**(3.4)**	–	–	–
Tax losses carried forward	**2.2**	**–**	**2.2**	–	(2.2)	(2.2)
Other temporary differences	**(0.7)**	**–**	**(0.7)**	0.3	–	0.3
Tax credit in respect of rate change	**–**	**–**	**–**	–	(13.7)	(13.7)
Deferred tax expense	**(1.0)**	**(13.1)**	**(14.1)**	2.5	(15.7)	(13.2)

11 Dividends paid and proposed

	2009 £m	2008 £m
Declared and paid in the period		
Interim dividend for 2009 – 7.3p (2008: 7.3p)	**9.8**	9.9
Final dividend for 2008 – 18.7p (2007: 16.45p)	**25.1**	23.6
	34.9	33.5
Proposed for approval at AGM		
Final dividend for 2009 – 15.1p (2008: 18.7p)	**32.4**	25.0
Total proposed dividend for 2009 – 22.4p (2008: 26.0p)	**42.2**	34.9
Total adjusted dividend* for 2009 – 21.0p (2008: 20.9p)	**42.2**	34.9

* Adjusted dividend per share reflects the impact of the bonus element of the post year end rights issue.

Dividends on own shares have been waived.

12 Earnings per share

Basic earnings per share has been calculated by dividing the profit attributable to equity holders of £39.5m (2008: £124.3m) by the weighted average number of shares in issue during the period (excluding own shares held) of 133.7m (2008: 138.3m).

Diluted earnings per share has been calculated on a similar basis taking account of 0.7m (2008: 0.2m) dilutive potential shares under option, giving a weighted average number of ordinary shares adjusted for the effect of dilution of 134.4m (2008: 138.5m). Where the average share price during the year is lower than the option price or the performance conditions of the option had not been met or were not expected to be met the options become anti-dilutive and are excluded from the calculation. The number of options where the average share price was lower than the option price was 2.6m (2008: 3.4m), the number of options that were anti-dilutive as a result of performance conditions not being met was 2.5m (2008: 0.9m).

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

Adjusted earnings per share

	Earnings		Basic earnings per share		Diluted earnings per share	
	2009 £m	2008 £m	**2009 p**	2008 p	**2009 p**	2008 p
Profit attributable to equity holders	**39.5**	124.3	**29.5**	89.9	**29.4**	89.7
Exceptional items	**49.4**	(22.0)	**37.0**	(15.9)	**36.8**	(15.9)
Profit attributable to equity holders before exceptional items	**88.9**	102.3	**66.5**	74.0	**66.2**	73.8

Treasury shares and shares held by the EBT are excluded from the calculation of weighted average number of shares in issue.

As detailed in note 31, since the year end the company has issued 80.7m ordinary shares in connection with a rights issue. In accordance with IAS 33 the impact of this issue on the earnings per share calculations has not been reflected above.

13 Goodwill

	£m
Cost	
At 29 April 2007	607.7
Acquired through business combinations (note 18)	68.3
Adjustments to carrying value of goodwill in respect of utilisation of tax losses	(2.2)
At 4 May 2008 and 3 May 2009	**673.8**

All goodwill was purchased as part of business combinations. As from 3 May 2004, the date of transition to IFRS, goodwill is no longer amortised but is subject to annual impairment testing.

The adjustments to the carrying value of goodwill in the prior year were due to the post-acquisition utilisation of tax losses, which were not recognised as deferred tax assets following the acquisition of Laurel during 2004/05.

14 Impairment testing of goodwill

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

The carrying amount of goodwill has been allocated £236.4m (2008: £236.4m) to Retail, £172.3m (2008: £172.3m) to Pub Partners, £138.7m (2008: £138.7m) to Brewing Company, and £126.4m (2008: £126.4m) to Belhaven.

The recoverable amount of each segment was determined based on a value-in-use calculation, and in all cases exceeded the carrying amount.

The key assumptions used for all business segments are: the pre-tax discount rate applied to cash flow projections of 9.0% (2008: 9.0%), which is based on the group's weighted average cost of capital and is used as an approximation for the risk adjusted cost of capital of the relevant business segment; and the projected cash flows beyond the one year budgets are extrapolated using an average growth rate of 2.0% (2008: 2.0%) which is below the long-term average growth rate for the industry. Other commercial assumptions relating to market growth, market share and sales prices have been made based on historic trends adjusted for management estimates of future prospects. The calculation is most sensitive to changes in the assumptions used for pre-tax discount rate and growth rate. Neither a 1% decrease in assumed growth rate nor a 1% increase in the discount rate applied would have led to an impairment of goodwill in the current period.

15 Property, plant and equipment

	Licensed estate		Other		
	Land and buildings £m	Plant and equipment £m	Land and buildings £m	Plant and equipment £m	Total £m
Cost					
Balances at 29 April 2007	1,654.0	387.9	72.7	98.7	2,213.3
Acquisitions – Loch Fyne (note 18)	8.1	8.9	–	–	17.0
Acquisitions – New Century Inns (note 18)	25.1	0.8	–	–	25.9
Additions during period	60.2	40.0	1.8	5.9	107.9
Disposals during period	(20.9)	(5.7)	(7.1)	(1.4)	(35.1)
Balances at 4 May 2008	1,726.5	431.9	67.4	103.2	2,329.0
Additions during period	49.3	32.8	0.4	2.0	84.5
Disposals during period	(33.0)	(9.2)	(2.6)	(0.8)	(45.6)
Balances at 3 May 2009	**1,742.8**	**455.5**	**65.2**	**104.4**	**2,367.9**
Depreciation and impairment					
Balances at 29 April 2007	1.1	177.5	2.1	46.8	227.5
Written back on disposals	–	(2.6)	(0.2)	(0.7)	(3.5)
Provided during the year	0.3	41.1	0.4	5.3	47.1
Balances at 4 May 2008	1.4	216.0	2.3	51.4	271.1
Written back on disposals	–	(4.6)	(0.1)	(0.4)	(5.1)
Provided during the year	0.3	44.6	0.4	5.8	51.1
Impairment (see below)	50.5	–	3.0	–	53.5
Balances at 3 May 2009	**52.2**	**256.0**	**5.6**	**56.8**	**370.6**
Net book value					
At 3 May 2009	**1,690.6**	**199.5**	**59.6**	**47.6**	**1,997.3**
At 4 May 2008	1,725.1	215.9	65.1	51.8	2,057.9
At 29 April 2007	1,652.9	210.4	70.6	51.9	1,985.8

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

The net book value of land and buildings comprises:

	2009 £m	2008 £m
Freehold properties	**1,657.9**	1,694.9
Leasehold properties >50 years unexpired term	**65.9**	67.7
Leasehold properties <50 years unexpired term	**26.4**	27.6
	1,750.2	1,790.2

Valuation

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

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

Charges over assets

Included in land and buildings are properties with a net book value of £1,475.3m (2008: £1,287.1m) over which there is a first charge in favour of the securitised debt holders as detailed in note 23.

15 Property, plant and equipment continued

Future capital expenditure

	2009 £m	2008 £m
Contracted for	**3.6**	4.8

Impairment of property plant and equipment

During the year £53.5m of impairment losses (2008: £nil) were recognised in the income statement as exceptional costs. These are analysed between the group's principal reporting segments as shown below:

	2009 £m	2008 £m
Retail	**30.0**	–
Pub Partners	**15.5**	–
Belhaven	**5.0**	–
Corporate	**3.0**	–
	53.5	–

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

The group estimates value-in-use using a discounted cash flow model. The key assumptions used are the discount rate applied to cash flow projections of 9% (2008: 9%) and the projected cash flows extrapolated using an average growth rate of 2% (2008: 2%) which is below the long-term average growth rate for the industry. Other commercial assumptions relating to individual CGUs have been made based on historic trends adjusted for management's estimates of medium term trading prospects.

The impairment recognised in the Retail, Pub Partners and Belhaven estates is primarily the result of the reduced trading performance of a relatively small number of pubs due to a combination of site specific trading circumstances and the general weakening of the UK consumer environment seen in the year.

The impairment losses recognised within the Corporate estate is primarily as a result of the reduction in the fair value less costs to sell off unlicensed properties acquired as part of business combinations in previous years.

Sensitivity to changes in assumptions

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

Increased/(decreased) impairment resulting from a 1% change to discount rate:

	1% increase £m	1% decrease £m
Retail	4.3	(4.7)
Pub Partners	3.4	(2.6)
Belhaven	2.0	(1.4)
Corporate	–	–
	9.7	**(8.7)**

Increased/(decreased) impairment resulting from a 1% change to growth rate:

	1% increase £m	1% decrease £m
Retail	(2.4)	2.4
Pub Partners	(1.3)	1.7
Belhaven	(0.8)	1.1
Corporate	–	–
	(4.5)	**5.2**

16 Financial assets (non-current)

	2009 £m	2008 £m
Trade loans (net of provision)	**39.0**	33.8
Investments	**1.3**	1.0
	40.3	34.8

Trade loans are net of provisions of £4.7m (2008: £3.9m), which represents the totality of impaired debt. During the year £1.2m (2008: £0.2m) of the provision was utilised and £2.0m (2008: £0.5m) of new provision created. All trade loans, net of any provision recognised, are considered to be neither past due nor impaired.

Trade loans are advanced to customers on terms linked to supply terms such that returns are greater than interest income. The fixed rate trade loans amounted to £28.4m (2008: £27.4m) and variable rate trade loans amounted to £15.3m (2008: £10.3m). Included in fixed rate loans are £14.1m of loans with settlement related to purchase levels (2008: £13.3m). The write-down of these loans has been taken on a straight-line basis over the remaining term of the loan as an approximation of the write-down.

The fixed rate trade loans had a weighted average interest rate of 1.91% (2008: 2.24%) and a weighted average period of 6.69 years (2008: 6.72 years). Interest rates on variable rate trade loans are linked to base rate.

Trade loans

	2009 £m	2008 £m
Balance at beginning of period	**33.8**	31.1
Advances	**15.1**	14.3
Repayments	**(9.1)**	(11.3)
Provisions	**(0.8)**	(0.3)
Balance at end of period	**39.0**	33.8

17 Subsidiary undertakings

The main subsidiary undertakings are:

	Principal activity	Held by	Holding	Proportion of voting rights
Subsidiary undertakings				
Greene King Brewing and Retailing Limited	Brewing and retailing	Parent	Ordinary shares	100%
Greene King Retailing Limited	Pub retailing	Subsidiary	Ordinary shares	100%
Greene King Services Limited	Employment	Parent	Ordinary shares	100%
Greene King Retail Services Limited	Employment	Parent	Ordinary shares	100%
Hardys & Hansons Ltd	Employment	Subsidiary	Ordinary shares	100%
Belhaven Brewery Company Limited	Employment	Subsidiary	Ordinary shares	100%
Loch Fyne Restaurants Limited	Retailing	Subsidiary	Ordinary shares	100%
Belhaven Group Properties Limited	Property	Parent	Ordinary shares	100%

18 Business combinations

During the period ended 3 May 2009 there were no business combinations made.

The group acquired 100% of Loch Fyne Restaurants Limited's share capital on 7 August 2007. The group also acquired 100% of the share capital of New Century Inns Limited, a tenanted pub estate, on 14 November 2007.

2008
Fair value of assets acquired

	Loch Fyne Carrying value £m	Loch Fyne Fair value £m	New Century Inns Carrying value £m	New Century Inns Fair value £m	Total 2008 £m
Property, plant and equipment	22.7	17.0	18.2	25.9	42.9
Intangible assets	13.7	–	–	–	–
Investments	0.8	0.8	–	–	0.8
Inventories	0.5	0.5	–	–	0.5
Trade receivables	0.1	0.1	0.2	0.2	0.3
Other receivables/prepayments	0.8	0.7	0.4	0.3	1.0
Derivative financial instruments	–	0.2	–	–	0.2
Cash and cash equivalents	2.2	2.2	(0.9)	(0.9)	1.3
Trade payables	(4.2)	(4.2)	(0.5)	(0.5)	(4.7)
Other payables/accruals	(8.7)	(8.8)	(0.3)	(0.3)	(9.1)
Deferred tax	0.1	0.1	(1.2)	(3.3)	(3.2)
Fair value of net assets	28.0	8.6	15.9	21.4	30.0
Goodwill		57.8		10.5	68.3
		66.4		31.9	98.3
Satisfied by:					
Cash		16.6		18.5	35.1
Fees		0.4		–	0.4
		17.0		18.5	35.5
Loan notes issued		14.4		–	14.4
Debt acquired		35.0		13.4	48.4
Total consideration		66.4		31.9	98.3

For all acquisitions goodwill has arisen primarily due to expected operating synergies and the difference between property portfolio value and fair value-in-use. In respect of Loch Fyne the goodwill also recognises the proven ability of management to grow the business.

The main fair value adjustments relate to the revaluation of the freehold and leasehold properties acquired, recognition of related deferred tax liability on these revaluations and, in relation to Loch Fyne, the reversal of goodwill on previous business combinations.

The fair value of properties acquired was established following a review that was carried out by qualified surveyors employed by the company. Retained properties have been revalued at their existing use value and properties subsequently disposed have been valued at their fair value less costs to sell. The value of other current assets and liabilities have been adjusted to amounts to be realised or paid respectively.

The net cash flow impact of the acquisitions was:

	2009 £m	2008 £m
Cash paid	**–**	(35.5)
Net cash acquired	**–**	1.3
Net cash outflow	**–**	(34.2)

From the date of acquisition to 4 May 2008 Loch Fyne contributed £3.4m operating profit and £13.3m net cash outflows to the group's results.

From the date of acquisition to 4 May 2008 the New Century Inns business contributed operating profits of £1.1m. Following the integration of the New Century Inns business, it is no longer practical to identify the related cash flows separately.

Notes to the accounts

For the 52 weeks ended 3 May 2009

19 Inventories

	2009 £m	2008 £m
Raw materials and work in progress	**1.9**	0.9
Finished goods and goods for resale	**18.3**	14.9
Consumable stores	**1.7**	2.1
	21.9	17.9

20 Trade and other receivables

	2009 £m	2008 £m
Other receivables	**0.2**	0.2
Total non-current	**0.2**	0.2
Trade receivables	**48.5**	39.4
Other receivables	**13.5**	12.3
Total current	**62.0**	51.7

Trade and other receivables are non-interest bearing.

The ageing analysis of trade receivables is as follows:

	2009 £m	2008 £m
Neither past due nor impaired	**30.7**	32.8
Past due but not impaired		
– Less than 30 days	**14.4**	1.7
– 30–60 days	**1.7**	2.0
– Greater than 60 days	**1.7**	2.9
	48.5	39.4

Trade receivables are shown net of a provision of £6.2m (2008: £2.4m).

21 Cash and cash equivalents

	2009 £m	2008 £m
Cash at bank and in hand	**21.7**	24.9
Short-term deposits	**99.2**	66.7
Cash and cash equivalents for balance sheet	**120.9**	91.6
Bank overdrafts	**(0.4)**	(0.9)
Cash and cash equivalents for cash flow	**120.5**	90.7

Included in the balances above is £41.3m (2008: £37.0m) held within securitised bank accounts which are only available for use by the securitisation entities within the group. The securitisation entities comprise Greene King Retailing Parent Limited and its subsidiaries.

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

22 Trade and other payables: current

	2009 £m	2008 £m
Trade payables	**93.3**	83.7
Other payables		
– Other taxation and social security costs	**30.3**	32.4
– Accruals and deferred income	**51.8**	62.8
– Interest payable	**20.0**	19.8
	195.4	198.7

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

23 Borrowings

	Repayment date	2009 Current £m	2009 Non-current £m	2009 Total £m	2008 Current £m	2008 Non-current £m	2008 Total £m
Bank overdrafts	On demand	**0.4**	**–**	**0.4**	0.9	–	0.9
Bank loans – floating rate	2012	**–**	**245.0**	**245.0**	–	500.0	500.0
Bank loans – fixed rate	2018	**–**	**–**	**–**	3.3	58.3	61.6
Securitised debt	2005 to 2036	**21.7**	**1,396.1**	**1,417.8**	17.0	1,077.6	1,094.6
Loan notes	2009 to 2011	**16.3**	**–**	**16.3**	39.4	0.6	40.0
		38.4	**1,641.1**	**1,679.5**	60.6	1,636.5	1,697.1

Bank overdrafts

Overdrafts are utilised for the day-to-day management of cash. The group has facilities of £25.0m (2008: £35m) available with interest linked to base rate.

Bank loans – unsecured

The group has a five-year revolving credit facility, signed on 26 April 2008 and amended on 30 June 2008, of £400m (2008: £550m), of which £245m (2008: £480m) was drawn at the year end. The amounts drawn down bear interest at a margin above LIBOR, with commitment payments on the undrawn portions. Interest is payable at each renewal date which vary in maturity. Although the individual draw downs are repayable within 12 months of the balance sheet date, the group expects to renew this funding. Immediate renewal is available under the £400m facility until April 2012. Final repayment of the total drawn-down balance is due as one payment on the agreement repayment date.

The interest rate for the £245.0m drawn down is 4.25%, after the effect of swaps.

The fixed rate loan was repaid during the year.

Securitised debt

On 7 March 2005, £600m of bonds were issued in connection with the securitisation of 904 of the group's pubs held in Greene King Retailing Limited. The bonds are secured over the properties and their future income streams and were issued by Greene King Finance plc. The funds were used to repay existing bank facilities and pay related issue costs.

On 8 May 2006, a further £550m of bonds were issued as a tap of the original securitisation, involving an additional 801 of the group's pubs, held in Greene King Retailing Limited. These were issued under substantially the same terms as the original securitisation. The funds were used to repay existing bank facilities, pay related issue costs of £4.3m and early redemption of the debentures, incurring an accelerated interest cost of £0.7m, debenture redemption costs of £4.0m, and swap termination costs of £4.7m.

On 30 June 2008, a further £350m of bonds were issued as a tap of the original securitisation, increasing the number of pubs held in Greene King Retailing Limited to 2,035. These were issued under substantially the same terms as the original securitisation. The funds were used to repay existing bank facilities.

The group's securitised debt consists of the following tranches:

Tranche	Nominal value (£m)	Carrying value (£m)*** 2009	Carrying value (£m)*** 2008	Interest	Effective interest rate (%)	Principal repayment period	Expected average life*
A1	150.0	**148.4**	148.3	Floating	5.54%**	2031	7.0 years
A2	276.1	**272.7**	276.5	Fixed	5.32%	2031	16.8 years
A3	151.8	**150.6**	164.0	Floating	5.34%**	2021	6.0 years
A4	265.0	**263.1**	263.1	Fixed	5.11%	2034	22.3 years
A5	286.3	**281.3**	–	Floating	6.26%**	2033	4.7 years
AB1	60.0	**59.0**	–	Floating	7.36%**	2036	5.0 years
B1	130.0	**128.6**	128.5	Fixed/floating	5.70%**	2034	15.0 years
B2	115.0	**114.1**	114.2	Floating	5.67%**	2036	7.1 years
	1,434.2	**1,417.8**	1,094.6				

* This assumes refinancing of the notes on the margin step-up dates detailed in the offering circular and available on the group's website.
** Includes the effect of interest rate swaps.
*** Carrying value is net of related deferred finance fees.

23 Borrowings continued

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

The Class A1, A2, A3, A4 and A5 bonds rank pari passu in point of security and as to payment of interest and principal, and have preferential interest payment and repayment rights over the Class AB1 and Class B bonds. The Class B1 and B2 bonds rank pari passu in point of security, principal repayment and interest payment.

The Class AB1 bonds rank pari passu in point of security and as to payment of interest and principal, and have preferential interest payment and repayment rights over the Class B bonds. The Class B1 and B2 bonds rank pari passu in point of security, principal repayment and interest payment.

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

Loan notes – unsecured

The group issued loan notes during 2007 in connection with the Hardys & Hansons acquisition. These have a maturity date of September 2011 and bear interest at a margin below LIBOR, payable semi-annually. The effective interest rate of the loan notes is 4.58% (2008: 4.57%) after taking into consideration the effect of interest rate swaps. These loan notes are redeemable on demand of the holders on any of the interest payment dates and as such have been classified as current debt.

During 2008 the group issued £14.4m of loan notes with a maturity date of August 2009 in connection with the Loch Fyne acquisition. At the year-end £0.3m (2008: £0.6m) of these loan notes remained outstanding and attracted interest at margin below LIBOR. Interest is payable on repayment of the loan notes.

24 Financial instruments

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

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

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

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

Interest rate risk

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

In accordance with IFRS 7, the group has undertaken sensitivity analysis on its financial instruments which are affected by changes in interest rates. This analysis has been prepared on the basis of a constant amount of net debt, a constant ratio of fixed to floating interest rates, and on the basis of the hedging instruments in place at 3 May 2009 and 4 May 2008. The analysis relates only to balances at these dates and is not representative of the year as a whole. The following assumptions were made:

- Balance sheet sensitivity to interest rates applies only to derivative financial instruments, as the carrying value of debt and deposits does not change as interest rates move.
- Gains and losses are recognised within equity or the income statement in line with the accounting policies of the group.
- Cash flow hedges were assumed to be effective or ineffective on the same basis as those as at the year-end. An explanation for the split between those hedges that were effective at the year-end and those that were ineffective is detailed within the cash flow hedging note.

Based on the group's net position at the year end, a 1% increase or decrease in interest rates would change the group's profit before tax by approximately £4.5m (2008: £0.5m) and the group's equity by £93.2m (2008: £51.3m).

24 Financial instruments continued

Liquidity risk

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

The standard payment terms that the company has with its suppliers is 60 days following month end (2008: 60 days following month end).

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

The table below summarises the maturity profile of the group's financial liabilities at 3 May 2009 and 4 May 2008 based on contractual undiscounted payments including interest.

Period ended 3 May 2009

	Within one year £m	**One to two years £m**	**Two to five years £m**	**More than five years £m**	**Total £m**
Interest bearing loans and borrowings:					
– Capital	**40.4**	**25.0**	**310.9**	**1,319.8**	**1,696.1**
– Interest	**81.2**	**79.1**	**259.9**	**989.7**	**1,409.9**
	121.6	**104.1**	**570.8**	**2,309.5**	**3,106.0**
Derivative financial instruments	**12.7**	**10.4**	**16.3**	**105.1**	**144.5**
Trade payables and accruals	**142.3**	**–**	**–**	**–**	**142.3**
	276.6	**114.5**	**587.1**	**2,414.6**	**3,392.8**

Period ended 4 May 2008

	Within one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Interest bearing loans and borrowings:					
– Capital	61.0	42.7	547.1	1,057.0	1,707.8
– Interest	91.6	88.6	229.8	769.5	1,179.5
	152.6	131.3	776.9	1,826.5	2,887.3
Derivative financial instruments	1.0	1.0	1.4	5.5	8.9
Trade payables and accruals	143.7	–	–	–	143.7
	297.3	132.3	778.3	1,832.0	3,039.9

Credit risk

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.

Other financial assets includes trade loans, cash, and certain derivative instruments. Credit risk is the risk of default by the counterparty to discharge their obligation, the maximum exposure of the group is the carrying amount of these instruments.

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

24 Financial instruments continued

Cash flow hedging

At 3 May 2009, the group held four (2008: nine) interest rate swap contracts, with a nominal value of £198.0m (2008: £410.0m), designated as hedges of the cash flow interest rate risk of £198.0m (2008: £410.0m) of the group's variable rate borrowings (excluding bonds), and which are held on the balance sheet as a fair value liability of £15.1m (2008: £1.0m). The cash flows occur quarterly, semi-annually or monthly, receiving a variable rate of interest based on the base rate or LIBOR, which ranged from 4.58% to 5.79% (2008: 4.50% to 5.67%), and paying a fixed rate ranging from 4.50% to 5.79% (2008: 4.53% to 5.85%). Remaining contract maturity dates range from June 2009 to October 2011.

At 3 May 2009, the group also held three (2008: two) interest rate swap contracts for a nominal value of £763.1m (2008: £435.0m), entered into as part of the securitisation and subsequent securitisation tap. A fair value net liability of £129.4m (2008: £4.5m) has been recognised on the balance sheet in respect of these contracts which are designated cash flow hedges against £763.1m (2008: £435.0m) of variable rate bonds, receiving a variable rate of interest based on LIBOR and paying a weighted average fixed rate of 5.091% (2008: 4.947%). The contract maturity dates are December 2034 and March 2036. The bonds and interest rate swaps have the same critical terms.

Changes in cash flow hedge fair values are recognised in the hedging reserve to the extent that the hedges are effective. As a result of the post year-end rights issue and subsequent debt repurchase, described in note 31, the cash flow hedges in respect of £148.0m of the group's variable rate borrowings and £22.4m of the securitised debt will cease to be effective. Accordingly an exceptional cost of £12.1m (2008: £nil) has been recognised in respect of the fair value of these interest rate swaps no longer qualifying for hedge accounting. The three ineffective swaps have been cancelled since the year end. The remaining interest rate swaps have been assessed as being highly effective during the period and are expected to remain highly effective over the remaining contract lives. The net unrealised loss of £126.8m (2008: £11.3m) in respect of effective interest rate swaps was included in equity in respect of these contracts. Losses recycled to the income statement in respect of swap terminations amounted to £5.3m (2008: £8.1m gain) and are included within pre-exceptional finance costs.

The percentage of debt that was fixed as at the year-end was 97.5% (2008: 96.8%) in line with the group's policy of fixing at least 95% of all debt.

Interest rate risk

The following tables set out the group's exposure to interest rate risk and the maturity profile for each class of interest bearing financial asset and financial liability.

3 May 2009

	Within one year £m	**One to two years £m**	**Two to three years £m**	**Three to four years £m**	**Four to five years £m**	**More than five years £m**	**Total £m**
Fixed rate							
Securitised debt	**3.9**	**7.3**	**10.4**	**2.8**	**3.3**	**636.7**	**664.4**
Financial asset	**(4.4)**	**(3.6)**	**(3.2)**	**(3.0)**	**(2.6)**	**(11.6)**	**(28.4)**
Variable rate							
Securitised debt	**17.8**	**15.6**	**13.9**	**23.0**	**25.7**	**657.4**	**753.4**
Loan notes	**16.3**	**–**	**–**	**–**	**–**	**–**	**16.3**
Bank loans	**–**	**–**	**245.0**	**–**	**–**	**–**	**245.0**
Overdraft	**0.4**	**–**	**–**	**–**	**–**	**–**	**0.4**
Financial asset	**(1.4)**	**(1.4)**	**(1.3)**	**(1.3)**	**(1.3)**	**(8.6)**	**(15.3)**
Cash and short-term deposits	**(123.6)**	**–**	**–**	**–**	**–**	**–**	**(123.6)**
Interest rate swap liabilities	**12.7**	**10.4**	**6.6**	**4.9**	**4.9**	**105.0**	**144.5**

4 May 2008

	Within one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	More than five years £m	Total £m
Fixed rate							
Securitised debt	3.7	3.9	7.3	10.6	3.1	639.5	668.1
Loan notes	–	0.3	–	–	–	–	0.3
Bank loan	3.3	3.7	4.1	4.5	4.9	41.1	61.6
Financial asset	(3.6)	(3.2)	(2.6)	(4.8)	(1.8)	(11.4)	(27.4)
Variable rate							
Securitised debt	13.3	14.1	11.7	9.7	9.8	367.9	426.5
Loan notes	39.4	0.3	–	–	–	–	39.7
Bank loans	–	20.0	–	480.0	–	–	500.0
Overdraft	0.9	–	–	–	–	–	0.9
Financial asset	(1.4)	(1.0)	(1.0)	(1.0)	(1.0)	(4.9)	(10.3)
Cash and short-term deposits	(91.6)	–	–	–	–	–	(91.6)
Interest rate swap assets	(0.7)	(0.4)	(0.2)	(0.1)	(0.1)	(1.9)	(3.2)
Interest rate swap liabilities	1.0	1.0	0.7	0.4	0.3	5.5	8.9

The interest on variable rate financial instruments is repriced at intervals less than one year. The interest on fixed rate financial instruments is fixed until the maturity of the instrument. Investments, trade and other receivables, and trade and other payables are not included in the above as they are non-interest bearing and are not subject to interest rate risk.

24 Financial instruments continued

Fair values

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

	Fair value 2009 £m	**Carrying value 2009 £m**	Fair value 2008 £m	Carrying value 2008 £m
Financial liabilities				
Overdraft	**0.4**	**0.4**	0.9	0.9
Interest bearing loans and borrowings				
– Securitised debt	**1,120.3**	**1,417.8**	882.6	1,094.6
– Fixed rate bank loan	**–**	**–**	65.6	61.6
– Floating rate bank loans	**245.0**	**245.0**	500.0	500.0
– Other variable rate borrowings	**16.3**	**16.3**	40.0	40.0
Interest rate swaps	**144.5**	**144.5**	8.9	8.9
Financial assets				
Cash	**(123.6)**	**(123.6)**	(91.6)	(91.6)
Financial assets	**(40.3)**	**(40.3)**	(34.8)	(34.8)
Interest rate swaps	**–**	**–**	(3.4)	(3.4)

Market values have been used to determine the fair value of listed bond finance. Fair values and effective interest rates of derivatives and other borrowings have been based on quotations from counterparties and represent estimates of the amount the Group would expect to pay or receive on termination of the agreements. Carrying values are stated net of any deferred finance fees which amounted to £16.3m (2008: £10.7m). The fair value of other financial assets and liabilities are not materially different from book value.

Capital risk management

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

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

The group monitors capital using interest cover and several other measures including fixed charged cover, the ratio of net debt to EBITDA and free cash flow debt service coverage. Interest cover is calculated by dividing operating profit before exceptional items by net finance costs before exceptional items (note 7). For the period to 3 May 2009, interest cover was 2.2x (2008: 2.5x).

25 Share capital

	2009		2008	
	Number of issued shares million	**Share capital £m**	Number of issued shares million	Share capital £m
Authorised				
Ordinary shares of 12.5p each	**200.0**	**25.0**	200.0	25.0
Called up, allotted and fully paid				
At beginning of period	**135.4**	**17.0**	150.3	18.8
Issue of share capital – share options exercised	**0.2**	**–**	0.5	0.1
Repurchase and cancellation	**–**	**–**	(15.4)	(1.9)
At end of period	**135.6**	**17.0**	135.4	17.0

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

During the period no (2008: 15.4m for £150.6m cash) shares were repurchased and subsequently cancelled.

26 Reconciliation of movements in equity

	Share capital £m	Share premium £m	Capital redemption £m	Hedging reserve £m	Own shares £m	Retained earnings £m	Total £m
At 29 April 2007	18.8	243.7	1.4	4.3	(18.9)	584.9	834.2
Issue of ordinary shares	0.1	3.5	–	–	–	–	3.6
Release of shares – share option proceeds	–		–	–	1.7	–	1.7
Repurchase of own shares	(1.9)	–	1.9	–	–	(150.6)	(150.6)
Actuarial loss	–	–	–	–	–	(31.3)	(31.3)
Tax on actuarial loss	–	–	–	–	–	8.8	8.8
Share-based payments	–	–	–	–	–	3.4	3.4
Tax on share-based payments	–	–	–	–	–	(4.0)	(4.0)
Cash flow hedges							
– losses taken to equity	–	–	–	(3.2)	–	–	(3.2)
– gains recycled to income	–	–	–	(8.1)	–	–	(8.1)
Tax on cash flow hedges	–	–	–	3.4	–	–	3.4
Profit for the period	–	–	–	–	–	124.3	124.3
Equity dividends	–	–	–	–	–	(33.5)	(33.5)
At 4 May 2008	17.0	247.2	3.3	(3.6)	(17.2)	502.0	748.7
Issue of ordinary shares	–	0.3	–	–	–	–	0.3
Release of shares – share option proceeds	–	–	–	–	0.1	–	0.1
Repurchase of own shares	–	–	–	–	(0.4)	–	(0.4)
Actuarial loss	–	–	–	–	–	(24.5)	(24.5)
Tax on actuarial loss	–	–	–	–	–	6.9	6.9
Share-based payments	–	–	–	–	–	(3.2)	(3.2)
Tax on share-based payments	–	–	–	–	–	2.2	2.2
Cash flow hedges							
– losses taken to equity	–	–	–	(144.2)	–	–	(144.2)
– ineffective portion transferred to income statement	–	–	–	12.1	–	–	12.1
– losses recycled to income	–	–	–	5.3	–	–	5.3
Tax on cash flow hedges	–	–	–	35.5	–	–	35.5
Profit for the period	–	–	–	–	–	39.5	39.5
Equity dividends	–	–	–	–	–	(34.9)	(34.9)
At 3 May 2009	**17.0**	**247.5**	**3.3**	**(94.9)**	**(17.5)**	**488.0**	**643.4**

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

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

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

Own shares
Own shares relates to shares held in treasury and by the employee benefit trust. At 3 May 2009 1.0m shares (2008: 1.0m) were held in treasury and 0.8m shares (2008: 0.9m) by the employee benefit trust. The market values at that date were £5.9m and £4.9m (2008: £5.1m and £4.4m) respectively.

During the period 0.1m shares were repurchased by the employee benefit trust (2008: nil). 0.2m (2008: 0.3m) shares held by the employee benefit trust were transferred for proceeds of £0.1m (2008: £1.7 million) to satisfy awards under the long-term incentive plan and options exercised under the executive share option scheme.

The employee benefit trust is independently managed and has purchased shares in order to satisfy outstanding employee share options and potential awards under the long-term incentive plan. None of the shares held at the period end have been allocated to specific option arrangements.

Goodwill
The cumulative amount of goodwill written off to retained earnings in respect of acquisitions made prior to May 1998 amounts to £89.7m (2008: £89.7m).

27 Working capital and non-cash movements

	2009 (52 weeks) £m	2008 (53 weeks) £m
Increase in provision against financial assets	**0.8**	0.3
(Increase)/decrease in inventories	**(4.0)**	0.8
Increase in trade and other receivables	**(3.2)**	(3.9)
Increase/(decrease) in trade and other payables	**8.1**	(2.0)
Share-based payment expense	**0.6**	3.4
Difference between defined benefit pension contributions paid and amounts charged	**(2.1)**	(2.7)
Integration costs	**(6.6)**	(3.2)
Working capital and non-cash movements	**(6.4)**	(7.3)

28 Analysis and movement in net debt

	2009 (52 weeks) £m	2008 (53 weeks) £m
Cash in hand, at bank	**21.7**	24.9
Short-term deposits*	**99.2**	66.7
Overdrafts	**(0.4)**	(0.9)
Current portion of borrowings	**(38.0)**	(59.7)
Non-current portion of borrowings	**(1,641.1)**	(1,636.5)
Closing net debt	**(1,558.6)**	(1,605.5)

* Included in cash on the balance sheet.

Movement in net debt

	2009 (52 weeks) £m	2008 (53 weeks) £m
Net increase in cash and cash equivalents	**29.8**	8.0
Proceeds – issue of securitised debt	**(349.8)**	–
Proceeds – advances of loans	**–**	(265.0)
Repayment of principal – securitised debt	**21.2**	16.5
Repayment of principal – loans and loan notes	**340.1**	85.3
Financing issue costs	**7.2**	–
Decrease/(increase) in net debt arising from cash flows	**48.5**	(155.2)
Debt issued for acquisitions	**–**	(14.4)
Other non-cash movements	**(1.6)**	(0.4)
Increase in net debt	**46.9**	(170.0)
Opening net debt	**(1,605.5)**	(1,435.5)
Closing net debt	**(1,558.6)**	(1,605.5)

29 Financial commitments

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

Future minimum rentals payable under non-cancellable operating leases:

	2009 £m	2008 £m
Within one year	**13.5**	12.9
Between one and five years	**46.3**	44.1
After five years	**195.7**	195.6
	255.5	252.6

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

29 Financial commitments continued

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

	2009 £m	2008 £m
Within one year	**46.9**	51.3
Between one and five years	**109.3**	129.1
After five years	**96.2**	117.9
	252.4	298.3

30 Related party disclosures

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

Greene King Finance plc is a special purpose entity set up to raise bond finance for the group, and as such is deemed a related party. The results of the entity have been consolidated.

Compensation of key management personnel of the group

	2009 £m	2008 £m
Short-term employee benefits	**2.5**	2.0
Post-employment pension and medical benefits	**0.3**	0.3
Share-based payments	**0.1**	1.1
	2.9	3.4
Amount of exceptional credit relating to key management share-based payment schemes (note 5)	**(1.3)**	–
	1.6	3.4

Directors' interests in an employee share incentive plan

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

31 Post balance sheet events

Rights issue

Following the announcement of a three-for-five rights issue on 23 April 2009, 80,755,421 ordinary shares were issued at a price of 270p per share on 29 May 2009. The total proceeds from the issue after the deduction of fees was £207.5m. The issue price represented a 40.7% discount to the theoretical ex-rights price based on the closing price of 566p per share.

Debt buy-back

Since the year end the group has repurchased securitised debt with nominal value of £22.4m for consideration of £11.4m. In addition variable rate borrowings of £205.0m have been repaid and associated interest rate swaps terminated (see note 24).

Final dividend

A final dividend of 15.1p per share (2008: 18.7p) amounting to a dividend of £32.4m (2008: £25.0m) was proposed by the directors at their meeting on 1 July 2009. These financial statements do not reflect the dividend payable.

Pub acquisitions

On 1 July 2009 the company completed the acquisition of 11 freehold managed pubs for consideration of £30.4m.

32 Contingent liabilities

The group has provided guarantees totalling £3.5m at 3 May 2009 (2008: £4.3m) in respect of free trade customers' bank borrowings.

Independent auditors' report to the members of Greene King plc (group)

We have audited the group financial statements of Greene King plc for the year ended 3 May 2009 which comprise the group income statement, the group balance sheet, the group cash flow statement, the group statement of recognised income and expense and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Sections 495, 496 and 497 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 auditors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the group 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 group'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.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 3 May 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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.

Under the Listing Rules we are required to review:

- the directors' statement in relation to going concern; and
- the part of the corporate governance statement relating to the company's compliance with the nine provisions of the 2006 Combined Code specified for our review.

Other matter

We have reported separately on the parent company financial statements of Greene King plc for the year ended 3 May 2009 and on the information in the directors' remuneration report that is described as having been audited.

Richard Murray (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
London

1 July 2009

Please note that, due to an earlier administrative error, the audit report contained in the initial version of this annual report was incorrect. The correct version is now included.

Company balance sheet

As at 3 May 2009

	Note	As at 3 May 2009 £m	As at 4 May 2008 £m
Fixed assets			
Investments	37	**2,536.6**	2,617.2
Current assets			
Deferred tax	38	**1.0**	0.3
Derivative financial instruments	40	**–**	0.8
Cash		**58.6**	44.3
Creditors: due within one year			
Derivative financial instruments	40	**(7.3)**	(0.8)
Other creditors	39	**(1,866.9)**	(1,629.9)
Net current liabilities		**(1,814.6)**	(1,585.3)
Total assets less current liabilities		**722.0**	1,031.9
Creditors: due after more than one year			
Medium and long-term debt	40	**(245.0)**	(500.0)
Derivative financial instruments	40	**(6.8)**	(1.3)
Net assets		**470.2**	530.6
Capital and reserves			
Called-up share capital	41	**17.0**	17.0
Share premium account	42	**247.5**	247.2
Revaluation reserve	42	**2.5**	2.5
Hedging reserve	42	**(2.8)**	(1.0)
Other reserve	42	**93.9**	93.9
Own shares	42	**(17.5)**	(17.2)
Profit and loss account	42	**129.6**	188.2
Equity shareholders' funds		**470.2**	530.6

Signed on behalf of the board on 1 July 2009

T J W Bridge
Director

R Anand
Director

Notes to the company accounts

For the 52 weeks ended 3 May 2009

33 Accounting policies

Basis of accounting and presentation

The accounts are prepared on a going-concern basis, in accordance with the Companies Act 2006 and applicable accounting and financial reporting standards in the United Kingdom (UK GAAP). They are prepared under the historical cost convention with the exception of derivatives, where the company uses interest rate swaps to hedge its exposure to interest rate fluctuations on its variable rate loans, notes and bonds.

Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year.

Investments

Investments in subsidiaries are recorded at cost less impairment and held as fixed assets on the balance sheet.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have rolled over into replacement assets, only to the extent that, at the balance sheet date there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Financial instruments

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

The exemption has been taken per FRS 29.2D, and the company is exempt from producing disclosure required by the standard as the group accounts contain disclosure that complies with FRS 29.

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.

Derivative financial instruments and hedge accounting

The company uses interest rate swaps to hedge its exposure to interest rate fluctuations on its variable rate loans.

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

Hedge accounting

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

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

For these cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the profit and loss account. Amounts taken to equity are transferred to the profit and loss account when the hedged transaction affects profit or loss.

If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs are transferred to the profit and loss account as above. If the related transaction is not expected to occur, the amount is taken to profit or loss.

Notes to the company accounts

For the 52 weeks ended 3 May 2009

33 Accounting policies continued

Own shares

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

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

Share-based payments

Certain employees and directors of subsidiary companies receive equity-settled remuneration, whereby they render services in exchange for shares or rights over shares.

The fair value of the shares and options granted is measured using a Black-Scholes model, at the date at which they were granted. No account is taken in the fair value calculation of any vesting conditions, other than market conditions. The fair value of shares and options granted is recognised as an increase in the company's investments in its subsidiaries with a corresponding increase in equity spread over the period in which the performance conditions are fulfilled ending on the relevant vesting date. The cumulative amount recognised as an investment reflects the extent to which the vesting period has expired, adjusted for the estimated number of shares and options that are ultimately expected to vest.

In accordance with the exemption within FRS 20 no amount is recorded in respect of grants made under the above schemes prior to 7 November 2002 which had not vested by the date of implementation of FRS 20.

34 Profit for the period

No profit or loss account is presented for the company as permitted by s408 of the Companies Act 2006. The loss after tax for the period is £20.5m (2008: £303.8m profit).

35 Auditors' remuneration

Auditors' remuneration in respect of the company audit was £15,000 (2008: £15,000).

36 Directors' remuneration and employee costs

Details of directors' remuneration is contained in the directors' remuneration report on pages 76 to 82. The company has no employees other than directors. Details of share options issued by the company are given in note 8 to the consolidated accounts.

37 Investments

	Investments in subsidiaries £m	Loans to subsidiaries £m	Total £m
Cost and NBV at 4 May 2008	1,115.7	1,501.5	2,617.2
Share-based payment credit in respect of subsidiaries	(3.2)	–	(3.2)
Repayments	–	(63.9)	(63.9)
Investment in subsidiaries	0.7	–	0.7
Liquidation of non-trading subsidiaries	(14.2)	–	(14.2)
Cost and NBV at 3 May 2009	**1,099.0**	**1,437.6**	**2,536.6**

Principal subsidiaries

	Principal activity	Held by	Holding
Greene King Brewing and Retailing Limited	Brewing and retailing	Parent	100%
Greene King Retailing Limited	Pub retailing	Subsidiary	100%
Greene King Services Limited	Employment	Parent	100%
Greene King Retail Services Limited	Employment	Parent	100%
Hardys & Hansons Ltd	Employment	Subsidiary	100%
Belhaven Brewery Company Limited	Employment	Subsidiary	100%
Loch Fyne Restaurants Limited	Retailing	Subsidiary	100%
Belhaven Group Properties Limited	Property	Parent	100%

The country of operation and principal activity for all companies is the United Kingdom.

38 Deferred tax

	£m
Deferred tax asset at 4 May 2008	0.3
Tax on net loss on revaluation of cash flow hedges charged through equity	0.7
Deferred tax asset at 3 May 2009	**1.0**

39 Other creditors

	2009 £m	2008 £m
Accruals and deferred income	**9.5**	8.3
Amounts owed to subsidiaries	**1,857.4**	1,621.6
	1,866.9	1,629.9

40 Borrowings

	2009			2008		
	Within one year £m	**After one year £m**	**Total £m**	Within one year £m	After one year £m	Total £m
Bank loans – floating rate	**–**	**245.0**	**245.0**	–	500.0	500.0

At 3 May 2009, the company also held interest rate swap contracts to hedge the cash flow interest rate risk related to its floating rate debt. These had a nominal value of £180.0m (2008: £360.0m) and are held on the balance sheet as a net fair value liability of £14.1m (2008: £1.3m). The details of terms and interest rates are included as part of the group's portfolio in note 24.

As a result of the post year-end rights issue and subsequent debt repayment, described in note 31, the cash flow hedges in respect of £148.0m of the company's variable rate borrowings will cease to be effective. Accordingly a cost of £10.3m (2008: £nil) has been recognised in respect of the movement on the fair value of these interest rate swaps no longer qualifying for hedge accounting. These ineffective swaps have been cancelled since the year end.

Bank loans due after one year are repayable as follows:

	2009 £m	2008 £m
Due between one and two years	**–**	–
Due between two and five years	**245.0**	500.0
Due after more than five years	**–**	–
	245.0	500.0

£245m of the amounts above are drawn down under a revolving credit facility. Although the draw down is repayable within 12 months of the balance sheet date, immediate renewal is available until April 2012 (2008: April 2012) for the facility. In addition, in the prior year the company had an 18-month revolving credit facility of £40m, which was £20m drawn down at the year end.

41 Called-up share capital

	2009 £m	2008 £m
Ordinary shares of 12.5p each		
Authorised – 200m shares (2007: 200m)	**25.0**	25.0
Issued – 135.6m shares (2008: 135.4m)	**17.0**	17.0

Further information on share capital is given in note 25 of the consolidated accounts.

42 Reconciliation of shareholders' funds

	Share capital £m	Share premium £m	Revaluation reserve £m	Hedging reserve £m	Other reserve £m	Own shares £m	Profit and loss account £m	Total £m
At 29 April 2007	18.8	243.7	2.5	1.7	92.0	(18.9)	65.1	404.9
Cash flow hedges – losses taken to equity	–	–	–	(1.8)	–	–	–	(1.8)
Cash flow hedges – gains recycled to income	–	–	–	(1.9)	–	–	–	(1.9)
Tax on cash flow hedges	–	–	–	1.0	–	–	–	1.0
Issue of share capital	0.1	3.5	–	–	–	–	–	3.6
Release of shares – share option proceeds	–	–	–	–	–	1.7	–	1.7
Purchase of own share capital	(1.9)	–	–	–	1.9	–	(150.6)	(150.6)
Share-based payment charge in respect of subsidiaries	–	–	–	–	–	–	3.4	3.4
Profit for the period	–	–	–	–	–	–	303.8	303.8
Dividends	–	–	–	–	–	–	(33.5)	(33.5)
At 4 May 2008	17.0	247.2	2.5	(1.0)	93.9	(17.2)	188.2	530.6
Cash flow hedges – losses taken to equity	–	–	–	(14.4)	–	–	–	(14.4)
Ineffective cash flow hedges: transfer to income statement (Note 24)	–	–	–	10.3	–	–	–	10.3
Cash flow hedges – losses recycled to income	–	–	–	1.6	–	–	–	1.6
Tax on cash flow hedges	–	–	–	0.7	–	–	–	0.7
Issue of share capital	–	0.3	–	–	–	–	–	0.3
Release of shares – share option proceeds	–	–	–	–	–	0.1	–	0.1
Purchase of own share capital	–	–	–	–	–	(0.4)	–	(0.4)
Share-based payment credit in respect of subsidiaries	–	–	–	–	–	–	(3.2)	(3.2)
Loss for the period	–	–	–	–	–	–	(20.5)	(20.5)
Dividends	–	–	–	–	–	–	(34.9)	(34.9)
At 3 May 2009	**17.0**	**247.5**	**2.5**	**(2.8)**	**93.9**	**(17.5)**	**129.6**	**470.2**

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

Other reserve
The other reserve consists of £3.3m (2008: £3.3m) capital redemption reserve arising from the purchase of own share capital and £90.6m (2008: £90.6m) arising from transfer of revalued assets to other group companies and will only be realised when the related assets are disposed of by the group.

Hedging reserve
Hedging reserve adjustments arise from the movement in fair value of the company's derivative instruments used as an effective hedge, in line with the accounting policy disclosed in note 1.

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

43 Contingent liabilities

There were no contingent liabilities at 3 May 2009 and 4 May 2008.

Independent auditors' report to the members of Greene King plc (company)

We have audited the parent company financial statements of Greene King plc for the year ended 3 May 2009 which comprise the company balance sheet and the related notes 33 to 43. 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).

This report is made solely to the company's members, as a body, in accordance with Sections 495, 496 and 497 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 auditors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company 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 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.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 3 May 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the parent company 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 parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the group financial statements of Greene King plc for the year ended 3 May 2009.

Richard Murray (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
London

1 July 2009

Please note that, due to an earlier administrative error, the audit report contained in the initial version of this annual report was incorrect. The correct version is now included.

Directors' report

The directors present their annual report together with the audited financial statements of the company and the group for the 52 weeks ended 3 May 2009.

Profits and dividends

The group's profit before taxation and exceptional items for the period amounted to £118.5m (2008 (53 weeks): £142.0m). An interim dividend of 7.3p per share (2008: 7.3p) was paid on 29 January 2009. The directors recommend a final dividend of 15.1p per ordinary share (2008: 15.1p, adjusted for the bonus element of the rights issue), making a total dividend for the period of 22.4p per share (adjusted 2008: 22.4p). Subject to the approval of shareholders at the AGM, the final dividend will be paid on 14 September 2009 to shareholders on the register at the close of business on 14 August 2009.

Activities

Greene King plc is the holding company for a group whose principal activities are operating managed, tenanted and leased public houses, brewing beer, and wholesaling beers, wines, spirits and soft drinks.

Business review

Under the provisions of the Companies Act 2006, the company is required to produce a business review containing a fair review of the business of the company and a description of the principal risks and uncertainties facing the company. Shareholders are referred to the chief executive's review, the financial review, the KPIs, the risks and uncertainties section and the corporate social responsibility report for the required information. They are intended to provide a balanced and comprehensive analysis of the development and performance of the business of the group during the financial year and the position of the group at the end of the year.

Directors

Details of the current directors are given on pages 28 and 29. All of these directors held office throughout the period.

Under article 85 of the company's articles of association Justin Adams and Ian Bull retire and, being eligible, offer themselves for re-election at the forthcoming AGM.

Details of the directors' service agreements, remuneration, and interests in share options and awards are set out in the remuneration report on pages 76 to 82. There have been no changes in their interests between 3 May 2009 and the date of this report, save as set out therein.

Directors' interests in shares

The beneficial interests of each of the directors and their immediate families in the ordinary share capital of the company are shown below as at the end of the year, the previous year and as at 30 June 2009, being the latest practicable date prior to the date of this report. The changes since the year end are as a result of the directors taking up rights to acquire ordinary shares (including, in the case of the executive directors, rights acquired as a result of their holdings of restricted shares under the company's long-term incentive plan) pursuant to the rights issue completed on 29 May 2009:

	4 May 2008	3 May 2009	30 June 2009
Tim Bridge	813,736	813,736	1,301,762
Rooney Anand	54,441	90,401	152,354
Justin Adams	313	1,654	19,264
John Brady	5,000	5,000	8,000
Ian Bull	2,313	2,313	30,821
Ian Durant	13,950	13,950	22,320
David Elliott	99,191	125,280	178,370
Jonathan Lawson	666	666	13,053
Norman Murray	30,000	30,000	36,700
Jane Scriven	5,000	5,000	8,000

At 3 May 2009 and 30 June 2009, Tim Bridge had a non-beneficial interest in 89,768 (2008: 89,768) shares, in addition to the holding shown above.

Interests in contracts

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

Substantial shareholdings

As at 1 July 2009, the company has been notified of the following interests in 3% or more of the issued share capital of the company.

	%
AXA S.A.	4.16
Capital Research & Management Company	5.19
Legal & General Group plc	3.98
Standard Life Investments Ltd	5.91

Share capital
Details of the authorised and issued share capital of the company, which comprises a single class of shares, ordinary shares of 12½p, are set out in note 25 to the accounts on page 61. The rights attaching to the shares are set out in the articles of association. There are no special control rights in relation to the company's shares and the company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

On 23 April 2009 the company announced an underwritten rights issue of 80,749,647 new shares at 270p per share to qualifying shareholders. The rights issue was undertaken on the basis of three new shares at 270p per share for every five shares held by qualifying shareholders. Shareholders approved the necessary resolutions at a general meeting of the company on 12 May 2009 and, on 29 May 2009, following the exercise of a number of options under the company's share schemes, a total of 80,755,421 new ordinary shares were issued to qualifying shareholders or subscribers for those shares.

A total of 94,591 ordinary shares, with an aggregate nominal value of £11,824 were allotted, for cash, during the period in connection with the company's sharesave and executive option schemes.

The trustees of the company's employee benefit trust (EBT), Kleinwort Benson (Guernsey) Trustees Limited, transferred 282,750 ordinary shares to employees to satisfy the exercise of share options and the vesting of LTIP awards. Although no ordinary shares were acquired by the EBT during the period, the company does make regular use of the EBT to satisfy the exercise of share options and the EBT does therefore make market purchases of the company's shares from time to time to ensure that it has sufficient shares to enable it to do so.

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

Under the Free4All Employee Profit Share Scheme, participants are the beneficial owners of the shares but not the registered owners. The registered owner is the trustee, Killik & Co Trustees Ltd. The trustee will invite participants to direct it on the exercise of any voting rights attaching to the shares held under the scheme by the trustee on the participants' behalf. The trustee will only be entitled to vote on a show of hands if all directions received from participants are identical. The trustee is under no obligation to call for a poll. In the case of a poll, the trustee will follow the directions of the participants.

No voting rights will be exercised in respect of any own shares.

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

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

Change of control
All of the company's share incentive plans contain provisions relating to a change of control and full details of these plans are provided in the directors' remuneration report on pages 76 to 82. Outstanding options and awards would normally vest and become exercisable on a change of control, subject to the satisfaction of performance conditions, if applicable, at that time.

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

There are two employees who, on a change of control of the company resulting in the termination of their employment, would be entitled to compensation for loss of office. However, in the context of the company as a whole, these agreements are de minimis.

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

At the general meeting of the company on 12 May 2009 a resolution to amend the borrowing limit in the articles was passed. The previous articles required the borrowing to be restricted so that the aggregate amount borrowed by the group should not, without the previous sanction of an ordinary resolution of the company, exceed a multiple of the adjusted capital and reserves of the group. The resolution removed the requirement to deduct goodwill and other intangible assets from the calculation of adjusted capital and reserves, thus resolving a technical breach of the borrowing limits of the articles and bringing the provisions of the articles more into line with other companies in the sector.

At the 2009 AGM a special resolution will be put to shareholders proposing amendments to the company's articles of association to give effect to certain provisions of the new Companies Act 2006.

Appointment and replacement of directors
The number of directors on the board shall be no less than five nor more than twelve. Directors may be appointed by the company by ordinary resolution or by the board of directors. A director appointed by the board of directors holds office until the next following AGM, and is then eligible for election by the shareholders.

At each AGM all those directors who were elected, or last re-elected, at the AGM held in the third calendar year before the current year shall retire from office and may stand for re-election.

Directors' report

The company may by ordinary resolution, of which special notice has been given, remove any director from office.

Any director automatically ceases to be a director if (i) they give the company a written notice of resignation, (ii) they give the company a written offer to resign and the directors decide to accept this offer, (iii) all of the other directors remove them from office by notice in writing served upon them, (iv) they are or have been suffering from mental ill health and have a court order for their detention or the appointment of a guardian made in respect of them, (v) a bankruptcy order is made against them or they make any arrangement or composition with their creditors generally, (vi) they are prohibited from being a director by law or (vii) they are absent from board meetings for six months without leave and the other directors resolve that their office should be vacated.

Powers of the directors

The business of the company is managed by the directors who may exercise all the powers of the company, subject to its memorandum and articles of association, any relevant legislation and any directions given by the company by passing a special resolution at a general meeting. In particular, the directors may exercise all the powers of the company to borrow money, issue shares, appoint and remove directors and recommend and declare dividends.

Communications with shareholders

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

Charitable donations

Donations by the company for charitable purposes made during the period amounted to £18,700 (2008: £33,200). The group makes no political donations.

Payments to suppliers

The group understands the benefits to be derived from maintaining good relationships with its suppliers and where possible enters into agreements over payment terms. Where such terms have not been agreed it is the group policy to settle invoices 60 days from the end of the month of invoicing. This policy is dependent on suppliers providing accurate, timely and sufficiently detailed invoices. Payment in respect of 72 days' average purchases from trade creditors of the group was outstanding at the end of the period (2008: 68 days).

Directors' and officers' indemnity insurance

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

Financial instruments

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

Post balance sheet events

Details of events occurring after the year-end are set out in note 31.

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on pages 28 and 29. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

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

Auditors

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

Annual general meeting

The AGM will be held at 12 noon on Tuesday 8 September 2009 at the Millennium Grandstand, Rowley Mile Racecourse Conference Centre, Newmarket, Suffolk. The notice of the AGM is set out in the separate circular to shareholders.

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

By order of the board

Lindsay Keswick
Company Secretary

1 July 2009

Directors' statements

Statement of directors' responsibilities in respects of the group financial statements

The directors are responsible for preparing the annual report and the group financial statements, in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union (EU).

The directors are required to prepare group financial statements for each financial year which present fairly the financial position of the group and the financial performance and cash flows of the group for that period. In preparing those group financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's financial position and financial performance; and
- state that the group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of directors' responsibilities in respects of the parent company financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

Directors' responsibility statement

The directors confirm, to the best of their knowledge:

- that these financial statements prepared in accordance with IFRS, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the company and undertakings included in the consolidation taken as a whole; and
- that the management report includes a fair review of the development and performance of the business and the position of the company and undertakings included in the consolidation taken as a whole, and a description of the risks and uncertainties faced.

The directors of Greene King plc are listed on pages 28 and 29.

T J W Bridge	R Anand
Director	Director

Directors' remuneration report

Composition of the remuneration committee
The remuneration committee is appointed by the board. At the start of the year the committee comprised Howard Phillips as chairman, Norman Murray and Jane Scriven. With the retirement of Howard Phillips from the board on 2 September 2008, Norman Murray took over as chairman and Ian Durant was appointed as the third member. All of the committee members during the year were regarded by the board as independent non-executive directors.

Terms of reference and reporting
The committee determines, and annually reviews, all elements of executive directors' remuneration. It approves all contracts of executive directors, and any compensation arrangements arising from their termination. It also approves all grants of share options and LTIP allocations to directors and executives and reviews best practice in executive remuneration. The committee is made aware of the salary levels of certain senior employees.

Advisers to the remuneration committee
The committee has taken external advice on general remuneration levels and comparator information from Hewitt New Bridge Street, who do not provide any other services to the company. Advice is also obtained, where appropriate, from the company's legal advisers, Linklaters. The committee also received internal advice from Rooney Anand, chief executive, in determining appropriate remuneration and incentive packages for the other executive directors.

Remuneration policy
The company operates in a highly competitive market and must attract, motivate and retain high quality directors. The committee considers current market practice and makes comparisons with turnover, market capitalisation and operational details against a selection of other companies. The committee has regard to pay and conditions elsewhere within the group. No director makes a decision relating to his own remuneration. Individual directors leave the meeting when their own remuneration is being discussed. A significant proportion of each executive director's potential remuneration is performance related, thus aligning the directors' interests with those of shareholders and encouraging performance at the highest levels.

Components of directors' remuneration
The remuneration package of each executive director consists of the following elements:

Annual pay
Annual pay reflects the responsibilities, market value and sustained performance level of executive directors. Pay is reviewed annually or when a change in responsibility occurs.

Benefits in kind
The range of taxable benefits available to executive directors is listed on page 79.

Bonus
Bonus payments are determined by the remuneration committee and awarded where justified by performance. For the financial year 2008/09 and for future financial years, the executive directors have been and will be eligible to receive an annual incentive bonus, the maximum amount being 100% of annual pay, for the achievement of stretch targets. The targets are a combination of personal and financial performance objectives agreed in advance by the committee, with the financial targets relating to operating profit and profit before tax and exceptional items and specific business unit related targets.

There has been a long-standing practice of the targets being set before the start of the year and then being subject to a mid-year review, where appropriate, to take account of the effect of changes to the size of the estate following acquisitions and divestments since the start of the year, internal transfers and changes in market conditions (with adjustments made up or down to ensure that they remain appropriately challenging).

At this half-year review, the committee took the view that there had been such a sharp and unforeseen change to the external economic situation which had created such unprecedented trading conditions in the pub and hospitality trade that the performance targets set for the majority of executive directors had been mis-calibrated and could conceivably encourage undue risk taking in suggesting to executives that such targets remained appropriate. Accordingly, it was decided that the targets should be adjusted to reflect the current state of the market so as to encourage the executives to deliver improved performance against stretching second half targets for the financial year. In addition to setting revised targets, the available quantum was scaled back below 100% of salary for the remaining period.

In cases where targets were adjusted, it was decided that one-third of any net bonus payment paid should be in shares and deferred. This will stretch the time-horizon of the bonus over the deferral period to help ensure that the value of any bonus earned based on financial performance in the second half of the year would be impacted by future performance (affecting the value of the shares) encouraging a longer-term perspective. This would also reduce the risk profile of the bonus plan and act as a lock-in mechanism, as the deferred shares will be forfeited in the event that the relevant director leaves the group, other than as a good leaver, before the end of December 2010.

The bonus payable to Justin Adams will not be subject to deferral as his original business unit targets were considered sufficiently achievable and yet still challenging in the current climate and were therefore left unchanged.

Pension

Tim Bridge is now a pensioner member of the group's defined benefit pension scheme. His pension is equivalent to 1/45th of his final pensionable earnings for each year of service, with a pro rata payment for a part year, subject to HMRC limits. His final pensionable earnings were those received immediately prior to him ceasing to be chief executive.

The pension arrangements for Rooney Anand, Justin Adams, Ian Bull, David Elliott and Jonathan Lawson are on a defined contribution basis. They all have self-invested personal pension schemes to which the company makes a contribution. The contribution rates are 25% for Rooney Anand, as chief executive, and David Elliott, on an age-related basis, and 20% for the remainder of the executive directors. No element of remuneration other than annual pay is treated as pensionable and the retirement age for the schemes is 60.

Justin Adams, David Elliott and Jonathan Lawson participate in a group death-in-service insurance scheme. Death benefits in excess of the HMRC maximum, where applicable, were provided through additional insurance. Since A-Day, life assurance provision for Rooney Anand and Ian Bull has been through an HMRC approved excepted life policy. The cost of this insurance is disclosed as a non-cash benefit in the emoluments table below.

Long-term incentives

In previous years executive directors and other senior employees have been awarded long-term incentives in the form of share options and restricted or conditional awards of shares under the Long Term Incentive Plan (LTIP awards). The annual award levels for executive directors have been 1x salary for each type of award. Both awards have been subject to an EPS-based performance condition.

Two changes are proposed to the company's long-term incentive award strategy for 2009/10. The first change relates to the type of award, where it is proposed to grant only LTIP awards, rather than a mix of options and LTIP awards. The grant of LTIP awards alone will create a simple and cohesive reward structure, help provide greater line of sight between performance and reward than share options (which can be highly volatile) and provide a stronger alignment with the interests of shareholders.

The move to granting LTIP awards alone is not intended to increase the value of the long-term incentive awards overall. To calculate the value of the increase to the LTIP awards (by the value of the option foregone), an option valuation methodology has been used. On this basis, the value of a share option is approximately one-third of the value of an LTIP award and it is therefore proposed to increase the grant level for LTIP awards to 133% of base salary.

As set out in the AGM notice, shareholder approval is being sought to increase the individual limit in the rules of the LTIP from 100% of salary, to facilitate this policy. If shareholder approval is given, it is intended that no further share options will be granted under the executive share option scheme in the immediate future. However, the committee wishes to retain the flexibility to use the scheme again in exceptional circumstances if the business strategy supports its future use. The company's major shareholders will be consulted if any proposed future use of share options would result in an increase in total remuneration.

The second change relates to the performance conditions to be applied to the LTIP awards. Rather than one EPS-based performance target, there will be two performance conditions applying to distinct parts of the award, one being an adjusted EPS-based condition and the other based on adjusted free cash flow. The use of two separate financial performance conditions will provide a more rounded assessment of financial performance. For awards in 2009 (and for the foreseeable future) the company intends to use both conditions measured over a three year period. To emphasise the importance of cash management as a medium-term business priority there will be a 60:40 weighting in favour of the cash measure.

The adjusted earnings per share part of the performance condition will be based on a sliding scale range of "pence per share" targets for the 2011/12 year end, with between 0% and 100% of that part of the award vesting depending on the extent to which the targets are met. Earnings per share has been retained as it is the key measure of company profitability and the range to be set will, in the view of the remuneration committee, be appropriately challenging bearing in mind the current business climate.

For the three-year adjusted free cash flow measure it is proposed that the following definition will be adopted: net cash flow from operating activities less capital expenditure. Net cash flow from operating activities will include the impact of changes in working capital, and interest and tax payments, but will be adjusted to exclude exceptional items at the discretion of the remuneration committee in consultation with the audit committee.

The deduction from the free cash flow measure will be for capital expenditure on properties that were within the estate at the beginning of the performance measurement period, where that capital expenditure has not been funded from property disposal proceeds. Free cash flow has been chosen as a performance condition because converting EBITDA to positive cash flows to support debt repayment, continued investment in the business and the ongoing payment of dividends is a key measure for both management and shareholders. A range will be set for the three year aggregate adjusted cash flow, with between 0% and 100% of that part of the award vesting, depending on the extent to which the targets are met. Measuring on an aggregate three-year basis (rather than the more common approach of focusing on the end year only of the three) ensures that there will be a focus on delivering cash across all three years.

In each case the precise details of the target range will be determined over this summer in the light of the rights issue and announced if shareholder approval is granted to the changes to the LTIP rules referred to above.

The remuneration committee will continue to review the propriety of performance measures each time future awards are granted. To the extent that any substantial changes are proposed, the company will consult with its major shareholders in advance.

Directors' remuneration report

Employee share schemes
In common with all other employees, the executive directors are also entitled to participate in the sharesave and share incentive plan. Further details of these schemes are given later in this report, together with the directors' entitlements under them.

Remuneration from other companies
Since September 2007, Rooney Anand has served as a non-executive director of Drive Assist Holdings Limited, a company unconnected with the group. He is entitled to receive and retain for his personal benefit £40k per annum from that company by way of director's fees.

Remuneration for non-executive directors
The fees paid to the chairman and the other non-executive directors are determined by the board as a whole. They are agreed after taking external advice and making market comparisons, and relate to the services of the directors in connection with the company's business. The non-executive directors do not have service agreements and cannot participate in the pension scheme, the bonus scheme or the share option schemes.

Service agreements
Newly appointed executive directors are offered a service agreement with a notice period of one year. In the event of the employment of an executive director being terminated, the committee would pay due regard to best practice and take account of the individual's duty to mitigate their loss.

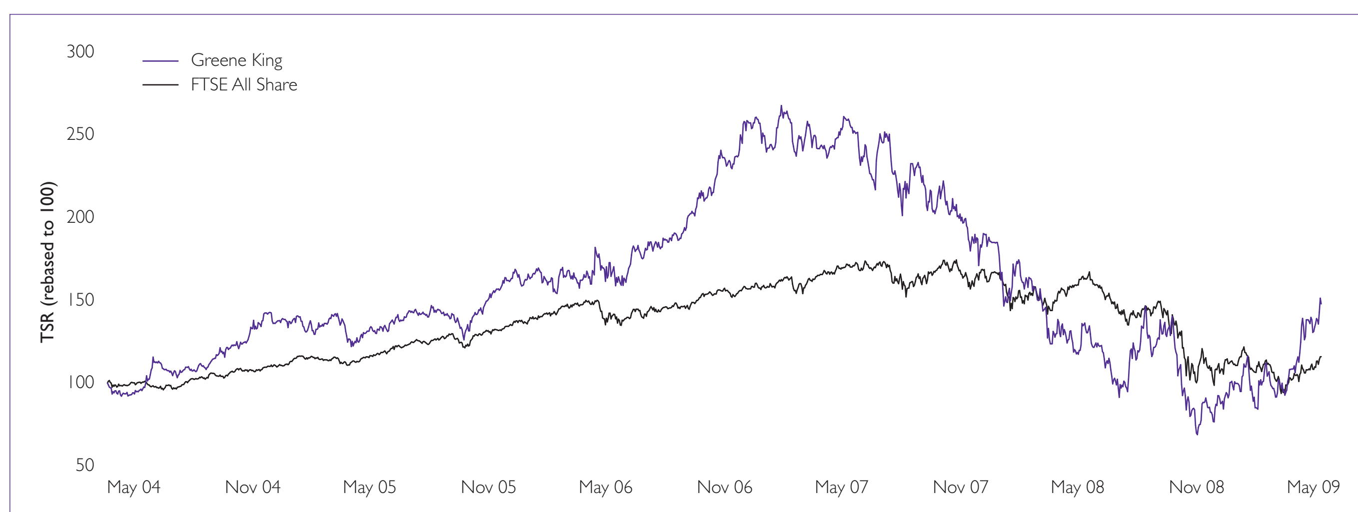
Rooney Anand, Justin Adams, Ian Bull, David Elliott and Jonathan Lawson, whose contracts with the company commenced on 6 August 2001, 5 September 2005, 9 January 2006, 3 November 1998, and 10 April 2007 respectively, are all subject to one-year notice periods from the company. Those contracts do not contain any additional terms relating to compensation for termination of employment. The terms of Rooney Anand's appointment as chief executive were agreed and set out in a letter dated 24 December 2004.

Non-executive directors are appointed pursuant to letters of appointment for three-year periods. The table below sets out the start and expiry date of their respective appointments.

Director	Date of appointment	Expiry date	Extendable for a further 3 years?
Tim Bridge	2 May 05	1 May 11	Yes
John Brady	24 June 05	23 June 11	Yes
Ian Durant	16 Mar 07	15 Mar 10	Yes
Norman Murray	1 Jan 04	31 Dec 09	Yes
Jane Scriven	18 Mar 05	17 Mar 11	Yes

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

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



Audited information

Directors' emoluments

	Annual pay 2009 £'000	Annual fees 2009 £'000	Annual bonus 2009 £'000	Non-cash benefits 2009 £'000	Other cash benefits 2009 £'000	Total (52 weeks) 2009 £'000	Total (53 weeks) 2008 £'000
Tim Bridge*	–	160	–	29	–	189	186
Rooney Anand	462	–	176	29	–	667	798
Justin Adams	232	–	161	24	–	417	305
John Brady*	–	40	–	–	–	40	41
Ian Bull	306	–	112	20	–	438	508
Ian Durant*	–	43	–	–	–	43	41
David Elliott	266	–	28	3	16	313	337
Jonathan Lawson	202	–	38	3	10	253	369
Norman Murray*	–	45	–	–	–	45	46
Howard Phillips*†	–	17	–	–	–	17	46
Jane Scriven*	–	40	–	–	–	40	41
	1,468	345	515	108	26	2,462	2,718

* Non-executive.
† Retired 2 September 2008.

No payments were made to any third parties in respect of any directors' services. Non-cash benefits principally include the provision of company cars, fuel for company cars, life assurance and private medical insurance. Other cash benefits include cash allowances paid in lieu of company cars and accommodation expenses.

The bonuses payable to Rooney Anand, Ian Bull, David Elliott and Jonathan Lawson will be paid as two-thirds of their amount in cash and one-third of their amount in shares, which will be forfeited in the event that the relevant director leaves the group, other than as a good leaver, before the end of December 2010.

Directors' pensions

Payments to the self-invested personal pension schemes of the executive directors made by the company in the period are shown in the table below.

	2009 £'000	2008 £'000
Rooney Anand	116	118
Justin Adams	46	47
Ian Bull	62	62
David Elliott	67	68
Jonathan Lawson	40	41

Two former directors receive additional pension income from the company. John Bridge, who retired as a director on 31 December 1989, receives a pension of £26,172 pa in excess of his scheme entitlements and Bernard Tickner, who retired as a director on 27 August 1992, receives a pension of £20,740 pa in excess of his scheme entitlements. As required by law, both of these figures are stated net of their company-funded pension in payment at 31 March 1997.

Share price during the period

The closing price of the company's shares on 1 May 2009 (being the last business day before the financial period end) was 610p (2008: 521½p). The closing price of the company's shares during the period ranged between 624p and 294¼p.

Directors' remuneration report

Executive share options

A summary of the directors' interests in options granted under the company's executive share option schemes is shown below.

	Date of grant	Option price (p)	Outstanding as at 4 May 2008	Granted during the period	Exercised during the period	Lapsed during the period	**Outstanding as at 3 May 2009**	Exercise period
Tim Bridge	4-Jan-02	350½	84,000	–	–	–	**84,000**	4 Jan 2005-3 Jan 2012
	18-Jul-02	370	80,000	–	–	–	**80,000**	18 Jul 2005-17 July 2012
	1-Aug-03	414¼	90,000	–	–	–	**90,000**	1 Aug 2006-31 July 2013
	6-Aug-04	509	80,000	–	–	–	**80,000**	6 Aug 2007-5 Aug 2014
Rooney Anand	18-Jul-02	370	42,000	–	–	–	**42,000**	18 Jul 2005-17 July 2012
	1-Aug-03	414¼	48,000	–	–	–	**48,000**	1 Aug 2006-31 July 2013
	6-Aug-04	509	44,000	–	–	–	**44,000**	6 Aug 2007-5 Aug 2014
	4-Aug-05	658½	60,000	–	–	–	**60,000**	4 Aug 2008-3 Aug 2015
	2-Aug-06	813	54,000	–	–	–	**54,000**	2 Aug 2009-1 Aug 2016
	9-Jul-07	1087	42,000	–	–	–	**42,000**	9 Jul 2010-8 Jul 2017
	8-Aug-08	560	–	82,000	–	–	**82,000**	8 Aug 2011-7 Aug 2018
Justin Adams	2-Aug-06	813	28,000	–	–	–	**28,000**	2 Aug 2009-1 Aug 2016
	9-Jul-07	1087	14,000	–	–	–	**14,000**	9 Jul 2010-8 Jul 2017
	8-Aug-08	560	–	30,000	–	–	**30,000**	8 Aug 2011-7 Aug 2018
Ian Bull	11-Jan-06	746	20,000	–	–	–	**20,000**	11 Jan 2009-10 Jan 2016
	2-Aug-06	813	36,000	–	–	–	**36,000**	2 Aug 2009-1 Aug 2016
	9-Jul-07	1087	28,000	–	–	–	**28,000**	9 Jul 2010-8 Jul 2017
	8-Aug-08	560	–	54,000	–	–	**54,000**	8 Aug 2011-7 Aug 2018
David Elliott	1-Aug-03	414¼	48,000	–	–	–	**48,000**	1 Aug 2006-31 July 2013
	6-Aug-04	509	44,000	–	–	–	**44,000**	6 Aug 2007-5 Aug 2014
	4-Aug-05	658½	36,000	–	–	–	**36,000**	4 Aug 2008-3 Aug 2015
	2-Aug-06	813	31,000	–	–	–	**31,000**	2 Aug 2009-1 Aug 2016
	9-Jul-07	1087	24,000	–	–	–	**24,000**	9 Jul 2010-8 Jul 2017
	8-Aug-08	560	–	47,000	–	–	**47,000**	8 Aug 2011-7 Aug 2018
Jonathan Lawson	9-Jul-07	1087	18,000	–	–	–	**18,000**	9 Jul 2010-8 Jul 2017
	8-Aug-08	560	–	35,000	–	–	**35,000**	8 Aug 2011-7 Aug 2018

All relevant figures adjusted for two-for-one share split in September 2005.

No options were exercised and no changes were made during the period to the terms and conditions of any options then outstanding (2008: no options exercised and no changes made). Since the year end, the options granted in 2006 have lapsed, as a result of the remuneration committee having determined that the performance conditions applicable to those options have not been met. In addition, adjustments have been made in respect of all outstanding options, both to the option price and the number of options held by each director, to reflect the impact of the rights issue completed in May 2009, to ensure that the aggregate exercise price of each option remains unchanged. There have been no options exercised and no other changes to the date of this report.

Options can only be exercised if a performance condition has been met. This condition relates to the growth in audited adjusted earnings per share which must exceed RPI inflation by 4% per annum, measured over the period of three consecutive financial years of the company, starting with the year in which the award is granted.

Long-term incentive plan

A summary of the directors' interests in options granted under the long-term incentive plan (LTIP) is shown below.

	Date of grant	Type of award	Outstanding as at 4 May 2008	Granted during the period	Vested during the period	Lapsed during the period	**Outstanding as at 3 May 2009**	Performance period
Rooney Anand	4-Aug-05	Restricted forfeitable shares	60,000	–	60,000	–	**–**	May 2005-May 2008
	2-Aug-06	Restricted forfeitable shares	54,000	–	–	–	**54,000**	May 2006-May 2009
	9-Jul-07	Restricted forfeitable shares	42,000	–	–	–	**42,000**	May 2007-May 2010
	8-Aug-08	Restricted forfeitable shares	–	82,000	–	–	**82,000**	May 2008-May 2011
Justin Adams	2-Aug-06	Restricted forfeitable shares	28,000	–	–	–	**28,000**	May 2006-May 2009
	9-Jul-07	Restricted forfeitable shares	14,000	–	–	–	**14,000**	May 2007-May 2010
	8-Aug-08	Restricted forfeitable shares	–	30,000	–	–	**30,000**	May 2008-May 2011
Ian Bull	2-Aug-06	Restricted forfeitable shares	36,000	–	–	–	**36,000**	May 2006-May 2009
	9-Jul-07	Restricted forfeitable shares	28,000	–	–	–	**28,000**	May 2007-May 2010
	8-Aug-08	Restricted forfeitable shares	–	54,000	–	–	**54,000**	May 2008-May 2011
David Elliott	4-Aug-05	Restricted forfeitable shares	36,000	–	36,000	–	**–**	May 2005-May 2008
	2-Aug-06	Restricted forfeitable shares	31,000	–	–	–	**31,000**	May 2006-May 2009
	9-Jul-07	Restricted forfeitable shares	24,000	–	–	–	**24,000**	May 2007-May 2010
	8-Aug-08	Restricted forfeitable shares	–	47,000	–	–	**47,000**	May 2008-May 2011
Jonathan Lawson	9-Jul-07	Restricted forfeitable shares	18,000	–	–	–	**18,000**	May 2007-May 2010
	8-Aug-08	Restricted forfeitable shares	–	35,000	–	–	**35,000**	May 2008-May 2011

All relevant figures adjusted for two-for-one share split in September 2005.

The market price of the shares on the date on which each of the awards referred to above were granted, adjusted for the two-for-one share split where relevant, was: 4 August 2005 – 655½p; 2 August 2006 – 813p; 9 July 2007 – 1108p; 8 August 2008 – 590p.

Awards granted under the LTIP prior to July 2008 will only vest if the company's growth in earnings per share is equal to or greater than the increase in RPI plus 4% per annum compound over the three consecutive financial years starting immediately before the award. At this level, 25% of the award (rounded down to the nearest 1,000 shares) will vest.

100% of the award will vest if the company's growth in earnings per share is greater than the increase in RPI plus 10% per annum over the same three-year period. There is a pro-rata scale (rounded down to the nearest 1,000 shares) between the minimum level of RPI plus 4% and the maximum level of RPI plus 10%. If the targets are not met, the award will lapse.

For awards granted since July 2008, the earnings per share growth range was changed from RPI plus 4-10% to RPI plus 3-8%.

Details of the awards which vested during the year, the notional gain before tax achieved by each director and the number of shares retained on vesting are shown below. Total gains made by directors under the LTIP in the period ended 3 May 2009 amounted to £522,720 (2008: £1,081,380).

Directors' remuneration report

	Date of vesting	Number of shares which vested	Award price (p)	Market value at date of vesting (p)	Notional gain before tax	Number of shares retained
Rooney Anand	04-Aug-08	60,000	nil	544½	£326,700	35,960
David Elliott	04-Aug-08	36,000	nil	544½	£196,020	21,575

No changes were made during the period, or since the year end to the date of this report, to the terms and conditions of any awards then outstanding. Save as set out above, no awards vested or lapsed during the period. The awards granted in 2006 will lapse on the third anniversary of their grant as a result of the remuneration committee having determined that the performance conditions applicable to those awards have not been met. There have been no other changes to the date of this report.

Sharesave scheme

The company has operated an HMRC approved sharesave scheme for a number of years. Options are granted over the company's ordinary shares at an option price which, at board discretion, is at a discount of up to 20% of the closing price at the time of granting. The company has historically granted all such options at a 20% discount.

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

	Outstanding as at 4 May 2008	Granted during the period	Exercised during the period	Lapsed during the period	**Outstanding as at 3 May 2009**	Option price (p)
Justin Adams	3,236	–	–	3,236	**–**	519
Justin Adams	–	4,750	–	–	**4,750**	341
David Elliott	4,514	–	4,514	–	**–**	351
David Elliott	–	2,749	–	–	**2,749**	341
Jonathan Lawson	3,236	–	–	3,236	**–**	519
Jonathan Lawson	–	4,750	–	–	**4,750**	341

All relevant figures adjusted for the two-for-one share split on 5 September 2005.

David Elliott exercised an option over 4,514 shares at a price of 351p on 1 April 2009, when the closing price of the shares was 516p, giving a notional gain of £7,448. He retained the shares issued to him on exercise of the options. David Elliott's new options can be exercised between 1 April and 30 September 2012. Justin Adams' and Jonathan Lawson's options can be exercised between 1 April and 30 September 2014.

All options outstanding at 3 May 2009 were granted at an option price below the year-end closing price.

Since the year end, adjustments have been made in respect of all outstanding options, both to the option price and the number of options held by each director, to reflect the impact of the rights issue completed in May 2009, to ensure that the aggregate exercise price of each option remains unchanged.

Share incentive plan

The directors' beneficial interests in Greene King shares resulting from participation in the company's HMRC approved share incentive plan are reflected in their shareholding data in the directors' report.

Shareholders will be asked to vote on this remuneration report, as an ordinary resolution, at the company's AGM.

Approved by the board of directors on 1 July 2009.

Norman Murray
Chairman of the remuneration committee

1 July 2009

Corporate governance

Governance structure

The board

The board considers that it is vital to ensure that there is an appropriate range of skills and experience among its members, and that the objectivity and integrity of members should be exemplary. The board currently comprises a non-executive chairman, four other non-executive directors and five executive directors. The directors' biographies are on pages 28 and 29.

All of the directors are subject to election by shareholders at the first annual general meeting after their appointment to the board and to re-election by shareholders every three years thereafter.

The division of responsibilities between the chairman and the chief executive has been clearly established, set out in writing and agreed by the board. The job descriptions are available on request. The chairman has primary responsibility for running the board and devotes such time to his role as is necessary to properly discharge his duties. The chief executive has responsibility for executing the company's strategy and achieving operational and financial goals.

The board has a formal schedule of matters which are reserved for its decision, including approval of the long-term objectives and strategy, approval of budgets and financial statements including the report and accounts, acquisitions and disposals, changes to the structure of the group and overall corporate governance issues. It reviews trading performance and considers major capital expenditure and acquisition opportunities. Management is delegated the task of the detailed planning and implementation of the company's strategy.

Information and training

Full and timely information is provided to the board to enable it to properly discharge its functions. All directors have access to the advice and services of the company secretary and are provided with the opportunity to question management as required. The training needs of the board are regularly reviewed. Explanations of issues and legislative changes affecting the industry have been provided to the board during the year.

There is an agreed procedure, set out in writing, for directors, in furtherance of their duties, to take independent professional advice at the company's expense. The company has in place directors' and officers' liability insurance.

Newly appointed directors receive a full and appropriate induction on joining the board to acquaint them with the company. This takes the form of meetings with other board members and the provision of an induction pack containing general information on the company, its policies and procedures, financial information and a briefing on directors' responsibilities.

Performance evaluation

The board believes it is appropriate to undertake a regular performance evaluation of the board, its committees and individual directors. It has determined that an internal process of evaluation is most appropriate, to enable first-hand input from individual directors to be obtained. The last evaluation exercise was undertaken in March 2008 and it is the board's intention to conduct such reviews approximately every 18 months. No formal evaluation exercise was therefore undertaken during the 2008/9 financial year. The board is, however, satisfied that an open dialogue exists between all board members enabling issues to be raised and dealt with as they occur rather than waiting for the next formal evaluation process, and accordingly believes that it and its committees are operating effectively.

The performance of the executive directors is reviewed annually by the remuneration committee in conjunction with their annual pay review and the payment of bonuses. The performance of Tim Bridge, chairman, was reviewed by the non-executive directors, led by Norman Murray, the senior independent non-executive director, taking into account the views of the executive directors.

Independence of non-executive directors

The non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are carefully examined and fully discussed. Their independence and objectivity are of paramount importance. The board believes that they all have a range of skills and experience which will help the company and that their understanding of the company, its strategy and operations increases over the years.

The board is satisfied that all of the non-executive directors were independent throughout the year, being free from any relationship with the executive management which could result in any conflict or affect their independent judgment, and that they all remained independent in character and judgment. None of the independent non-executive directors participates in the share option schemes or long-term incentive plan operated by the company and none was dependent on the fees received from the company as their primary source of income.

Following the retirement of Howard Phillips at the AGM in September 2008, Norman Murray took over the role of senior independent non-executive director. Norman was appointed to the board in January 2004, has never been employed by the company and has had diverse business interests. The board considers that he has remained independent from management in both character and judgement, that his performance has been effective and that he has demonstrated commitment to the role. A key responsibility for the senior independent director is to be available to shareholders in the event that they may feel it inappropriate to relay views through the chairman, chief executive or finance director.

Tim Bridge took over as chairman of the board in May 2005 for an initial term of three years. The board noted that, because of his long tenure as an executive director, he did not meet all of the independence criteria set out in the combined code. However, the board was, and remains, confident that the strength of character and independent judgement that he exhibited as chief executive would continue in his role as chairman.

The board is satisfied that his performance as chairman is effective and that he demonstrates continued commitment to the role. He was therefore re-appointed for a further three-year period in May 2008. Tim Bridge is also a non-executive director of William Ransom & Son plc and Weatherbys Ventures Limited but these are not regarded as significant commitments and do not impact upon his ability to perform his role as chairman effectively.

Corporate governance

Meetings and attendance

Board meetings are scheduled to be held eight times a year. There is also a strategy day for the full board each year. Between meetings, as required, the board can be in frequent contact to progress the company's business and if necessary, board meetings can be held at short notice. Where possible, however, ad hoc committees of the board are appointed to deal with matters which it is known will need to be dealt with between scheduled board meetings. If directors are unable to attend meetings, they are given the opportunity to be consulted and comment in advance of the meeting. The chairman holds regular informal meetings with the non-executive directors without the executive directors being present.

The table below sets out the attendance record of each director at scheduled board and board committee meetings during the year.

Meetings held during 2008/09	Board 9	Audit* committee 3	Remuneration* committee 3	Nomination committee 1
	Meetings attended	Meetings attended	Meetings attended	Meetings attended
Executive directors				
Rooney Anand	9	–	–	–
Justin Adams	9	–	–	–
Ian Bull	9	–	–	–
David Elliott	9	–	–	–
Jonathan Lawson	9	–	–	–
Non-executive directors				
Tim Bridge	9	–	–	1
John Brady	9	3	–	–
Ian Durant	9	3	3	–
Norman Murray[1]	9	1	3	1
Howard Phillips[2]	3	–	1	–
Jane Scriven	9	3	3	–

* During the year, certain directors who were not committee members attended meetings of the audit committee and the remuneration committee by invitation. These details have not been included in the table.
– Not applicable (where a director is not a member of the committee).
1 Norman Murray ceased to be a member of the audit committee in September 2008. The number of audit committee meetings he attended is up to and including that date.
2 Howard Phillips retired as a director on 2 September 2008. The number of board and committee meetings he attended is up to and including that date.

Conflicts of interest

At the AGM in September 2008, shareholders gave authority to the board, by means of an amendment to the articles of association, to approve potential situational conflicts of interest. A small number of such potential conflicts have been approved by the board following disclosure by certain directors, in each case with the relevant director not taking part in any decision relating to their own position. Directors are also aware that the disclosure and authorisation of any potential conflict situations does not detract from their requirement to notify the board separately of an actual or potential conflict in relation to a proposed transaction by the company. The board will keep its authorisations under review on a regular basis.

Board committees

The board has established an audit committee, a remuneration committee and a nomination committee, each of which has formal terms of reference governing its method of operation. Each of the terms of reference, which are available on request and will be available for inspection at the annual general meeting, reflect the provisions of the combined code and have been approved by the board.

Set out below are reports from each of the nomination committee, audit committee and remuneration committee.

Nomination committee report

During the year the nomination committee was chaired by Tim Bridge, and the other members of the committee were Howard Phillips, until his retirement, and Norman Murray. John Brady has recently been appointed as the third member. Apart from the chairman, all members were considered by the board to be independent.

The committee's role is to propose candidates for appointment to the board, to review regularly the structure, size and composition of the board and make recommendations to the board with regard to any adjustments that are deemed necessary. No new appointments were made to the board during the year.

The committee met once during the year and the chief executive, at the request of the committee, attended the meeting.

All directors are subject to re-election by shareholders following their appointment and subsequently in every third year. The nomination committee undertakes a review of all directors who are due for re-election to determine whether or not to recommend their re-appointment. Members of the committee do not participate in discussions regarding their own re-appointment.

Audit committee report

The audit committee was chaired by Norman Murray until the AGM in September 2008, at which point he stood down from the committee to take up, instead, the chairmanship of the remuneration committee. Ian Durant, already a member of the committee, then took over as chairman. The other members of the committee during the year were Jane Scriven and John Brady. All members have been considered by the board to be independent. The board is satisfied that both Norman Murray and Ian Durant have recent and relevant financial experience, Norman being a chartered accountant who has already chaired audit committees of other UK listed companies and who is also a past President of the Institute of Chartered Accountants of Scotland and Ian currently being finance director of Liberty International plc.

The role of the audit committee is to review the results of the full-year audit and approve the interim results in each case prior to their submission to the board. It is responsible for reviewing the company's internal financial control systems, advising the board on the appointment of external auditors, overseeing the relationship with the external auditors, reviewing the company's whistleblowing procedures and considering the need for a full internal audit function. It also reviews the group's risk management policies and procedures prior to submission to the board and receives detailed reports on the risk management functions within the business units.

The committee had three meetings during the year and on each occasion the finance director and senior members of the finance function attended. The external auditors attended all of the meetings. In addition, the chairman of the committee regularly meets with the external audit partner to discuss matters relevant to the company.

The committee reviews the audit plan presented by the auditors before the start of each audit cycle and agrees the scope of the audit work. During the audit process the committee keeps under review the consistency of accounting policies on a year to year basis and across the group, and the methods used to account for significant or unusual transactions. The financial statements and interim results are reviewed in detail prior to their submission to the board. Following the audit the committee discusses issues arising from the audit, and any matters the auditor may wish to discuss.

The audit committee continuously monitors the relationship with the auditors and assesses their performance, cost-effectiveness, objectivity and independence. The board is satisfied that the auditors are independent of the company and that best practice is being observed.

During the year the company made limited use of specialist teams within Ernst & Young LLP for non-audit work such as taxation advice and transaction support. The audit committee has established a policy in relation to the use of Ernst & Young LLP for non-audit work. The company will award non-audit work to the firm which provides the best commercial solution for the work in question. Pieces of work estimated to be in excess of an agreed level are put out to tender unless agreed otherwise by the chairman of the audit committee. Limits of authority have been placed on the ability of the finance director and the chairman of the audit committee to approve specific engagements, with fees in excess of those limits being subject to approval of the full committee.

The company has a limited internal audit function which focuses on the group's managed house divisions, where the greatest financial risks are perceived to exist. Elsewhere within the group a combination of the external audit procedures and the types of financial risks involved are felt to be such that a wider internal audit function is not required.

Remuneration committee report

At the beginning of the year the remuneration committee was chaired by Howard Phillips and the other members were Norman Murray and Jane Scriven. Howard Phillips retired from the board at the AGM in September 2008, and his role as chairman of the committee was taken over by Norman Murray. Ian Durant was appointed as the third member of the committee at that time. All the members were considered by the board to be independent.

The role of the committee includes determining the remuneration policy for the executive directors and the chairman and fixing the total individual remuneration package of each of the executive directors, considering the granting of share options and awards under the long-term incentive plan and determining bonuses payable to the executive directors.

The remuneration committee met three times during the year. The chairman and the chief executive, at the request of the committee, attend its meetings. The chairman does not participate in any discussions relating to his own remuneration. The chief executive is consulted by the committee on its proposals, but does not participate in any discussions relating to his own remuneration.

Details of the company's policies on remuneration, service contracts and compensation payments are set out in the remuneration report on pages 76 to 82.

Corporate governance

Communication with shareholders

Shareholder communication is regarded as a key priority for the board, with the annual report and interim statements being the principal media used. Both are made available to all shareholders. In addition, the AGM is fully utilised as a means of communicating directly with private shareholders, who have the full opportunity to ask questions. The board aims to ensure that all members of the board, including in particular the chairmen of the board committees, are available to answer questions at the AGM.

All substantive items of business at shareholders' meetings are dealt with under separate resolutions, including a resolution to adopt the report and accounts. The chairman announces the results of the proxy voting on each resolution after it has been dealt with on a show of hands. The notice of meeting is issued in compliance with both the articles and the combined code and is sent to shareholders a minimum of twenty working days before the meeting.

There is a regular dialogue with institutional shareholders, including meetings after the announcement of the year end and interim results. The board receives regular reports from the chief executive on the meetings he and the finance director have with principal shareholders. The senior independent non-executive director, Norman Murray, has been available to shareholders if they have had concerns about governance issues which the normal channels of contact have failed to resolve.

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

Going concern

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

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

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

Internal control

The board acknowledges its responsibility for the group's systems of internal control and for reviewing their effectiveness. Such systems can only be designed to manage, and not to eliminate, the risk of failure to achieve business objectives. They can provide reasonable, but not absolute, assurance that the group's assets are safeguarded and that the financial information used within the business and for external reporting is reliable.

The company has assessed the key risks to which it is exposed and has formalised the control environment needed to address these and other issues. There are processes in place which are in accordance with the guidance of the Turnbull Committee on internal control. The board has adopted a formal risk policy and regularly reviews risk management and internal controls, including key performance indicator data on the significant risks faced.

The executive directors routinely consider the effective management of risk throughout the business at their regular meetings. This group oversees the development of risk management strategies, the implementation of suitable management actions and monitors progress made. The audit committee receives regular reports on risk issues within the business.

The board is ultimately responsible for the company's system of internal control and for reviewing its effectiveness. A formal assessment of the risk and control environment in place during the period and to the date of this report has been undertaken, based on detailed reports from, and subsequent discussions with, senior management. No significant problems were disclosed in these reports.

The control environment comprises the elements set out below:

- Internal control and risk management process
  The directors routinely monitor all aspects of risk management and internal control, and regularly assess the data on the significant risks faced. Major risks are identified, the financial implications of each risk assessed and the adequacy and effectiveness of the associated control environment analysed. Any issues arising from this process are discussed with operational management as needed. Appropriate steps are then taken to mitigate and monitor the effect of these risks. Data on the key exposures is reviewed regularly by the executive directors and the audit committee of the board.

- Internal audit
  The controls over the group's managed houses are enhanced by an internal audit team and the availability of comprehensive information from the EPOS till system. On behalf of the board, the audit committee assesses the scope of the internal audit functions within the group, including seeking the views of the external auditors.

- Annual budgets
  Detailed annual budgets covering all financial aspects of the group's business are evaluated and approved by the board. The actual results are compared against these budgets on a four-weekly basis and variances analysed in order that any appropriate action can be taken.

- Capital and project control
  There are clearly defined evaluation and approval processes for acquisitions and disposals, capital expenditure and project control. These include escalating levels of authority, detailed appraisal and review procedures and post-completion reviews of all major projects to compare the actual outcome with the original plan. Certain transactions are reserved for approval by the board. Limits of delegated responsibility and areas of authority have been identified for employees.

- External audit
  The audit committee reports to the board on matters discussed with the auditors during the course of the statutory audit and interim review.

Statement of compliance

The company is committed to ensuring that high standards of corporate governance are maintained. The board considers that the company has complied with the 2006 combined code throughout the year, except in the following areas.

A.3.2
A.3.2 requires that at least half of the board, excluding the chairman, should comprise independent non-executive directors. Since 2 September, when Howard Phillips retired, this requirement has not been met, in that the board now comprises the chairman, four non-executive directors and five executive directors. The board is committed to having a balanced board going forward, yet also believes that the process of addressing the balance should not be hurried.

A.4.1
A.4.1 requires the majority of members of the nomination committee to be independent non-executive directors. Since 2 September, when Howard Phillips retired, this requirement was not met, in that the nomination committee had just two members, the chairman and Norman Murray. Since the year end a third member, John Brady, whom the board regard as independent, has been appointed. During the period when the committee had just two members it held just one routine committee meeting.

A.6
A.6 requires the board to undertake a formal and rigorous annual evaluation of its own performance and that of its individual directors. The last formal evaluation of the board and its non-executive directors was undertaken in March 2008. No evaluation has been undertaken since then, given the board's focus towards the end of the year on the rights issue announced in April 2009. The board intends to conduct such reviews approximately every 18 months going forward and is satisfied that, between such reviews, an open dialogue exists between all board members enabling issues to be raised and dealt with as they occur.

Shareholder information

Financial calendar

Shares trade ex-dividend from	12 August 2009
Record date for final dividend	14 August 2009
Annual general meeting	8 September 2009
Payment of final dividend	14 September 2009
Announcement of interim results	December 2009
Payment of interim dividend	January 2010
Preliminary announcement of the 2009/10 results	July 2010

Registrars

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*calls cost 10p per minute plus network extras

E-communications

Greene King plc has teamed up with Climate Care to help combat climate change by providing shareholders with the opportunity to receive communications from the company electronically. The company will donate £1 to Climate Care for every shareholder that registers. Climate Care funds projects that reduce greenhouse gases – the main cause of climate change.

To register, visit www.greeneking-shares.com and either log in or click on "Register new user" and follow the instructions.

By registering your e-mail address you will receive e-mails with a web link to information posted on the company's website, including the report and accounts, notice of meetings and other information communicated to shareholders.

Indirect investors' information rights

Beneficial owners of shares held on their behalf by a different registered holder now have certain information rights regarding Greene King. They have the right to ask their registered holder to nominate them to receive all non-personalised information distributed to shareholders, in accordance with the provisions of section 146 of the Companies Act 2006.

Should you wish to be nominated to receive information from Greene King directly, please contact your registered holder, who will need to notify our registrars, Capita Registrars, accordingly. Please note that, once nominated, beneficial owners of shares must continue to direct all communications regarding those shares to the registered holder of those shares rather than to the registrars or to Greene King directly.

Company secretary and registered office

Lindsay Keswick
Westgate Brewery, Bury St Edmunds, Suffolk IP33 1QT
Telephone: 01284 763 222 Fax: 01284 706 502
Website: www.greeneking.co.uk

Share dealing services

Stocktrade
Telephone: 0845 601 0995

Redmayne Bentley
Moseley's Farm Offices, Fornham All Saints, Bury St Edmunds, Suffolk IP28 6JY
Telephone: 01284 723 761

Capita IRG Trustees Limited
Telephone: 0871 664 0454*
Website: www.capitadeal.com
*calls cost 10p per minute plus network extras

Capital gains tax

For the purpose of computing capital gains tax, the market value of the ordinary shares on 31 March 1982, after adjustment for the capitalisation issues in 1980 and 1982 was 72.5625p. After take up of the rights issue in July 1996, the March 1982 value becomes 129.6875p. With the take-up of the rights issue in May 2009, the March 1982 value becomes 182.3046875p.

CORPORATE ADVISERS

Financial advisers

Citigroup, The Citigroup Centre, 33 Canada Square, Canary Wharf, London E14 5LB

Stockbrokers

Deutsche Bank AG London, Winchester House, 1 Great Winchester Street, London EC2N 3EQ

Auditors

Ernst & Young LLP, 1 More London Place, London SE1 2AF

Solicitors

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