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Enterprise Inns plc
Preliminary announcement
for the financial year ending 30 September 2008

18th November 2008

Enterprise Inns plc (ETI), the leading specialist operator of leased and tenanted pubs in the UK, today announces its results for the year ending 30 September 2008.

Results highlights

	2008	2007	Change
Pro-forma EBITDA	**£512m**	£526m#	(2.7%)
EBITDA*	**£512m**	£528m	(3.0%)
Profit before tax and exceptional items	**£263m**	£301m	(12.6%)
Adjusted earnings per share+	**39.2p**	39.6p	(1.0%)
Dividends	**16.2p**	15.6p	3.8%

Adjusted for the effect of the disposal of the Scottish estate of 137 pubs in December 2006.
* Earnings before interest, tax, depreciation, amortisation and exceptional items
+ Excludes exceptional items

Other highlights

- At 30 September 2008 the estate comprised 7,763 pubs valued at £5.9 billion.
- The quality of the pub estate has been improved through the acquisition and disposal of pubs and capital expenditure of £68 million.

Commenting on the results, Ted Tuppen, Chief Executive said:

"In a very difficult year for the pub industry, these are solid results, reflecting the quality of our estate, the determination and flair of our licensees and the resilience of the leased and tenanted operating model. The trading environment is tough and is likely to remain so during the coming year.

With a robust balance sheet, strong cash flows, secure long term debt and a flexible financing structure we remain confident that we will weather the current economic storm. When consumer confidence returns, Enterprise will be well placed to return to delivering solid growth in shareholder value."

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The Preliminary Results presentation will be available on the company website at www.enterpriseinns.com. A live video webcast of the presentation will be available on the investor zone section on the above website from 9.30am. Alternatively, a live conference call of the presentation can be accessed at 9.30am GMT by dialling +44 (0)20 8609 1270 or 1866 928 6048 (USA callers). A replay of the conference call will be available for 7 days on +44 (0)20 8609 0289, 1866 676 5865 (USA) Replay Passcode: 241065#.

RESULTS
This has been a very difficult year for the pub industry. In addition to the first full year impact of the ban on smoking in public places, our licensees have had to endure a serious deterioration in consumer spending and confidence brought about through rising costs and taxes, the virtual collapse of the banking system and a UK economy sliding further into recession.

As a result, the year to 30 September 2008 has presented many challenges to the Enterprise team and our licensees. EBITDA decreased by 3% to £512 million and profit before tax and exceptional items fell to £263 million, giving adjusted earnings per share of 39.2 pence, a decrease of 1% over the prior year.

Nevertheless, the majority of our pubs continue to trade successfully, albeit with licensees having to work much smarter and harder simply to stand still in terms of profitability. Whilst average EBITDA per pub for the whole estate decreased by 3% to £66,000 during the year, those pubs which are let on long term substantive lease or tenancy agreements, representing some 82% of our estate, actually grew EBITDA by 2% to an average of £73,000.

Free cash flow remained strong at £62 million for the year, based upon operating cash inflow of £536 million after deduction of mandatory payments in respect of net interest and taxation (£323 million) and discretionary payments in respect of capital expenditure and dividends (£151 million).

At the interim stage, we increased the dividend by 12% to 5.8 pence per share and the Board is recommending an unchanged final dividend of 10.4 pence, giving a total for the year of 16.2 pence per share, an increase of 3.8% over the prior year. Dividend cover based on adjusted earnings is 2.4 times. The final dividend will be payable on 26 January 2009 to shareholders on the register on 5 January 2009.

TEAM
The Enterprise team has worked with great commitment to provide a top quality service to our licensees in these difficult times, with the entire organisation structured in such a way as to allow our field based operations and property teams to maximise the time spent with licensees.

Effective training remains a key focus and we are delighted that our award winning Associate Regional Manager programme continues to attract top quality candidates to the business. Furthermore, we have this year introduced a key skills certification programme, to ensure that everyone maintains the highest standards of technical ability and professionalism in all dealings with our licensees. We are proud that six of the team reached the finals of the annual ALMR operations manager awards with Joe Smith, our Regional Manager for North Tyneside winning the overall title.

LICENSEES
Through these testing times, the fairness and resilience of the leased and tenanted partnership has seen Enterprise providing unprecedented support to licensees. During the year, rent concessions and special discount schemes costing more than £9 million were provided to a total of 1,453 licensees. Such schemes are designed to help a licensee trade out of difficulty and we are heartened by the enthusiastic response of licensees and the level of success achieved. At 30 September some 855 licensees were receiving these special concessions, a level which has now reduced as some greater stability is achieved in the estate.

Based upon our annual review of the pub estate, we estimate that the average level of potential licensee profitability has fallen by around 4% to £45,000. Whilst the growth in food revenues has to some extent offset declining beer sales, overhead costs have increased. There are of course wide variations in performance, depending upon the retail profile of each outlet. Not surprisingly, smaller, wet led outlets have suffered most, with some becoming unviable in the face of the smoking ban and aggressive pricing of alcohol in the off trade.

The key performance indicators of licensee financial health have worsened during this period of difficult trading but most remain robust despite the challenging conditions:

- During the year, there was a small increase in the number of formal applications to take a pub with Enterprise, with the number relatively stable at around 130 per month. There are currently 577 fully funded applicants on our database.

- With 82% of the estate let on substantive leases and tenancies, many licensee changes take the form of lease assignments. There have been fewer assignments during the year, down from 790 in 2007 to 483 in 2008, with the average premium, excluding fixtures and fittings, down 9% to an average of £63,000 (£79,000 including tenants fixtures and fittings).

- Rent concessions for the year ended 30 September 2008 amounted to £2.7 million. In addition, the cost of special discount schemes granted during the year amounted to £6.4 million. At 30 September 2008 the combined cost of rent concessions and special discount schemes was running at a monthly rate of £1.3 million.

- 915 rent reviews were completed during the year, with an average rental increase of 2.2% per annum.

- Overdue balances have increased during the year but still stand at less than 1% of turnover. Bad debt costs have similarly increased but remain low at 0.1% of turnover.

Whilst the majority of licensees comply with the terms of their agreements and work closely with the Enterprise team to develop trade and improve profitability, there are some who fail to meet agreed payment terms or who blatantly and consistently breach their obligations under the tie. We have taken a straightforward stance in these circumstances, preferring to terminate agreements and remove the offending licensees. This has led to an increase in the number of closed and holding over pubs, the latter where the licensee remains in occupation without paying rent or buying beer pending settlement or eviction. The number of closed and holding over pubs has reduced since the year end and we expect this trend to continue.

ESTATE

During the year, Enterprise invested £68 million into the estate, working alongside licensees to improve facilities in more than 1,587 pubs. Having enjoyed two years of increased investment to deal with issues arising from the ban on smoking, we now expect to return to a normal level of capital investment, at around £45 million per year.

The estates team purchased 58 top quality pubs at an average cost of £828,000 during the year. We also disposed of 58 underperforming and high alternative use value outlets, plus various other plots of land, achieving sale proceeds of £30 million and a profit above book value of £2 million. During the coming year, the team will focus on disposing of underperforming outlets, predominantly for alternative use. Although the market is subdued as a result of the lack of credit available to developers, we remain confident that the disposal programme will deliver a significant amount of cash and a profit above book value. We have already this year exchanged or completed on sales amounting to £13 million and have a further £23 million of transactions agreed and in the hands of solicitors.

The annual valuation of the estate, carried out on a basis consistent with previous years, resulted in a 1% revaluation uplift to £5.9 billion, equivalent to an average value of £755,000 per pub. The estate is valued on a pub by pub basis and, as one would expect with an estate of our size and variety, there are significant variations underlying the increase in valuation. Overall, some 4,900 pubs increased in value, 2,500 fell in value and the balance remained the same.

GROUP FINANCING

Debt facilities

The Group has a flexible financing structure in place, including bank facilities, corporate bonds and securitised bonds. At 30 September 2008, underlying net debt was £3,704 million compared to £3,716 million at the start of the year. At the year end the Group’s borrowings were 89% fixed for an average period of 10 years at an average interest rate of 6.5%.

The five year bank facility of £1 billion expires in May 2011 with no amortisation schedule. A programme has been introduced to reduce the level of borrowings under this facility prior to commencing refinancing discussions with the banks.

The corporate bonds mature between 2014 and 2031 and the securitised bonds fully amortise by 2032, with the next mandatory repayment of £2 million due in June 2010.

Liquidity and Financial Covenants

At the year end, committed bank facilities of £69 million were undrawn and the bank facility agreement permits the arrangement of up to a further £100 million of additional borrowings. A liquidity facility of £190 million is in place in respect of the securitised bonds.

All debt facilities have financial covenants which are tested on a periodic basis. The covenant tests confirmed that appropriate headroom was maintained throughout the year. Financial forecasts are prepared on a regular basis and reviewed by the Board to ensure ongoing compliance with all covenants.

TAX CHARGE

The pre-exceptional tax charge of 26% is lower than was expected to apply at the interim stage as most enquiries relating to 2004 and 2005 have now been closed and no enquiries have been received in respect of 2006. It is expected that the corporation tax rate of 28% will apply in 2009.

EXCEPTIONAL ITEMS

The Group has elected to classify certain items as exceptional and present them separately on the face of the Income Statement. Exceptional items are those which are specifically identified by virtue of their size or nature to allow a full understanding of the underlying performance of the Group. As a result, the Group focuses on 'pre-exceptional' performance measures in order to compare underlying performance year on year.

The most significant exceptional item in the year is the movement arising from the revaluation of the pub estate of £53 million. This is the charge taken to the Income Statement in respect of pubs that have been revalued below historic cost. The exceptional tax credit of £48 million includes a £33 million credit in relation to indexation on the tax base cost of certain properties.

REAL ESTATE INVESTMENT TRUSTS (REITs)

The Board remain attracted to the principle and benefits of conversion to a REIT and we have made excellent progress agreeing all technical and valuation methodology issues with HMRC.

However, in light of the current turmoil in the financial markets, the Board does not consider it appropriate to progress matters further at this time. We are therefore adopting a cautious approach to the costs and processes of conversion, continuing to work with our advisers to explore the options and develop a total solution which is demonstrably in the best long term interests of all stakeholders. We are not working to a particular timetable and will make further announcements as and when appropriate.

INDUSTRY ISSUES

Responsible drinking

For the vast majority of pub goers in the UK, the pub is "the home of responsible drinking", providing a safe and professionally supervised environment for responsible adults to enjoy food, drink and sociable good company. It is a tragedy that such an important part of the fabric of British life is under attack from a Government too often influenced by exaggerated media coverage and the voices of unrepresentative minorities. Whilst doing nothing to curb the off trade sale of cut price alcohol into an unsupervised environment, ministers seek to appease the lobbyists with talk of ever greater regulation and control. There will of course always be a few rogue operators who encourage irresponsible behaviour but it is reassuring to learn that the Association of Chief Police Officers considers that the police have sufficient powers in the existing Licensing Act to regulate pubs, their spokesman on licensing saying "I'm comfortable with the amount of legislation that we have at the moment." The industry does not need more regulation, it needs robust and consistent enforcement of the laws that already exist.

Business and Enterprise Committee (BEC) inquiry

The forthcoming review by the BEC into how the pub companies have responded to the recommendations of the 2004 Trade and Industry Select Committee (TISC) will provide Enterprise with an opportunity to demonstrate how it has led the way in ensuring clarity, transparency and fairness in all its dealings with licensees. With small businesses under pressure and with more than 30 pubs per week reported to be closing permanently, this is a time when the support that can be offered by pub companies under the leased and tenanted model provides welcome relief for many struggling licensees. It should come as no surprise that the rate of pub closures is materially higher in the free trade, where the business partner is most likely a bank manager with a remit to control or reduce credit limits, rather than a Regional Manager whose first priority is to support a deserving licensee.

CONCLUSION AND OUTLOOK

In very difficult circumstances, the Enterprise team has worked tirelessly to deliver solid results. The quality of the estate has improved as a result of successful investment. The vast majority of licensees remain profitable and comply with the terms of their leases and tenancies. Financially we enjoy strong cash flows and secure long term debt with no refinancing requirement until 2011, in preparation for which we will take opportunities to reduce debt levels.

The coming year will present further challenges and we must expect to offer support through rent concessions and special discounts to licensees who find themselves in difficulty. Equally, we must anticipate that consumer discretionary spending will remain under pressure and beer sales will go on declining as the UK moves further into recession. However, if falling interest rates and lower inflation begin to engender a sense of greater confidence amongst consumers, Enterprise will be well placed to return to a position of delivering solid growth in shareholder value.

Group Income Statement
for the year ended 30 September 2008

	Notes	2008 Pre-exceptional items £m	2008 Exceptional items £m	2008 Total £m	2007 Pre-exceptional items £m	2007 Exceptional items £m	2007 Total £m
Revenue		**880**	**-**	**880**	921	-	921
Cost of sales		**(336)**	**-**	**(336)**	(359)	-	(359)
Gross profit		**544**	**-**	**544**	562	-	562
Administrative expenses		**(32)**	**(2)**	**(34)**	(34)	-	(34)
EBITDA +	4	**512**	**(2)**	**510**	528	-	528
Depreciation and amortisation		**(8)**	**-**	**(8)**	(7)	-	(7)
Operating profit		**504**	**(2)**	**502**	521	-	521
Net profit on sale of property, plant and equipment		**-**	**2**	**2**	-	22	22
Movements arising from revaluation of pub estate		**-**	**(53)**	**(53)**	-	(2)	(2)
Interest receivable		**7**	**-**	**7**	8	-	8
Interest payable		**(248)**	**-**	**(248)**	(228)	-	(228)
Movement in fair value of financial instruments		-	**(1)**	**(1)**	-	16	16
Total finance costs		**(248)**	**(1)**	**(249)**	(228)	16	(212)
Profit before tax		**263**	**(54)**	**209**	301	36	337
Taxation	5	**(68)**	**48**	**(20)**	(85)	39	(46)
Profit after tax attributable to members of the parent company		**195**	**(6)**	**189**	216	75	291
Earnings per Share							
Basic	6			**38.0p**			53.4p
Basic Diluted	6			**37.9p**			53.0p
Adjusted *	6	**39.2p**			39.6p		
Adjusted diluted *	6	**39.1p**			39.3p		
Dividends	7						
Dividends paid per share in respect of the year				**5.8p**			5.2p
Dividends proposed per share in respect of the year				**10.4p**			10.4p
				16.2p			15.6p

+ Earnings before interest, tax, depreciation and amortisation

* Excludes exceptional items

Group Statement of Recognised Income and Expense
for the year ended 30 September 2008

	2008 £m	2007 £m
Unrealised surplus on revaluation of licensed estate	**121**	312
Movement in deferred tax liability related to revaluation of pub estate	**(15)**	(75)
Write down of assets held for sale	**(4)**	-
Tax related to share schemes recognised directly in equity	**(5)**	3
(Losses)/gains on cash flow hedges	**(5)**	6
Deferred tax relating to movements on cash flow hedges	**1**	(2)
Actuarial (loss)/gain on defined benefit pension scheme	**(4)**	2
Deferred tax relating to movement on defined benefit pension scheme	**1**	(1)
Re-statement of deferred tax for change in UK tax rate	**-**	24
Net income recognised directly in equity	**90**	269
Profit for the year	**189**	291
Total recognised income and expense for the year attributable to members of the parent company	**279**	560

Group Balance Sheet
at 30 September 2008

	2008 £m	Restated* 2007 £m
Non-current assets		
Goodwill	**417**	417
Intangible assets: operating lease premiums	**18**	19
Property, plant and equipment	**5,859**	5,710
Pension scheme	**-**	2
Financial assets	**2**	4
	6,296	6,152
Current assets		
Assets held for sale	**11**	8
Trade and other receivables	**77**	91
Cash	**98**	90
Financial assets	**1**	4
	187	193
Non-current assets held for sale	**11**	11
Total assets	**6,494**	6,356
Current liabilities		
Trade and other payables	**(209)**	(200)
Current tax payable	**(41)**	(59)
Financial liabilities	**(36)**	(59)
	(286)	(318)
Non-current liabilities		
Financial liabilities	**(3,832)**	(3,837)
Accruals and deferred income	**(4)**	(4)
Provisions	**(3)**	(3)
Deferred tax	**(690)**	(711)
Pension scheme	**(1)**	-
	(4,530)	(4,555)
Total liabilities	**(4,816)**	(4,873)
Net Assets	**1,678**	1,483
Equity		
Called up share capital	**14**	14
Share premium account	**486**	486
Revaluation reserve	**1,195**	1,096
Capital redemption reserve	**11**	11
Merger reserve	**77**	77
Treasury share reserve	**(227)**	(227)
Other reserve	**(28)**	(31)
Cashflow hedge reserve	**-**	4
Profit and loss account	**150**	53
Enterprise Inns shareholders' equity	**1,678**	1,483

* see note 2

Group Cash Flow Statement
for the year ended 30 September 2008

	2008 £m	2007 £m
Cash flow from operating activities		
Operating profit	**502**	521
Depreciation and amortisation	**8**	7
Share-based expense recognised in profit	**2**	3
Decrease in receivables	**8**	6
Increase/(decrease) in payables	**19**	(10)
Decrease in provisions	**-**	(2)
Increase in current assets held for sale	**(3)**	(2)
	536	523
Tax paid	**(77)**	(71)
Net cash flows from operating activities	**459**	452
Cash flows from investing activities		
Payments to acquire public houses	**(48)**	(91)
Payments made on improvements to public houses	**(68)**	(75)
Payments to acquire other property, plant and equipment	**(2)**	(3)
Receipts from sale of property, plant and equipment	**30**	128
Receipts from sale of investments	**-**	1
Net cash flows from investing activities	**(88)**	(40)
Cash flows from financing activities		
Interest paid	**(253)**	(228)
Interest received	**7**	8
Issue costs of long-term loans	**(1)**	-
Equity dividends paid	**(81)**	(79)
Payments to acquire own shares	**(33)**	(667)
Receipts from exercise of share options	**2**	5
Re-structuring of interest rate swaps	**-**	(1)
Debt due in less than one year		
– new short term loans	**202**	75
– repayment of short term loans	**(237)**	(40)
Debt due beyond one year		
– new long term loans	**448**	685
– repayment of long term loans	**(417)**	(191)
Net cash flows from financing activities	**(363)**	(433)
Net increase/(decrease) in cash	**8**	(21)
Cash at start of year	**90**	111
Cash at year end	**98**	90

Notes

1. Status of information

The financial information contained within this announcement does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The figures for the year ended 30 September 2007 are based on the statutory accounts for that year. These accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies. The information contained in this announcement was approved by the Board on 17 November 2008.

2. Accounting policies and basis of preparation

These results have been prepared in accordance with the International Financial Reporting Standards (IFRS) which applied at 30 September 2008.

The 2007 balance sheet has been adjusted in respect of the presentation of interest rate swap fair values. An amendment to IAS 1 requires financial liabilities not held for trading to be presented as current or non-current on the basis of settlement date. Previously all interest rate swaps that were not designated as part of an effective hedging relationship were presented as current liabilities. This has resulted in a reduction in current liabilities of £18 million with a corresponding increase in non-current liabilities.

3. Exceptional items

The Group has elected to classify certain items as exceptional and present them separately on the face of the Income Statement. Exceptional items are classified as those which are separately identified by virtue of their size or nature to allow a full understanding of the underlying performance of the Group and include the following:

Exceptional administrative costs

The operating exceptional item shown within administrative expenses relates to legal, accountancy, professional and advisory fees in respect of the ongoing review of REIT restructuring.

Movements arising from revaluation of pub estate

Under IFRS any revaluation that causes the book value of a pub to fall below historic cost will lead to a charge in the Income Statement. If that same pub later recovers in value so that its book value exceeds historic cost, the increase in value is credited to the Income Statement to the extent that a debit was previously recognised. Where pubs identified for disposal are written down to 'fair value less costs to sell', this write down is also recognised in this line. Most of the impact of the annual revaluation exercise is accounted for in equity and recognised in the Statement of Recognised Income and Expense.

Movement in fair value of financial instruments

Under IFRS interest rate swaps are revalued to fair value at each Balance Sheet date and the movement is recognised in the Income Statement unless hedge accounting is adopted. The movement in the fair value of the swaps where hedge accounting is not applied is shown as an exceptional item.

The Group has five swaps which each expire between 2011 and 2013. The fair value of these swaps was a liability of £19 million at 30 September 2008 and £13 million at 30 September 2007. Of the movement of £6 million in the year, £1 million has been accounted for in the income statement and £5 million has been accounted for in the cash flow hedge reserve.

The movement in the fair value of interest rate swaps has no cash effect.

Taxation

Under IFRS, a deferred tax liability has been recognised on the Balance Sheet relating to the pub estate. On transition to IFRS, the Group elected to apply IFRS 3 retrospectively to acquisitions from 1 January 1999. This led to an increase in goodwill in respect of this deferred tax. As this pre-acquisition liability reduces due to capital gains indexation relief, a credit is recognised in the Income Statement. This credit of £33 million has been classified as an exceptional item.

A further deferred tax credit of £14 million has been recognised in relation to the movement in fair value of interest rate swaps and profit on sale of property.

The tax credit relating to other exceptional items of £1 million is also included in exceptional items. The total exceptional tax credit is therefore £48 million.

4. EBITDA – impact of disposals of pubs

The Group disposed of its Scottish estate of 137 pubs to Retail and Licensed Properties Limited on 5 December 2006. The pubs disposed of generated a total of £2 million of EBITDA before exceptional items in the year ended 30 September 2007. EBITDA for the year ended 30 September 2007 has been revised for the effects of these disposals to allow a like-for-like comparison of the results of the Group.

Year ended 30 September 2007	As reported £m	Disposals £m	**Pro-forma £m**
Revenue			
Beer and cider sales	602	(2)	**600**
Wines, spirits and minerals sales	33	-	**33**
Rents receivable	261	(1)	**260**
Income from amusement and other machines	25	-	**25**
	921	(3)	**918**
Cost of sales			
Beer and cider cost of sales	(326)	1	**(325)**
Wines, spirits and minerals cost of sales	(26)	-	**(26)**
Leasehold charges	(3)	-	**(3)**
Repairs and maintenance	(4)	-	**(4)**
	(359)	1	**(358)**
Administrative expenses	(34)	-	**(34)**
EBITDA before exceptional items	528	(2)	**526**

5. Taxation

The pre-exceptional tax charge of £68 million for the year equates to an effective tax rate of 26%. This effective tax rate does not include the effect of exceptional items.

	2008			2007		
	Pre-exceptional items £m	**Exceptional items £m**	**Total £m**	Pre-exceptional items £m	Exceptional items £m	Total £m
Current tax	**61**	**(1)**	**60**	83	-	83
Deferred tax	**7**	**(47)**	**(40)**	2	(39)	(37)
Total	**68**	**(48)**	**20**	85	(39)	46

6. Earnings per Ordinary Share

The calculation of basic earnings per ordinary share is based on earnings of £189 million (2007: £291 million) and on 497.4 million (2007: 545.0 million) shares being the weighted average number of equity shares in issue during the year after excluding shares held by trusts relating to employee share options and shares held in treasury.

Adjusted earnings per share, which the directors believe reflects the underlying performance of the Group, is based on earnings adjusted for the effects of exceptional items, net of tax, of £195 million (2007: £216 million) and on 497.4 million (2007: 545.0 million) shares being the weighted average number of equity shares in issue during the year after excluding shares held by trusts relating to employee share options and shares held in treasury.

Diluted earnings per share is based on profit for the year of £189 million (2007: £291 million) and adjusted profit of £195 million (2007: £216 million) and on 498.4 million (2007: 549.1 million) ordinary shares being the weighted average number of equity shares in issue during the year adjusted for dilutive ordinary shares relating to employee share options.

7. Dividends

Paid during the year	**2008 £m**	2007 £m
Equity dividends on ordinary shares:		
Final dividend relating to prior year	**52**	52
Interim dividend for current year	**29**	27
	81	79

Proposed for approval by shareholders at the AGM		
Final dividend for current year *	**52**	52

* For 2008 this represents an estimate of the cash outflow that will be incurred when the final dividend is paid in January 2009. For 2007 this represents the actual cash outflow incurred.

Proposed dividends are not accounted for until they are approved at the AGM. The final dividend of 10.4 pence per share will be paid on 26 January 2009 to members on the register on 5 January 2009.

8. Statement of changes in equity

	2008 £m	2007 £m
Total equity at start of year	**1,483**	1,602
Total recognised income and expense for the year	**279**	560
Equity dividends paid	**(81)**	(79)
Cancellation of ordinary shares	**(29)**	(661)
Change in provision for share buy-backs	**21**	53
Employee share option entitlements exercised in the year	**2**	5
Directors share option entitlements exercised in the year	**1**	-
Share-based expense recognised in operating profit	**2**	3
Total equity at end of year	**1,678**	1,483

9. Additional cash flow information

a) Reconciliation of net cash flow to movement in net debt

	2008 £m	2007 £m
Increase/(decrease) in cash in the year	**8**	(21)
Cash outflow/(inflow) from change in debt	**4**	(529)
Issue costs of new long term loans	**1**	-
Change in net debt resulting from cash flows	**13**	(550)
Amortisation of issue costs and discounts/premiums on long-term loans	**(2)**	(2)
Amortisation of securitised bonds	**5**	5
Change in fair value of interest rate swaps	**(6)**	26
Change in provision for share buy-backs	**21**	53
Change in finance lease payables	**-**	1
Movement in net debt in the year	**31**	(467)
Net debt at start of year	**(3,798)**	(3,331)
Net debt at end of year	**(3,767)**	(3,798)

b) Analysis of net debt

	2008 £m	Restated* 2007 £m
Corporate bonds	**(1,185)**	(1,185)
Syndicated bank borrowings	**(1,031)**	(1,035)
Securitised bonds	**(1,586)**	(1,586)
Gross debt	**(3,802)**	(3,806)
Cash	**98**	90
Underlying net debt	**(3,704)**	(3,716)
Capitalised debt issue costs	**17**	18
Fair value adjustments on acquisition of bonds	**(57)**	(62)
Fair value of interest rate swaps	**(19)**	(13)
Provision for share buy-backs in close period	**-**	(21)
Finance lease payables	**(4)**	(4)
Net debt	**(3,767)**	(3,798)
Balance sheet:		
Current financial assets	**1**	4
Non-current financial assets	**2**	4
Current financial liabilities	**(36)**	(59)
Non-current financial liabilities	**(3,832)**	(3,837)
Cash	**98**	90
Net debt	**(3,767)**	(3,798)

*See note 2.

Underlying net debt represents amounts repayable to banks and other lenders net of cash retained in the business.