# Enterprise Inns plc
# Preliminary announcement
# for the financial year ending 30 September 2009

17 November 2009

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 2009.

**Highlights**

- EBITDA of £445 million (2008: £510 million)*
- Profit before tax and exceptional items £208 million (2008: £263 million).
- Adjusted earnings per share 30.7p (2008: 39.2p).
- Dividend per share Nil (2008: 16.2p).
- Underlying net debt reduced by £142 million in past twelve months through cash generation and asset disposals.
- At 30 September 2009 the estate comprised 7,399 pubs valued at £5.4 billion (2008: 7,763 pubs valued at £5.9 billion).

**Other results (after exceptional items)**

- Profit before tax £11 million (2008: £209 million).
- Exceptional costs totalling £197 million before tax are non cash apart from a net operating cost of £5 million relating to the temporary management of pubs.

*Earnings before interest, tax, depreciation and amortisation.

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

"The ETI team has worked hard to deliver creditable results in very difficult circumstances. We have supported good quality licensees with substantial financial assistance where appropriate, improved the overall quality of the pub estate and significantly reduced the level of bank borrowing.

The coming year is expected to be equally challenging and given the current economic climate and the planned reduction in the size of our pub estate, we are likely to see some further decline in trading profit in the short term. Nevertheless, we remain focused on stabilising performance across the estate, as well as steadily reducing the level of bank debt. This strategy will ensure that the core of our estate is of a quality and profile that will prosper as the pub market continues to evolve. We remain confident that in the medium term, the business will be in a good position to deliver positive returns for shareholders."

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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)800 358 1449 or 1866 388 1926 (USA callers). A replay of the conference call will be available for 7 days on +44 (0)800 358 2189, 1866 676 5865 (USA) Replay Passcode: 275787#.*

## RESULTS

This has been another very testing year for the pub industry, with licensees having to endure weak consumer spending alongside rising overhead costs, duty increases ahead of inflation and aggressive pricing from supermarkets.

This has presented many challenges for the ETI business as the volume of beer sold in pubs has continued to decline and it has been necessary to provide direct financial assistance to help our licensees survive these difficult times. As a result, EBITDA for the year to 30 September 2009 decreased by 13% to £445 million and profit before tax and exceptional items fell to £208 million, giving adjusted earnings per share of 30.7 pence, a decrease of 22% over the prior year.

Adjusted to take account of pub disposals, the decline in average net income per pub has continued at around 8%, with EBITDA per pub down by 11%, in line with the first half of the year. It is however encouraging that the 83% of our pubs let on substantive agreements continued to perform well in current market conditions, with average net income per pub down by just 3% for the year. The annual revaluation of the pub estate resulted in a 7% fall in value to £5.4 billion.

Cash generation, from trading and the disposal of non-core pubs, has been strong and underlying Group net debt has been reduced by £142 million. As the Group continues to focus on its debt reduction programme in order to maximise flexibility when refinancing the bank facility which matures in May 2011, the Board has decided not to recommend a final dividend (2008: 10.4p)

## TRADING

Trading conditions across the economy have been challenging for all consumer facing businesses. Consumers are cautious with their discretionary spending whilst overhead cost inflation for the service sector has remained high, driven by increases in minimum wage, utility costs and business rates. Pubs in general, and good quality pubs in particular, have proved remarkably resilient, although we have seen significant regional variations in performance, with average net income per pub down by 11% in the north, 9% in the midlands and 5% in the south, including just 3% in London. Whilst the 83% of our pubs on substantive agreements have delivered £448 million of net income, down just 3% from last year at an average of £73,000 per pub, the remaining 17% have struggled with periods of closure, sub-optimal temporary letting and general underperformance which have together resulted in a 39% fall to an average of £37,000 per pub.

Against this background, we have continued to provide unprecedented levels of support to licensees. In addition to our Price Freeze package, which held back key brand price increases for six months and cost over £3 million, we provided non-contractual rent concessions and special discounts costing £18 million during the year to a total of 1,900 licensees under our Business Recovery Scheme (BRS). It is encouraging that in the majority of cases this financial assistance, costing an average of £9,500 per pub, was sufficient to put the licensee back on to a secure footing and move the business forward. As we accelerate the disposal of poorer quality pubs and as top quality licensees develop their businesses to succeed in these recessionary times, the requirement for direct financial support is beginning to recede.

The introduction of Temporary Management Agreements (TMAs) during the year has been partially successful, allowing us to take control of viable pubs where the operator has failed and move them quickly through a refurbishment and re-launch programme. However, this success has come at a high cost and, having seen a peak of 218 pubs operating as TMAs, it is encouraging to see that the re-letting programme has now gathered momentum, with just 183 pubs operating under the TMA scheme at 30 September, a number which we expect to reduce significantly during the coming year.

Whilst offering assistance to good quality licensees who are prepared to work with us and tackle the difficult trading environment in partnership, we have also faced substantial increases in the cost of business failures, incurring costs estimated at some £25 million during the year, through non-payment of rent, lost sales, closure costs and legal fees. Again, however, it is encouraging to see that the rate of business failures is beginning to abate.

**RETAILERS IN PARTNERSHIP**

It is easy to dwell on the difficulties of trading in the current environment and to overlook the resilient nature of the ETI business, the great commitment of the ETI team and the tremendous performance of the majority of our licensees.

During the past year, the team has successfully disposed of a large number of non-core pubs, reduced by almost 20% to 769 the number of pubs let on temporary tenancy agreements and also reduced the number of closed but viable pubs from over 200 to just 90.

There has been a small increase in the percentage of pubs let on substantive agreements and these pubs continue to deliver average net income just 3% down on last year. With such a large number of our licensees managing their businesses successfully though this recession, it is no surprise that overdue balances at 0.8% of turnover are unchanged from last year and that 75% of all licensees, broadly the same as last year, pay their rent and beer supply balances by direct debit. The level of bad debts incurred has increased during the year but is still low at just 0.4% of turnover. During the past year, we have received 1,529 formal applications to take pubs with us (2008: 1,566) and have successfully let 860 pubs (2008: 410 pubs). This can be taken as a tribute to the quality of our pub estate and the inherent fairness, flexibility and attractiveness of a business model which not only offers a low cost of entry to entrepreneurs wishing to run their own pub business but also provides ongoing support and shares the risks once the pub is up and running.

Greatest credit must go to the vast majority of our licensees who face the daily challenges of running a pub, overcoming whatever obstacles are placed in front of them and developing businesses that are consistently attractive to customers.

Among the many awards won by ETI licensees during 2009 were: the Telegraph at Wallasey, voted Wirral CAMRA Pub of the Year; Ye Olde Rose & Crown and the Nags Head, Walthamstow, joint runners up in the CAMRA Best Real Ale Award, East London & City; the Bell & Cross, Clent voted UK Pub of the Year in the Good Pub Guide; the White Horse, Ramsden Heath voted Best Pub in East Anglia by the Morning Advertiser and the Harwood Arms, Fulham voted Best New Gastropub in the 2010 Time Out Eating and Drinking Awards.

**PUB ESTATE**

The annual revaluation of the pub estate, completed as at 30 September 2009 and carried out on a basis consistent with previous years, resulted in a reduction in value of 7% to £5.4 billion, equivalent to an average value of £726,000 per pub.

During the year, we invested £52 million into the pub estate, working alongside licensees to improve facilities in more than 1,500 pubs. There were just four acquisitions at the beginning of the year, completing those transactions where contracts had already been exchanged. The main focus of the estates team was to concentrate on disposing of underperforming and non-core pubs, achieving gross sale proceeds of £113 million. Taking account of all costs of disposal, net proceeds of £106 million were slightly ahead of book value. During the year to 30 September 2008, net income from these 368 pubs amounted to £9 million. In normal trading times, a relatively small number of pubs becomes unviable and would be sold each year. The current economic environment has accelerated the demise of unviable pubs and we currently expect to continue this disposal programme at a similar or higher level throughout the coming year, reducing the total number of pubs in our estate and improving average quality and profitability.

We own the freehold of 98% of our pubs, have 181 short leasehold properties and pay an annual leasehold rent of just £2.6 million. We have a number of freehold pubs, predominantly in central London, which we believe present attractive investment opportunities for long term property investors. With a view to testing this market, we placed six pubs into an auction in October 2009, the results of which were very encouraging with rental yields, based upon 35-year, non-index linked leases back to ETI, averaging just over 6%. We believe that this market may provide an opportunity to raise additional funds in advance of our refinancing at attractive long term rates, whilst retaining operational management and an ongoing income stream from the pubs concerned. A further fourteen pubs will be placed into auctions during December 2009 and, if this too proves successful, we shall continue this programme throughout the coming year.

## GROUP FINANCING

### Debt facilities

ETI has a flexible financing structure comprising securitised bonds, corporate bonds and bank debt. At 30 September 2009, underlying net debt was £3,562 million compared to £3,704 million at the beginning of the financial year.

The £1.6 billion securitised bonds amortise over 22 years and attract a fixed rate of interest of approximately 6.5% until final maturity. The Group is currently £64 million ahead of the amortisation schedule. The £1.2 billion corporate bonds are non-amortising and attract a fixed rate of interest of 6.5%, with the next scheduled maturities being £60 million in February 2014 and £600 million in March 2018. The bank facility of £1 billion currently pays interest at 80 basis points over LIBOR and is due for renewal in May 2011.

The bank facility is covered by two interest rate swaps inherited with the acquisition of The Laurel Pub Company in 2002. These swaps limit the benefit to the Group of the current low interest rate environment but expire relatively shortly. The first swap, £350 million at 4.89% expires on 30th September 2011 and the second swap, £275 million at 6.66% expires on 1st June 2012.

A programme to reduce the level of borrowings under the bank facility has been successfully implemented during the year. In October 2009, we held detailed discussions with the 13 members of our banking group who represent 98% in value of the outstanding facility. Based on these discussions and input from our advisers, the Board remains confident that adequate banking facilities will be available to the Group at the time of our refinancing.

### Liquidity and financial covenants

At the year end, committed bank facilities of £192 million were undrawn and a liquidity facility of £190 million is in place in respect of the securitised bonds. During October 2009 the £100 million secured bank facility with HBOS plc was repaid as borrowings under this facility were no longer required and the facility was cancelled to save commitment fees.

All debt facilities have financial covenants which are tested on a periodic basis and covenant tests confirmed that sufficient 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 the same as prior year, slightly favourable to the estimated rate of 27% at the half year. It is expected that the statutory corporation tax rate of 28% will apply in 2010.

## 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 in valuation of the pub estate and related assets of £151 million.

## INDUSTRY ISSUES

### The pub in the community

For the vast majority of pub goers in the UK, the pub remains at the heart of their community, the “home of responsible drinking”, providing a safe and professionally supervised environment where adults can enjoy food, drink and good company. This vital part of British culture is under greater threat than ever before and it is essential that Government and all elements of the pub industry work together to ensure that pubs not only survive but prosper.

### Business and Enterprise Committee (BEC) inquiry

Following a report on pub companies issued by the BEC in May 2009, ETI wrote to the Secretary of State for Business, Innovation and Skills setting out firm commitments designed to address concerns expressed in the BEC report, in particular ensuring that new licensees are properly advised and fully appraised of all key facts when taking on a pub business. In addition, ETI has worked closely with the British Beer and Pub Association, the British Institute of Innkeeping and other industry bodies to develop an industry-wide code of practice.

Great progress has been made, with firm commitments in place to ensure that potential licensees have proper access to the information required for them to develop a viable business plan and to have that business plan validated by an experienced industry professional. Importantly, there has been industry-wide acceptance of the Pub Independent Rent Review Scheme (PIRRS), the low-cost alternative to arbitration at the time of rent reviews.

### CAMRA super-complaint to the Office of Fair Trading (OFT)

At the end of October 2009, the OFT published a report in response to a super-complaint made by the Campaign for Real Ale (CAMRA). The super-complaint reiterated many of the concerns raised by the BEC report and claimed that the existence of the tie, particularly as exercised by the large pub companies, foreclosed the market to smaller brewers, led to restricted choice and higher prices for consumers and made it difficult for tied pubs to compete on price with their competitors in free houses and managed pubs.

The OFT reached the conclusion, supported by independent evidence, that the CAMRA complaints were unfounded and that further investigation of competition issues within the beer and pub market is not warranted.

## CONCLUSION AND OUTLOOK

The ETI team has worked hard and delivered creditable results in very difficult circumstances, supporting good quality licensees with substantial financial assistance where appropriate, improving the overall quality of the pub estate through investment and the disposal of non-core pubs and significantly reducing the level of bank borrowing.

The coming year is expected to be equally challenging, with weak consumer confidence compounded by further increases in duty and taxes. Given the current economic climate and the planned reduction in the size of our pub estate, we are likely to see some further decline in trading profit in the short term. Nevertheless, we shall remain focused on stabilising performance in the estate, accelerating the disposal of pubs which do not fit the profile of our business moving forward whilst working alongside good quality licensees to provide support and investment to develop our best pubs. At the same time as steadily de-leveraging our business through the reduction in the level of bank debt, this strategy will ensure that the core of our estate is of a quality and profile to prosper as the pub market continues to evolve. We remain confident that, in the medium term, the business will be in a good position to deliver positive returns for shareholders.

G E Tuppen
17th November 2009

**Group Income Statement**
for the year ended 30 September 2009

| | Notes | **2009** Pre-exceptional items £m | **2009** Exceptional items £m | **2009** Total £m | Restated# 2008 Pre-exceptional items £m | Restated# 2008 Exceptional items £m | Restated# 2008 Total £m |
|---|---|---|---|---|---|---|---|
| Revenue | | **811** | **7** | **818** | 880 | - | 880 |
| Cost of sales | | **(325)** | **(4)** | **(329)** | (336) | - | (336) |
| **Gross profit** | | **486** | **3** | **489** | 544 | - | 544 |
| Administrative expenses | | **(36)** | **(8)** | **(44)** | (32) | (2) | (34) |
| **EBITDA +** | | **450** | **(5)** | **445** | 512 | (2) | 510 |
| Depreciation and amortisation | | **(12)** | **-** | **(12)** | (8) | - | (8) |
| **Operating profit** | | **438** | **(5)** | **433** | 504 | (2) | 502 |
| Profit on sale of property, plant and equipment | 3 | **-** | **1** | **1** | - | 2 | 2 |
| Goodwill allocated to disposals | 3 | **-** | **(8)** | **(8)** | - | - | - |
| Net (loss)/profit on sale of property, plant and equipment | | **-** | **(7)** | **(7)** | - | 2 | 2 |
| Movements in the valuation of the pub estate and related assets | 3 | **-** | **(151)** | **(151)** | - | (53) | (53) |
| Interest receivable | | **3** | **-** | **3** | 7 | - | 7 |
| Interest payable | | **(233)** | **-** | **(233)** | (248) | - | (248) |
| Movement in fair value of financial instruments | | **-** | **(34)** | **(34)** | - | (1) | (1) |
| Total finance costs | | **(233)** | **(34)** | **(267)** | (248) | (1) | (249) |
| **Profit before tax** | | **208** | **(197)** | **11** | 263 | (54) | 209 |
| Taxation | 4 | **(55)** | **50** | **(5)** | (68) | 42 | (26) |
| **Profit after tax attributable to members of the parent company** | | **153** | **(147)** | **6** | 195 | (12) | 183 |
| **Earnings per Share** | | | | | | | |
| Basic | 6 | | | **1.2p** | | | 36.8p |
| Basic Diluted | 6 | | | **1.2p** | | | 36.7p |
| Adjusted * | 6 | **30.7p** | | | 39.2p | | |
| Adjusted diluted * | 6 | **30.6p** | | | 39.1p | | |
| **Dividends** | | | | | | | |
| Dividends paid per share in respect of the year | 7 | | | **-p** | | | 5.8p |
| Dividends proposed per share in respect of the year | 7 | | | **-p** | | | 10.4p |
| | | | | **-p** | | | 16.2p |

# Restated for deferred tax see note 5
+ Earnings before interest, tax, depreciation and amortisation
* Excludes exceptional items

**Group Statement of Recognised Income and Expense**
for the year ended 30 September 2009

| | 2009 £m | Restated# 2008 £m |
|---|---|---|
| Unrealised (deficit)/surplus on revaluation of pub estate | **(278)** | 121 |
| Movement in deferred tax liability related to revaluation of pub estate | **80** | (17) |
| Write down of non-current assets held for sale | **(14)** | (4) |
| Tax related to share schemes recognised directly in equity | **1** | (5) |
| Loss on cash flow hedge | **(22)** | (5) |
| Deferred tax relating to movement on cash flow hedge | **6** | 1 |
| Actuarial loss on defined benefit pension scheme | **-** | (4) |
| Deferred tax relating to movement on defined benefit pension scheme | **-** | 1 |
| Net (expense)/ income recognised directly in equity | **(227)** | 88 |
| Profit for the year | **6** | 183 |
| Total recognised income and expense for the year attributable to members of the parent company | **(221)** | 271 |
| Effect of prior year adjustment | **-** | (30) |

# Restated for deferred tax see note 5

**Group Balance Sheet**
at 30 September 2009

| | Notes | 2009 £m | Restated# 2008 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | | **409** | 417 |
| Intangible assets: operating lease premiums | | **15** | 18 |
| Property, plant and equipment | 8 | **5,336** | 5,859 |
| Financial assets | | **-** | 2 |
| | | **5,760** | 6,296 |
| **Current assets** | | | |
| Assets held for sale | | **6** | 11 |
| Trade and other receivables | | **69** | 77 |
| Cash | | **101** | 98 |
| Financial assets | | **-** | 1 |
| | | **176** | 187 |
| Non-current assets held for sale | 9 | **43** | 11 |
| **Total assets** | | **5,979** | 6,494 |
| **Current liabilities** | | | |
| Trade and other payables | | **(198)** | (209) |
| Current tax payable | | **(29)** | (41) |
| Financial liabilities | | **(141)** | (36) |
| | | **(368)** | (286) |
| **Non-current liabilities** | | | |
| Financial liabilities | | **(3,639)** | (3,832) |
| Accruals and deferred income | | **(3)** | (4) |
| Provisions | | **(2)** | (3) |
| Deferred tax | | **(591)** | (720) |
| Pension scheme | | **(1)** | (1) |
| | | **(4,236)** | (4,560) |
| **Total liabilities** | | **(4,604)** | (4,846) |
| **Net Assets** | | **1,375** | 1,648 |
| **Equity** | | | |
| Called up share capital | | **14** | 14 |
| Share premium account | | **486** | 486 |
| Revaluation reserve | | **960** | 1,178 |
| Capital redemption reserve | | **11** | 11 |
| Merger reserve | | **77** | 77 |
| Treasury share reserve | | **(227)** | (227) |
| Other reserve | | **(26)** | (28) |
| Cashflow hedge reserve | | **(16)** | - |
| Profit and loss account | | **96** | 137 |
| **Enterprise Inns shareholders' equity** | 10 | **1,375** | 1,648 |

# Restated for deferred tax see note 5

**Group Cash Flow Statement**
for the year ended 30 September 2009

| | **2009** | 2008 |
|---|---|---|
| | **£m** | £m |
| **Cash flow from operating activities** | | |
| Operating profit | **433** | 502 |
| Depreciation and amortisation | **12** | 8 |
| Share-based expense recognised in profit | **-** | 2 |
| Decrease in receivables | **8** | 8 |
| (Decrease)/increase in payables | **(12)** | 19 |
| Decrease in provisions | **(1)** | - |
| Increase in current assets held for sale | **-** | (3) |
| | **440** | 536 |
| Tax paid | **(59)** | (77) |
| **Net cash flows from operating activities** | **381** | 459 |
| | | |
| **Cash flows from investing activities** | | |
| Payments to acquire public houses | **(4)** | (48) |
| Payments made on improvements to public houses | **(52)** | (68) |
| Payments to acquire other property, plant and equipment | **(2)** | (2) |
| Receipts from sale of property, plant and equipment | **103** | 30 |
| **Net cash flows from investing activities** | **45** | (88) |
| | | |
| **Cash flows from financing activities** | | |
| Interest paid | **(235)** | (253) |
| Interest received | **3** | 7 |
| Issue costs of long-term loans | **-** | (1) |
| Equity dividends paid | **(52)** | (81) |
| Payments to acquire own shares | **-** | (33) |
| Receipts from exercise of share options | **-** | 2 |
| Debt due in less than one year | | |
| – new short term loans | **107** | 202 |
| – repayment of short term loans | **(38)** | (237) |
| Debt due beyond one year | | |
| – new long term loans | **581** | 448 |
| – repayment of long term loans | **(789)** | (417) |
| **Net cash flows from financing activities** | **(423)** | (363) |
| | | |
| **Net increase in cash** | **3** | 8 |
| Cash at start of year | **98** | 90 |
| **Cash at end of year** | **101** | 98 |

**Notes**

## 1. Status of information

The financial information contained within this announcement does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. The figures for the year ended 30 September 2008 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 16 November 2009.

## 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 2009.

## 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 comprise the following:

**Temporary Management Agreements**

The exceptional revenue, cost of sales and administrative costs in 2009 relate to the operation of temporary management agreements (TMA). The presentation as exceptional is based on the fact that the cost is not considered to be part of the normal course of business and it is not expected to be incurred for an extended period.

TMAs were introduced during the course of the year, allowing the Group to take control of viable pubs where the operator has failed and moved them quickly through a refurbishment and re-launch programme. Management companies are paid a fee to run the pub and the Group underwrites losses incurred at pub level and benefits from profits at pub level. The cost of £5 million comprises administrative costs of £8 million being management fees and net losses, offset by £3m of gross profit on beer sales.

In 2008 the operating exceptional item shown within administrative expenses related to legal, professional and advisory fees in respect of the review of REIT restructuring.

**Profit on sale of property, plant and equipment**

| | **2009** | 2008 |
|---|---|---|
| | **£m** | £m |
| Profits on sale of property, plant and equipment | **17** | 11 |
| Losses on sale of property, plant and equipment | **(16)** | (9) |
| | **1** | 2 |

During the year 368 pubs (2008: 58 pubs) and various other plots of land with a book value of £105 million (2008: £22 million) were sold generating gross proceeds of £113 million (2008: £30 million) which, after taking account of disposal costs of £7 million (2008: £6 million), resulted in an overall profit of £1 million (2008: £2 million).

**Goodwill allocated to disposals**

| | **2009** | 2008 |
|---|---|---|
| | **£m** | £m |
| Goodwill allocated to disposals | **(8)** | - |
| | **(8)** | - |

In accordance with IAS 36, goodwill is allocated to pubs disposed of, based on their relative value to the pub estate. Accordingly, goodwill of £8 million has been allocated to the 368 pubs sold during the year.

**Movements in valuation of the pub estate and related assets**

| | **2009** **£m** | 2008 £m |
|---|---|---|
| Movements from revaluation of pub estate (see note 8) | **(122)** | (51) |
| Write down to fair value less costs to sell of: | | |
| - Operating lease premiums | **(2)** | - |
| - Property, plant and equipment (see note 8) | **(23)** | (2) |
| - Non-current assets held for sale (see note 9) | **(1)** | - |
| Costs associated with non-current assets held for sale | **(3)** | - |
| | **(151)** | (53) |

A valuation of the entire pub estate excluding non-current assets held for sale has been carried out at the year end. The result of the valuation is that the pub estate, excluding non-current assets held for sale, has fallen by £400 million. Of this write-down, an amount of £278 million has been charged to the revaluation reserve and £122 million has been charged to the Income Statement as an exceptional item, reflecting pub values which have fallen below historic cost.

In addition, there are 175 pubs (2008: 32 pubs) included within non-current assets held for sale which have been recorded at the lower of book value and fair value less costs to sell.

**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 £75 million at 30 September 2009 and £19 million at 30 September 2008. Of the movement of £56 million in the year, £34 million has been accounted for in the Income Statement and £22 million has been accounted for in the cash flow hedge reserve.

The movement in the cash flow hedge reserve during the year of £16 million comprises the £22 million referred to above net of £6 million of deferred tax recognised on this movement in fair value.

The movement in the fair value has occurred because of falling forecast interest rates over the remaining life of the swaps. The forecast average 3 month LIBOR, which has been used to value the financial instruments, was 2.3% at 30 September 2009 and 5.2% at 30 September 2008. The movement in the fair value of the interest rate swaps has no cash effect.

**Exceptional taxation**

An exceptional tax credit of £53 million (2008: 15 million) has been recognised in relation to TMAs, the movement in fair value of interest rate swaps, movement on the revaluation of the pub estate recorded in the Income Statement and profit/loss on sale of property, plant and equipment including goodwill allocation.

An exceptional tax charge relating to indexation relief of £3 million (2008: credit of £27 million) for the year has been calculated based on the annual movement in the Retail Price Index (RPI) to 30 September 2009.

The total exceptional tax credit is therefore £50 million (2008: £42 million).

**4. Taxation**

The pre-exceptional tax charge of £55 million (2008: £68 million) for the year equates to an effective tax rate of 26.4% (2008: 25.9%). The effective tax rate does not include the effect of exceptional items.

**5. Prior year adjustment**

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 which led to an increase in goodwill in respect of this deferred tax of £330 million.

The deferred tax liability has moved each year due to indexation. Any indexation relating to the pre acquisition liability is recognised in the Income Statement and has been classified as an exceptional tax item due to its size and because it does not relate to any income or expense recognised in the Income Statement in the same period. The indexation relating to post acquisition revaluations is recognised as a movement in the revaluation reserve.

During the year the method of calculating the deferred tax liability recognised in relation to the pub estate has been revised and this has resulted in a £30 million adjustment to prior year balances. Due to the fact that the impact of the change is considered to be material, the Group has adjusted the results presented at 30 September 2008 by means of a prior year adjustment.

The effect of the restatement on the 2008 results is as follows:

| | £m |
|---|---|
| Restatement of opening reserves at 1 October 2007 | (22) |
| Effect of prior year adjustment on profit for the year ended 30 September 2008 | (6) |
| Effect of prior year adjustment on revaluation reserve movement in SORIE for the year ended 30 September 2008 | (2) |
| | (30) |
| | |
| Increase to deferred tax liability at 30 September 2008 | (30) |

**6. Earnings per Ordinary Share**

The calculation of basic earnings per ordinary share is based on the profit of £6 million (2008: £183 million) and on 497.8 million (2008: 497.4 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 £153 million (2008: £195 million) and on 497.8 million (2008: 497.4 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 the profit for the year of £6 million (2008: £183 million) and adjusted profit of £153 million (2008: £195 million) and on 499.3 million (2008: 498.4 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 | **2009 £m** | 2008 £m |
|---|---|---|
| Equity dividends on ordinary shares: | | |
| Final dividend relating to prior year | **52** | 52 |
| Interim dividend for current year | **-** | 29 |
| | **52** | 81 |
| | | |
| **Proposed for approval by shareholders at the AGM** | | |
| Final dividend for current year | **-** | 52 |

## 8. Property, plant and equipment

| | Licensed land and buildings £m | Landlords' fixtures and fittings £m | Other assets £m | Total £m |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| At 1 October 2008 | 5,657 | 195 | 33 | 5,885 |
| Additions | 24 | 37 | 2 | 63 |
| Revaluation: | | | | |
| - Recognised in the Statement of Recognised Income and Expense | (278) | - | - | (278) |
| - Recognised in the Income Statement | (122) | - | - | (122) |
| Write down to fair value less costs to sell: | | | | |
| - Recognised in the Statement of Recognised Income and Expense | (14) | - | - | (14) |
| - Recognised in the Income Statement | (23) | - | - | (23) |
| Net transfers to non-current assets held for sale | (125) | (13) | - | (138) |
| **At 30 September 2009** | **5,119** | **219** | **35** | **5,373** |
| **Depreciation** | | | | |
| At 1 October 2008 | 8 | 12 | 6 | 26 |
| Charge for the period | 1 | 8 | 3 | 12 |
| Net transfers to non-current assets held for sale | - | (1) | - | (1) |
| **At 30 September 2009** | **9** | **19** | **9** | **37** |
| **Net book value** | | | | |
| **At 30 September 2009** | **5,110** | **200** | **26** | **5,336** |
| At 30 September 2008 | 5,649 | 183 | 27 | 5,859 |

**9. Non-current assets held for sale**

| | **2009** | 2008 |
|---|---|---|
| | **£m** | £m |
| At 1 October | **11** | 11 |
| Net transfer from property, plant and equipment | **137** | 22 |
| Net transfer from intangible assets: operating lease premiums | **1** | - |
| Write-down to fair value less costs to sell | **(1)** | - |
| Disposals | **(105)** | (22) |
| **At 30 September** | **43** | 11 |
| Representing: | | |
| Property, plant and equipment | **42** | 11 |
| Intangible assets: operating lease premiums | **1** | - |
| | **43** | 11 |

When assets are identified for disposal and meet the criteria within IFRS 5 they are reclassified from property, plant and equipment to non-current assets held for sale and are valued at the lower of book value and fair value less costs to sell. At the end of the year non-current assets held for sale includes 175 pubs (2008: 32 pubs) which are expected to be sold within the next year.

**10. Statement of changes in equity**

| | **2009** | #Restated 2008 |
|---|---|---|
| | **£m** | £m |
| Total equity at start of year | **1,648** | 1,461 |
| Total recognised income and expense for the year | **(221)** | 271 |
| Equity dividends paid | **(52)** | (81) |
| Cancellation of ordinary shares | **-** | (29) |
| Change in provision for share buybacks | **-** | 21 |
| Employee share option entitlements exercised in the year | **-** | 2 |
| Directors' share option entitlements exercised in the year | **-** | 1 |
| Share-based expense recognised in operating profit | **-** | 2 |
| **Total equity at end of year** | **1,375** | 1,648 |

#Restated for deferred tax see note 5

**11. Additional cash flow information**

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

| | **2009 £m** | 2008 £m |
|---|---|---|
| Increase in cash in the year | **3** | 8 |
| Cash outflow from change in debt | **139** | 4 |
| Issue costs of new long term loans | **-** | 1 |
| Change in net debt resulting from cash flows | **142** | 13 |
| Amortisation of issue costs and discounts/premiums on long-term loans | **(2)** | (2) |
| Amortisation of securitised bonds | **4** | 5 |
| Change in fair value of interest rate swaps | **(56)** | (6) |
| Change in provision for share buy-backs | **-** | 21 |
| **Movement in net debt in the year** | **88** | 31 |
| Net debt at start of year | **(3,767)** | (3,798) |
| Net debt at end of year | **(3,679)** | (3,767) |

**b) Analysis of net debt**

| | **2009 £m** | 2008 £m |
|---|---|---|
| Corporate bonds | **(1,185)** | (1,185) |
| Bank borrowings | **(902)** | (1,031) |
| Securitised bonds | **(1,576)** | (1,586) |
| Gross debt | **(3,663)** | (3,802) |
| Cash | **101** | 98 |
| **Underlying net debt** | **(3,562)** | (3,704) |
| Capitalised debt issue costs | **15** | 17 |
| Fair value adjustments on acquisition of bonds | **(53)** | (57) |
| Fair value of interest rate swaps | **(75)** | (19) |
| Finance lease payables | **(4)** | (4) |
| **Net debt** | **(3,679)** | (3,767) |
| Balance sheet: | | |
| Current financial assets | **-** | 1 |
| Non-current financial assets | **-** | 2 |
| Current financial liabilities | **(141)** | (36) |
| Non-current financial liabilities | **(3,639)** | (3,832) |
| Cash | **101** | 98 |
| **Net debt** | **(3,679)** | (3,767) |

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

**12. Post balance sheet event**

On the 19 October 2009 a £100 million secured banking facility was repaid and the facility was cancelled by the Group on 28 October 2009.