Enterprise Inns plc

Preliminary announcement for the financial year ending 30 September 2010

16 November 2010

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 2010

Financial Highlights

- EBITDA* before exceptional items £405 million (2009: £450 million)
- Average net income per pub stable in second half, £63.9k for full year (2009: £65.0k)
- Like-for-like net income in substantive estate (94% of total net income) 2% down (2009: 3% down)
- £270 million proceeds from disposals, realising an exceptional profit of £52 million
- Net debt reduced by £374 million

Statutory results

- Profit before tax and exceptional items £175 million (2009: £208 million)
- Profit after tax £26 million (2009: £6 million)
- Adjusted earnings per share[#] 25.9p (2009: 30.7p)

Operational Highlights

- 89% of estate let on substantive agreements, up from 83% at 30 September 2009
- Cessation of Temporary Management Agreement (TMA) programme
- Continuing improvements in quality of estate and customer offering
- New agreements provide additional flexibility to attract and retain the best licensees

* Earnings before interest, tax, depreciation and amortisation
[#] Excludes exceptional items

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

"We have delivered creditable results, hard won stability and genuine operational improvements in difficult circumstances. The economic environment is set to remain challenging and we do not underestimate the impact of the Government's austerity measures and fiscal tightening which will affect both our licensees and their customers.

However, the past year has demonstrated the resilience of the best pub operators in the industry and we believe that the profile of our estate, combined with the professionalism and flair of our licensees leaves us well placed to face whatever challenges the year ahead may bring. We remain confident that the business is in a sound position to deliver positive returns to shareholders over the medium term, including the resumption of dividend payments."

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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 3140 0722 or +1 866 978 9968 (USA callers). A replay of the conference call will be available for 7 days on +44 (0)20 3140 0698, +1 877 846 3918 (USA) Replay Passcode: 374937#.

CHIEF EXECUTIVE'S REVIEW

This has been another testing year for the pub sector with licensees once again having to meet the challenge of weak consumer demand, duty increases ahead of the rate of inflation and aggressive pricing from supermarkets.

Despite these difficult economic times, we have delivered EBITDA before exceptional items of £405 million, a solid result which reflects the gradual stabilisation of the business. Average net income per pub was stable during the second half of the year giving an overall decline of less than 2% for the year to 30 September 2010, compared to a decline of 8% last year.

At the year end, the percentage of our pub estate on substantive agreements had increased to 89% by number of pubs, representing 94% of total net income which, on a like-for-like basis in these pubs, had declined by 2% during the year.

Given the current degree of market uncertainty, the Board does not consider that the resumption of dividends now would be appropriate. However, subject to market conditions over the coming year, we expect to see further stabilisation in the performance of the pub estate and further reductions in the level of debt through strong cash generation from trading and the disposal of non-core pubs. On this basis, the Board is confident that the business is in a sound position to deliver positive returns to shareholders over the medium term, including the resumption of dividend payments.

TRADING REVIEW

Improving net income trend

We consider that net income per pub is the correct measure by which to report on the performance of our pub estate, removing potential distortions created by changes to central overheads and to leasehold rent payable resulting from our sale and leaseback programme.

During the second half of the year, we achieved our target of arresting the decline in average net income per pub which was flat compared to a 3% decline in the first half of this year and an 8% decline for the corresponding period last year. We are now seeing a consistent improvement in average net income performance, a trend that we will seek to continue as we invest in the quality of our pub estate and our licensees and churn out underperformers.

Improving like-for-like performance across the whole estate

Our continuing commitment to disposing of non-core, underperforming outlets has clearly helped to deliver improved average net income per pub. Removing the impact of disposals and therefore on a like-for-like basis, average income per pub across the whole estate declined by 5% during the year (2009: down 8%), with marked regional differences.

Location	No. of pubs at 30 Sep 2010	% of pubs	Income FY10 £m	% of income FY10	Inc/pub FY10 £k	Income FY09 £m	Inc/pub FY09 £k	Change %
North	2,276	33	147	32	65	159	70	(8)
Central	1,884	28	118	26	63	125	66	(6)
South	2,660	39	191	42	72	196	74	(3)
Total	6,820		456		67	480	70	(5)

Like-for-like performance stabilising in the substantive estate

Like-for-like income in our substantive estate, which represented 94% of our total net income in the year, fell by just 2% and trends within the substantive estate were particularly encouraging. Some 2,500 licensees, who have been in their pubs for more than five years, delivered net income declines of 2% during the year. A similar number of licensees who have been in their pub for between one and five years saw net income grow by more than 2%. Together therefore this group of licensees, which represent 72% of our pubs by number, 80% by total income, delivered unchanged like-for-like income over the past year.

Of the remaining pubs within our substantive estate where licensees have been in occupation for less than one year, there are some 200 who have joined our business through assignment during the year and are growing income by 7% year on year. A further 1,000 signed up to substantive agreements during the last twelve months and are still settling into their businesses. Many of these licensees are enjoying stepped rents and other concessions as they seek to build their new businesses and whilst the like-for-like annual decline is currently 19%, we are pleased to see a consistent improvement in the performance of these pubs.

The balance of the estate represents pubs that are closed, holding over or operating under temporary tenancies and their like-for-like income is down 35% year on year. Whilst a number of these pubs are viable and will be re-launched following investment and the recruitment of a substantive licensee, many will be sold during the coming year.

Years in occupation	No. of pubs at 30 Sep 2010	Income FY 10 £m	Inc/pub FY10 £k	Income FY09 £m	Inc/pub FY09 £k	Change %
< 1 year (new lets)	983	48	49	59	60	(19)
< 1 year (assignments)	206	15	73	14	68	7
1-5 years	2,371	172	73	168	71	2
Over 5 years	2,513	195	78	199	79	(2)
Total substantives	6,073	430	71	440	72	(2)
Non substantives	747	26	35	40	54	(35)
Total	6,820	456	67	480	70	(5)

Provision of financial support and rate of business failures declining

As we continue to improve the quality of the pub estate through investment and churn and the profitability of our licensees through training and business support, the cost of direct financial support provided to substantive licensees through special discounts and rent concessions reduced during the year to £15 million (2009: £21 million) and is currently running at a monthly cost of just over £1 million.

Furthermore we are encouraged that the rate of business failures continues to decline, reflected in a reduction in the cost of bad debts during the year to £2.1 million (2009: £3.4 million), with the level of overdue balances down to £6.1 million (2009: £6.9 million), representing less than 1% of turnover.

Our TMA programme was an effective tool which enabled us to take control of and revitalise good quality pubs where the business had been severely damaged. With the rate of business failures now declining and the overall quality of our licensees significantly improved, we have been able to wind down the TMA programme. Having reached a peak of 218 pubs during the third quarter of 2009, we are pleased that there are no longer any pubs operating under TMA's and that the programme has now ceased.

Stability in the estate and strong demand for new leases and tenancies

We are encouraged by the level of stability amongst our successful licensees, with an average length of tenure in the substantive estate, excluding those who signed up during the past twelve months, of almost seven years.

Furthermore, and despite the obvious challenges facing the pub industry, the quality of our pub estate and the fairness and flexibility of our suite of letting agreements continue to attract record numbers of applicants. During the year to 30th September 2010 we received more than 2,500 formal applications to take on a substantive agreement with ETI, an increase of over 60% compared to the prior year.

Estate profile and licensee profitability

Critical to the success of the ETI estate has been our ability to evolve with the changing requirements of pub goers. From the predominantly wet-led estate acquired from the brewers in the early 90's, we have invested alongside our licensees to ensure that the pubs that make up the ETI estate rank amongst the best in the country.

The provision of great food has blossomed in our pubs and based upon a detailed analysis of almost 2,000 rent reviews agreed over the past two years, some 87% of our pubs now offer food, ranging from top quality bar snacks to the very best among gastro pubs and we estimate that food now represents 25% of turnover across our estate, an increase of over 20% in the past five years.

The availability of locally sourced cask ales, often restricted in managed houses and limited to their own products in brewer-owned estates, has substantially increased. As recognised by the Office of Fair Trading (OFT) in their recent dismissal of an appeal by the Campaign for Real Ale (CAMRA), our work with the Society of Independent Brewers (SIBA) has played a significant role in the development of cask ale in the UK. Across the ETI estate, we now offer 1,450 locally produced cask ale brands from almost 400 different brewers.

Accommodation has also become more important in our pubs and we now have around 5,000 letting rooms with many offering top quality bed and breakfast facilities.

It is this diversification which has enabled professional licensees not just to survive these difficult trading conditions but to thrive. As evidenced across the industry, whether in managed houses, free houses or leases and tenancies, the decline in the volume of beer sold in pubs is not matched by a decline in turnover or profitability as licensees develop a range of alternative income streams. We estimate that beer sales now represent 55% of turnover in our estate, down from 62% over the last five years.

PUB ESTATE

Continued improvement in estate quality

The ETI pub estate now comprises 6,820 pubs valued at £5 billion, an average value of £732,000 per pub. We own the freehold of 96% by number and 99% by value of the pub estate and total annualised leasehold rent payable amounts to £11 million, including the impact of the recent sale and leaseback programme.

The quality of our pub estate is critical to the success of our business, attracting the most discerning and professional licensees and giving them the best opportunity to develop a profitable business. Whilst our acquisition programme remains on hold, we continue to invest in the estate, having spent £55 million in 2010, working alongside our licensees to improve facilities and long term potential in more than 1,600 pubs.

A positive result of the weakness in the lease assignment market has been that new licensees are paying substantially less by way of lease premiums to outgoing licensees and therefore have more funds to invest in the future of the pub that they have acquired, again adding impetus to the continuing improvements in the quality of our pubs.

Pub values conservative and stabilising

Every year, we carry out an independent valuation of our pub estate, analysing not only the current performance of every pub but also its future potential. This review confirmed the generally held view across the industry that the value of top quality pubs remains strong whilst continuing to be weak for pubs in poorer locations and with less potential. This view is further supported by the demonstrably stable income that we have earned from the vast majority of our estate, with some 5,000 pubs where licensees have been in occupation for more than one year delivering unchanged like-for-like net income in the past year.

As a result of this review, we have written down the value of the estate by £103 million to £5 billion, the reduction in value including those pubs which we expect to sell or where we consider that changing circumstances and future income potential did not support the previous valuation.

Profitable disposal of non-core pubs

We disposed of 579 non-core pubs during the year, generating proceeds of £166 million and a profit of £21 million, net of all disposal costs. During the year to 30 September 2009 the EBITDA generated by these pubs was £12 million. We expect our programme for disposing of non-core pubs to continue at a similar level during the coming year.

Successful sale and leaseback programme

Whilst not strictly disposals, given that we retain operating control and an earnings stream from these pubs, we have taken advantage of a robust property investment market in central London, selling a small number of high value pubs at auction with a 35 year lease back. These auctions have proved very successful and during the year we sold 71 pubs, generating proceeds of £114 million, at an average rental yield of 6.4%. We expect to offer a similar level of pubs under our sale and leaseback programme in the coming year.

SECURE FINANCING STRUCTURE AND ROBUST CASH FLOW

ETI has a secure, flexible and tax efficient financing structure comprising securitised bonds, corporate bonds and bank debt. At 30 September 2010, net debt was £3,305 million compared to £3,679 million at the beginning of the financial year.

Securitised and corporate bonds remain manageable, cost-effective and tax efficient

The £1,501 million of securitised bonds amortise over 21 years and currently attract a fixed rate of interest of 6.4%. The Group is £75 million ahead of the amortisation schedule and we expect to continue to make repayments of the floating rate notes in advance until they are repaid in full by 2012. The repayment of fixed rate notes commences in September 2013, at which time we expect dividend payments from the Unique subsidiary to cease as profits within Unique will be used to repay these notes.

The £1,185 million corporate bonds are non-amortising, are secured against ring-fenced portfolios of freehold pubs 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. Whilst we will repay the £60 million 2014 bond from cash flow, we would expect to refinance the £600 million 2018 bond on maturity, bearing in mind that it will always be secured on a portfolio of pubs with an up-to-date valuation of £1 billion and interest cover of two times.

Our securitised bonds and corporate bonds trade at a relatively small discount to par and we monitor the market to identify opportunities to repurchase them as appropriate. Overall, however, we consider that together they represent a secure, manageable, cost effective and tax efficient part of our corporate financing structure which we would expect to retain for the long term good of the business.

Successful refinancing of bank facility

We have reduced our bank debt by £216 million to £686 million during the past financial year, well on track to meet the requirements of our £625 million Forward Start Facility, which is fully committed and will commence in May 2011 when our existing facility matures. The new facility comprises a tranche of £206 million which expires in December 2012 and a tranche of £419 million which expires in December 2013. The overall facility will amortise at an amount of £25 million every six months commencing in December 2011. In May 2010 we cancelled our £275 million 6.66% interest rate swap and in September 2010 we cancelled our £350 million 4.89% interest rate swap.

A STRONG AND SUSTAINABLE BUSINESS MODEL

Tie aligns interests of landlord and tenants

The tied pub model provides a low cost of entry opportunity for entrepreneurial licensees to own and operate a pub business, supported by the expertise and resources of a brewer or pub company which owns the freehold of the pub. Tied tenants benefit from substantially lower fixed rental costs as a proportion of their total operating costs than is the case for free-of-tie tenants, and substantially lower capital risk than an individual freeholder. The objectives of the tenant and the landlord, both of whom want the pub to be successful, are demonstrably aligned by the shared interest in variable beer margin which reflects the performance of the pub.

The tied lease and tenancy business model has been approved time and again by the UK and European competition authorities. In its most recent ruling in October 2010 the OFT went further than in previous reviews and stated that it did not find evidence that the existence of the tie disadvantaged tied tenants compared to those who are free of tie.

The OFT report was the culmination of over eighteen months of regulatory scrutiny of the industry that began with a report on pub companies by the Business and Enterprise Committee (BEC now renamed BISC) in May 2009 and included a super complaint from the Campaign for Real Ale (CAMRA) and calls from various other campaign groups for an investigation into the operation of the tie.

The tie offers substantial benefits to licensees that fully free-of-tie businesses do not enjoy

The debate about the tie has created a confused picture about the relationship between pub companies and their licensees and the impact of the tie on the profitability of both parties. In reality, what matters is the total cost to the licensee of renting a particular pub business, having evaluated the benefits offered by the pub company or brewer. The vast majority of our licensees recognise the quality of our pub estate, understand and welcome the concept of fixed and variable rental costs and appreciate the many services and benefits that we offer.

In the ETI estate, some 18% of licensees are already free of tie for cider and 68% are not tied for wines, spirits and minerals. There are no ties whatsoever for the supply of food or any other services, although ETI has always been able to offer to licensees opportunities to purchase certain goods and services at excellent prices. We estimate that our most recent cost reduction initiative, working with the Carbon Trust, has the potential to reduce licensees' utility bills by as much as 30%.

In other areas such as business services and training, the ETI team continue to excel. Our Winning in Local Markets training programme, now attended free-of-charge by almost 1,000 licensees, won the Supreme Champion award at this year's National Industry Training Awards ceremony. Our Health and Safety package offers a total package of equipment testing and certification, together with advice and training at a very attractive price, such that this package, which is mandatory for all new agreements, has now been adopted by almost half our licensees.

ETI's new agreements provide additional flexibility to attract and retain the best licensees

In the past two years, we have worked with our licensee groups to develop new agreements offering greater flexibility for licensees, addressing issues such as standard and incentive discounts and free-of-tie options.

As a result of this evolution we have launched a new suite of agreements, both leases and tenancies, which seek to make ETI agreements the most attractive and competitive in the industry. Responding to those who feel that rent reviews can sometimes disadvantage the over-performer, we have introduced the option of 10 and 20 year index-linked agreements with no rent reviews. For those who seek greater freedom from the tie, we have continued the tie release options in respect of wines, spirits and minerals and extended these to cover all bottled beers, ciders and FABs. For most pubs, a tie release option will be available in respect of gaming machines and we are offering a free-of-tie guest ale option in respect of locally sourced cask ale supplied by brewer members of SIBA.

These options are now available in respect of all new agreements and, in addition, all existing ETI agreement holders will have the opportunity, at a date no later than their next rent review, to negotiate terms for a completely new agreement to incorporate their choice of these new flexible options.

New Code of Practice exceeds all minimum standards

Fifteen years ago, ETI was one of the first pub companies to publish a Code of Practice which sought to set out in clear terms the basis of the commercial relationship between the company and its licensees. This Code of Practice has been regularly updated and enhanced and this year, in line with commitments made to the Secretary of State for Business, Innovation and Skills, we have issued a completely new Code of Practice. This

Code exceeds all the conditions of the Industry Framework Code and was fully accredited in June 2010 by the British Institute of Innkeeping Benchmarking and Accreditation Service.

Pubs remain at the heart of the community

For the vast majority of pub goers in the UK, the pub remains at the heart of the 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 life and culture must be protected and nurtured and we welcome the appointment of Bob Neill MP as Minister for Community Pubs and look forward to working with him to ensure that this vital part of our heritage and local economy goes from strength to strength.

OUTLOOK

The economic environment, especially with regards to consumer confidence and spending, remains uncertain and increases in VAT and beer duty will continue to put additional pressure on beer volumes. However, the past year has demonstrated the resilience of the best pub operators in the industry and we believe that the profile of our estate, combined with the professionalism and flair of our licensees leaves us well placed to face whatever challenges the year ahead may bring.

As we seek to build upon the improvements of the past year, we remain confident that in the medium term the business will be in a good position to deliver positive returns to shareholders.

BOARD COMPOSITION

David George, Chief Financial Officer, has decided to retire after nearly 20 years in the role and will step down as a Director at the conclusion of the company's Annual General Meeting on 20th January 2011. David has played a key role and has been central to the growth of Enterprise Inns since he joined the company at its formation in 1991. As a result of the successful refinancing of our bank facilities in May, we have secured our medium-term financing requirements and it is now an opportune time for a successor to be appointed. The Board would like to thank him for his outstanding contribution and wish him all the best for the future.

Neil Smith, age 45, will succeed David as Chief Financial Officer and, to ensure an orderly transition, will join the company on 3rd January 2011 as Chief Financial Officer Designate and will be appointed to the Board on 20th January 2011. Neil, a qualified chartered accountant, is currently Finance Director of Compass Group UK & Ireland, which he joined in 2007. Prior to this he held senior finance positions with NTL Inc, Telewest Global Inc and Somerfield plc.

We are delighted that Neil has agreed to join Enterprise and very much look forward to working with him and to welcoming him to our Board. We are pleased to have been able to attract an individual of Neil's calibre and his many years of finance experience within consumer facing businesses will prove invaluable to the company.

In addition, Jo Stewart will be retiring from the Board at the conclusion of the Annual General Meeting having served as an independent Non-Executive Director since May 2001 and for most of that time either as Chairman of the Remuneration Committee or as Senior Independent Director. He has made a most valuable contribution to our development and we thank him most warmly for all that he has done for the company over the past nine years.

We intend to issue an Interim Management Statement on 20th January 2011.

G E Tuppen CBE
16th November 2010

Group Income Statement
for the year ended 30 September 2010

	Notes	2010 Pre-exceptional items £m	2010 Exceptional items £m	2010 Total £m	2009 Pre-exceptional items £m	2009 Exceptional items £m	2009 Total £m
Revenue		**753**	**5**	**758**	811	7	818
Cost of sales		**(311)**	**(3)**	**(314)**	(325)	(4)	(329)
Gross profit		**442**	**2**	**444**	486	3	489
Administrative expenses		**(37)**	**(7)**	**(44)**	(36)	(8)	(44)
EBITDA +		**405**	**(5)**	**400**	450	(5)	445
Depreciation and amortisation		**(13)**	**-**	**(13)**	(12)	-	(12)
Operating profit		**392**	**(5)**	**387**	438	(5)	433
Profit on sale of property, plant and equipment	4	**-**	**52**	**52**	-	1	1
Goodwill allocated to disposals	5	**-**	**(17)**	**(17)**	-	(8)	(8)
Net profit/(loss) on sale of property, plant and equipment		**-**	**35**	**35**	-	(7)	(7)
Movements in the valuation of the pub estate and related assets	6	**-**	**(225)**	**(225)**	-	(151)	(151)
Interest receivable		**1**	**-**	**1**	3	-	3
Interest payable		**(218)**	**-**	**(218)**	(233)	-	(233)
Movement in financial instruments	7	-	**(11)**	**(11)**	-	(34)	(34)
Total finance costs		**(218)**	**(11)**	**(229)**	(233)	(34)	(267)
Profit before tax		**175**	**(206)**	**(31)**	208	(197)	11
Taxation	8,9	**(46)**	**103**	**57**	(55)	50	(5)
Profit after tax attributable to members of the parent company		**129**	**(103)**	**26**	153	(147)	6
Earnings per Share							
Basic	10			**5.2p**			1.2p
Basic Diluted	10			**5.2p**			1.2p
Adjusted *	10	**25.9p**			30.7p		
Adjusted diluted *	10	**25.8p**			30.6p		

+ Earnings before interest, tax, depreciation and amortisation
* Excludes exceptional items

Group Statement of Comprehensive Income
for the year ended 30 September 2010

	2010 **£m**	2009 £m
Profit for the year	**26**	6
Other comprehensive income:		
Unrealised surplus/(deficit) on revaluation of pub estate	**38**	(278)
Movement in deferred tax liability related to revaluation of pub estate	**(41)**	80
Write down of non-current assets held for sale	**(22)**	(14)
Movement on cash flow hedge	**21**	(22)
Deferred tax relating to movement on cash flow hedge	**(7)**	6
Restatement of deferred tax for change in UK tax rate	**15**	-
Other comprehensive income for the year net of tax	**4**	(228)
Total comprehensive income for the year attributable to members of the Parent Company	**30**	(222)

Group Balance Sheet
at 30 September 2010

	Notes	2010 £m	2009 £m
Non-current assets			
Goodwill		**392**	409
Intangible assets: operating lease premiums		**13**	15
Property, plant and equipment	11	**4,972**	5,336
		5,377	5,760
Current assets			
Assets held for sale		**4**	6
Trade and other receivables		**67**	69
Cash		**108**	101
		179	176
Non-current assets held for sale	12	**30**	43
Total assets		**5,586**	5,979
Current liabilities			
Trade and other payables		**(205)**	(198)
Current tax payable		**(14)**	(29)
Provisions		**(6)**	-
Financial liabilities		**(67)**	(141)
		(292)	(368)
Non-current liabilities			
Financial liabilities		**(3,346)**	(3,639)
Accruals and deferred income		**(2)**	(3)
Provisions		**(2)**	(2)
Deferred tax		**(537)**	(591)
Pension scheme		**-**	(1)
		(3,887)	(4,236)
Total liabilities		**(4,179)**	(4,604)
Net Assets		**1,407**	1,375
Equity			
Called up share capital		**14**	14
Share premium account		**486**	486
Revaluation reserve		**922**	960
Capital redemption reserve		**11**	11
Merger reserve		**77**	77
Treasury share reserve		**(227)**	(227)
Other reserve		**(23)**	(26)
Cash flow hedge reserve		**(3)**	(16)
Profit and loss account		**150**	96
Enterprise Inns shareholders' equity		**1,407**	1,375

Group Statement of Changes in Equity

	Share Capital £m	Share Premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Merger reserve £m	Treasury share reserve £m	Other reserve £m	Cash flow hedge reserve £m	Profit and loss account £m	Total £m
At 1 October 2008	14	486	1,178	11	77	(227)	(28)	-	137	1,648
Profit for the year	-	-	-	-	-	-	-	-	6	6
Other comprehensive income	-	-	(212)	-	-	-	-	(16)	-	(228)
Total comprehensive income	-	-	(212)	-	-	-	-	(16)	6	(222)
Transfer of realised revaluation surplus	-	-	(6)	-	-	-	-	-	6	-
Equity dividends paid	-	-	-	-	-	-	-	-	(52)	(52)
Directors' share option entitlements exercised in the period	-	-	-	-	-	-	2	-	(2)	-
Tax related to share schemes recognised directly in equity*	-	-	-	-	-	-	-	-	1	1
At 30 September 2009	14	486	960	11	77	(227)	(26)	(16)	96	1,375
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**26**	**26**
Other comprehensive income	**-**	**-**	**(10)**	**-**	**-**	**-**	**-**	**14**	**-**	**4**
Total comprehensive income	**-**	**-**	**(10)**	**-**	**-**	**-**	**-**	**14**	**26**	**30**
Transfer of realised revaluation surplus	**-**	**-**	**(28)**	**-**	**-**	**-**	**-**	**-**	**28**	**-**
Reclassification of movement in financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**1**	**-**
Directors' share option entitlements exercised in the period	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**-**	**(3)**	**-**
Share based expense recognised in operating profit	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**2**
At 30 September 2010	**14**	**486**	**922**	**11**	**77**	**(227)**	**(23)**	**(3)**	**150**	**1,407**

*Tax related to share schemes recognised directly in equity has been moved from the Statement of Comprehensive Income to the Statement of Changes in Equity due to a change in IAS 1 'Presentation of Financial Statements'.

Group Cash Flow Statement
for the year ended 30 September 2010

	2010 **£m**	2009 £m
Cash flow from operating activities		
Operating profit	**387**	433
Depreciation and amortisation	**13**	12
Share-based expense recognised in profit	**2**	-
(Increase)/decrease in receivables and other	**(1)**	8
Increase/(decrease) in payables	**2**	(12)
Increase/(decrease) in provisions	**6**	(1)
Decrease in current assets held for sale	**1**	-
	410	440
Tax paid	**(43)**	(59)
Net cash flows from operating activities	**367**	381
Cash flows from investing activities		
Payments to acquire public houses	**-**	(4)
Payments made on improvements to public houses	**(54)**	(52)
Payments to acquire other property, plant and equipment	**(1)**	(2)
Receipts from sale of property, plant and equipment	**270**	103
Net cash flows from investing activities	**215**	45
Cash flows from financing activities		
Interest paid	**(220)**	(235)
Interest received	**1**	3
Issue costs of long-term loans	**(12)**	-
Equity dividends paid	**-**	(52)
Cancellation of interest rate swaps	**(53)**	-
Debt due in less than one year		
– new short term loans	**-**	107
– repayment of short term loans	**(100)**	(38)
Debt due beyond one year		
– new long term loans	**367**	581
– repayment of long term loans	**(558)**	(789)
Net cash flows from financing activities	**(575)**	(423)
Net increase in cash	**7**	3
Cash at start of year	**101**	98
Cash at end of year	**108**	101

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 2009 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 15 November 2010.

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 2010.

During the year the Group has adopted IAS 1 (revised) 'Presentation of Financial Statements'. This has resulted in a number of presentational changes. There has been no impact on the Group's reported profit or net assets.

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 are explained further in notes 3 to 8 below:

3. Exceptional items recognised in operating profit

	2010	2009
	£m	£m
Impact of operating Temporary Management Agreements (TMA):		
Revenue	**5**	7
Cost of sales	**(3)**	(4)
Administrative costs	**(4)**	(8)
Net cost of operating TMAs	**(2)**	(5)
Reorganisation and regulatory costs	**(3)**	-
	(5)	(5)

The exceptional revenue, cost of sales and administrative costs relating to the operation of TMAs have been presented as exceptional 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 year to 30 September 2009, allowing the Group to take control of pubs where the operator has failed and move them quickly through a refurbishment and re-launch programme. Management companies were paid a fee to run the pub and the Group underwrote losses incurred at pub level and benefited from profits at pub level.

The TMA programme has now largely served its purpose and therefore no further costs are expected to be incurred.

An exceptional charge of £3 million has been incurred relating to reorganisational costs and costs incurred in respect of regulatory matters.

4. Profit on sale of property, plant and equipment

	2010 £m	2009 £m
Normal disposals		
Profits on sale of property, plant and equipment	**30**	17
Losses on sale of property, plant and equipment	**(9)**	(16)
	21	1
Sale and leaseback disposals		
Profits on sale of property, plant and equipment	**31**	-
Total net profit on sale of property, plant and equipment	**52**	1

During the year 579 pubs (2009: 368 pubs) and various other plots of land with a book value of £137 million (2009: £105 million) were sold generating gross proceeds of £166 million (2009: £113 million) which, after taking account of disposal costs of £8 million (2009: £7 million), resulted in an overall profit of £21 million (2009: £1 million).

In addition to the above, 71 pubs were sold as part of the Group's sale and leaseback programme. These pubs generated gross proceeds of £114 million and resulted in a profit over book value, after fees, of £31 million. These pubs were immediately leased back by the Group and are now classified as pubs held under operating leases.

5. Goodwill allocated to disposals

In accordance with IAS 36 'Impairment of Assets' purchased goodwill has been allocated to pubs disposed of, based on the relative value of the disposal to pubs retained. Accordingly goodwill of £17 million (2009: £8 million) has been allocated to the 650 pubs disposed of during the year (2009: 368 pub disposals).

6. Movements in valuation of the pub estate

	2010 £m	2009 £m
Movements from revaluation of pub estate (see note 11)	**(141)**	(122)
Write down to fair value less costs to sell of:		
- Operating lease premiums	**(1)**	(2)
- Property, plant and equipment (see note 11)	**(83)**	(23)
- Non-current assets held for sale	**-**	(1)
Costs associated with non-current assets held for sale	**-**	(3)
	(225)	(151)

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 £103 million. Of this write-down, a surplus of £38 million has been credited to the revaluation reserve and £141 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 129 pubs (2009: 175 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.

7. 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.

On 27 May 2010, the £275 million swap expiring 1 June 2012 was cancelled. The Group paid £30 million to eliminate the fair value of the swap at the date of cancellation. This swap was not designated as an effective hedge.

On 30 September 2010, the £350 million swap expiring 30 September 2011 was cancelled. The Group paid £14 million to eliminate the fair value of the swap at the date of cancellation. The swap, which was designated as an effective hedge, was deemed ineffective due to the intention to cancel debt as part of the debt reduction programme. This resulted in a reclassification from the cash flow hedge reserve to the Income Statement of £19 million.

The movement in financial instruments comprises the following:

	2010	2009
	£m	£m
Movement in fair value of interest rate swaps	**8**	(34)
Reclassification from hedge reserve	**(19)**	-
	(11)	(34)

At 30 September 2010 the Group had three interest rate swaps which each expire between 2012 and 2013.

8. Exceptional 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 which led to an increase in goodwill in respect of this deferred tax of £330 million. As this pre-acquisition liability changes due to capital gains indexation relief and disposals, the movement is recognised in the Income Statement. This exceptional tax charge/credit is calculated based on the movement in the Retail Price Index (RPI). In the year to 30 September 2009 RPI decreased which resulted in a charge to the Income Statement, however in the year to 30 September 2010 RPI increased which has resulted in a credit to the Income Statement.

This credit of £28 million has been classified as an exceptional 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. A deferred tax credit of £63 million relating to the revaluation of the pub estate recognised in the Income Statement also reduces the deferred tax liability relating to the pub estate. All other movements in respect of this deferred tax liability are accounted for in equity and recognised in the Statement of Comprehensive Income.

A further one off credit has been recognised to reflect the changes in deferred tax balances arising from a reduction in corporate tax rates in the United Kingdom which have been substantively enacted at the Balance Sheet date. This is split between the Income Statement and the Statement of Comprehensive Income, the credit of £6 million to the Income Statement has been classified as an exceptional item.

An exceptional tax credit of £6 million has been recognised in relation to all other exceptional items in the Income Statement. The total exceptional tax credit is therefore £103 million.

9. Taxation

The pre-exceptional tax charge of £46 million (2009: £55 million) for the year equates to an effective tax rate of 26.3% (2009: 26.4%). The effective tax rate does not include the effect of exceptional items.

10. Earnings per Ordinary Share

The calculation of basic earnings per ordinary share is based on the profit of £26 million (2009: profit of £6 million) and on 498.6 million (2009: 497.8 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 profits adjusted for the effects of exceptional items, net of tax, of £129 million (2009: £153 million) and on 498.6 million (2009: 497.8 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 £26 million (2009: profit of £6 million) and adjusted profit of £129 million (2009: £153 million) and on 500.5 million (2009: 499.3 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.

11. Property, plant and equipment

	Licensed land and buildings	Landlords' fixtures and fittings	Other assets	Total
	£m	£m	£m	£m
Cost or valuation				
At 1 October 2009	5,119	219	35	5,373
Additions	28	32	1	61
Revaluation:				
- Recognised in the Statement of Comprehensive Income	38	-	-	38
- Recognised in the Income Statement	(141)	-	-	(141)
Write down to fair value less costs to sell:				
- Recognised in the Statement of Comprehensive Income	(22)	-	-	(22)
- Recognised in the Income Statement	(83)	-	-	(83)
Net transfers to non-current assets held for sale	(186)	(18)	-	(204)
Disposals	-	(3)	-	(3)
At 30 September 2010	**4,753**	**230**	**36**	**5,019**
Depreciation				
At 1 October 2009	9	19	9	37
Charge for the period	3	6	3	12
Net transfers to non-current assets held for sale	(1)	(1)	-	(2)
At 30 September 2010	**11**	**24**	**12**	**47**
Net book value				
At 30 September 2010	**4,742**	**206**	**24**	**4,972**
At 30 September 2009	5,110	200	26	5,336

12. Non-current assets held for sale

	2010	2009
	£m	£m
At 1 October	**43**	11
Net transfer from property, plant and equipment	**202**	137
Net transfer from intangible assets: operating lease premiums	**-**	1
Write-down to fair value less costs to sell	**(3)**	(1)
Disposals	**(212)**	(105)
At 30 September	**30**	43
Representing:		
Property, plant and equipment	**30**	42
Intangible assets: operating lease premiums	**-**	1
	30	43

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 129 pubs (2009: 175 pubs) which are expected to be sold within the next year.

13. Additional cash flow information

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

	2010 £m	2009 £m
Increase in cash in the year	**7**	3
Cash outflow from change in debt	**291**	139
Issue costs of new long term loans	**12**	-
Change in net debt resulting from cash flows	**310**	142
Amortisation of issue costs and discounts/premiums on long-term loans	**(4)**	(2)
Amortisation of securitised bonds	**5**	4
Change in fair value of interest rate swaps	**63**	(56)
Movement in net debt in the year	**374**	88
Net debt at start of year	**(3,679)**	(3,767)
Net debt at end of year	**(3,305)**	(3,679)

b) Analysis of net debt

	2010 £m	2009 £m
Corporate bonds	**(1,185)**	(1,185)
Bank borrowings	**(686)**	(902)
Securitised bonds	**(1,501)**	(1,576)
Gross debt	**(3,372)**	(3,663)
Cash	**108**	101
Underlying net debt	**(3,264)**	(3,562)
Capitalised debt issue costs	**24**	15
Fair value adjustments on acquisition of bonds	**(49)**	(53)
Fair value of interest rate swaps	**(12)**	(75)
Finance lease payables	**(4)**	(4)
Net debt	**(3,305)**	(3,679)
Balance sheet:		
Current financial liabilities	**(67)**	(141)
Non-current financial liabilities	**(3,346)**	(3,639)
Cash	**108**	101
Net debt	**(3,305)**	(3,679)

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