Enterprise Inns plc

Preliminary announcement for the financial year ended 30 September 2011

22 November 2011

Enterprise Inns plc (ETI), the leading specialist operator of leased and tenanted pubs in the UK, today announces its results for the year ended 30 September 2011.

Highlights

- EBITDA* before exceptional items £366m (2010: £405m)
- Average net income per pub up by 1% to £64.2k for full year (2010: £63.6k)
- 90% of estate let on substantive agreements (2010: 89%)
- Like-for-like net income in substantive estate down 1.7% (2010: 2.3% down)
- Annual revaluation of pub estate reduces book value by £173m: 4% (2010: £103m: 2%)
- £238m proceeds from disposals and our sale and leaseback programme
- Strong cash generation has reduced net debt by £302m to £3,003m

Statutory results

- Profit before tax and exceptional items £157m (2010: £175m)
- Profit after tax £24m (2010: £26m)
- Adjusted earnings per share# 23.4p (2010: 25.9p)

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

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

"At the start of the year we set ourselves the task of stabilising the operational performance of the business whilst continuing to reduce our exposure to the banking market. We have made good progress on both fronts. The performance of our substantive estate, which makes up 90% of our estate by number, 95% by income, has continued to improve and we have reduced net debt by £302 million.

Strong cash flows from disposals and operating activities have helped to significantly reduce bank borrowings during the year and we will continue to reduce our exposure to the volatility of the banking market by bringing forward a review of our existing banking facilities to secure appropriate bank funding for the future. In addition, we are reviewing how we can ensure that the income potential from every outlet is maximised including identification of additional opportunities to realise proceeds in excess of book value through disposal or alternative use, where appropriate.

Whilst trading conditions are likely to remain challenging, we expect that the quality of our pub estate and the resilience of our publicans will ensure that the like-for-like performance in the substantive estate continues to improve. As we return the business towards growth, we remain committed to our initiatives and our strategy and confident that in the medium term we will be in a good position to deliver positive returns to 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 10.30am. Alternatively, a live conference call of the presentation can be accessed at 10.30am GMT by dialling +44 (0)20 3140 0723 or +1 7187 057 514 (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: 380473#.

CHIEF EXECUTIVE'S REVIEW

The changed economic and consumer background of the past three years has seen ETI focus attention on two key objectives: firstly, to improve the quality of the pub estate through investment and the disposal of underperforming outlets, with the objective of returning the pub estate to delivering like-for-like growth in average income per pub; at the same time to reduce the level of bank borrowings and address the perceived refinancing risks which are causing concern amongst investors.

We have made progress and this year have delivered EBITDA before exceptional items of £366 million, a good result in line with expectations. During the second half of the year, average net income per pub returned to growth with a 2% increase, giving an overall increase of 1% for the year to 30 September 2011, compared to a decline of 2% in 2010 and 8% in 2009. The performance of our substantive estate, representing 95% of our total income, is on an improving trend towards growth in the near term. The requirement for financial support for our publicans is reducing and we are particularly pleased that we are achieving like-for-like income growth from those publicans who have been with us for more than a year, who now represent some 83% of total income.

We have a manageable and tax efficient capital structure comprising predominantly long term debt, consistent with the long term nature of our freehold assets. We remain one year ahead of the amortisation profile of our securitised bonds and, despite substantial investment in our retained estate, have reduced our bank debt by 50% from £891 million to £446 million over the past two years. Having already cancelled £80 million of tranche B of our existing bank facility, we still have headroom of over £80 million. There remain restrictions on the payment of dividends whilst tranche B of our bank facility is in place, for which reason we will repay this element of bank borrowings as soon as practicable.

With the business moving towards stability and bank borrowings reducing, we are now in a position to develop further the value enhancing strategic options that we have been working on over the past year. These options relate to three key areas of the business: pub operations, property and capital structure.

On the operational front, we have seen a transformation in the range of agreements that we are able to offer to prospective publicans, covering every opportunity from traditional tied tenancies to free of tie commercial leases. At the same time, we have launched and seen a strong performance from our new "Beacon" concept pubs, of which we have already opened 90 and expect to roll out a further 300 during the coming year. This concept involves a much higher level of proactive engagement between the ETI team and the publican, covering areas such as product selection, pricing, retail standards, management information and marketing and has helped to develop our thinking beyond the traditional leased and tenanted proposition. In addition to the roll out of further Beacon concepts, we are now in a position to consider franchise-style agreements and to develop other concepts where our focus would be on the many opportunities to further develop the food offering across our pub estate.

With regard to our property portfolio, we have written down the value of our pub estate by some 4%, predominantly reflecting reduced demand at the lower end of our estate, where a serious shortage of bank funding is making it difficult for publicans to purchase a pub of their own. In the light of changing market conditions, we are carrying out, with independent advice, a review of all properties in our portfolio to ensure that income potential is maximised from every outlet, either as a pub or, where appropriate through change of use or disposal at prices ahead of current book value. The outcome of this review may identify additional opportunities to realise cash ahead of book value such that total disposal proceeds for the coming year may exceed £150 million.

In respect of our capital structure, the banking crisis of 2008 radically changed the risk appetite of banks operating in the UK, a situation that has worsened over time as a result of the continuing economic downturn and the sovereign debt crisis. Debt is now perceived as higher risk than previously, with the corresponding impact on the equity value of businesses considered to have high debt levels. Our securitised and corporate bonds remain cost effective and manageable and we have substantial headroom against our current bank facilities. However, we face volatile times in the capital markets which bring both opportunities and risks and, whilst continuing to reduce our exposure to the banking market, we are at the same time bringing forward a review of our existing debt structure to ensure that the appropriate level of funding is available beyond the current bank facility term of December 2013.

TRADING REVIEW

Improving average net income per pub trends

During the second half of the year there has been good progress, with average net income per pub increasing by 2%, compared to no movement in the first half of this year and in the corresponding period last year. This has been achieved through an improving trend in net income combined with reductions in pub numbers as we have disposed of underperforming pubs.

Like-for-like performance stabilising in the substantive estate

On a like-for-like basis we have seen total income across the whole estate decline by 4% during the year compared to a decline of 5% last year. However, in our substantive estate, like-for-like income, representing 90% of the estate by number and 95% of our total net income in the year, fell by less than 2%, a trend that has been improving steadily throughout the year and which we expect to see return to growth during the coming year. We continue to experience significant regional variations, with more difficult trading conditions persisting in the North. It is however encouraging that 3,952 pubs in the Central and Southern section of our estate, representing more than two thirds of income, continued to show improving growth trends and were broadly flat during the year.

Location	No. of pubs at 30 Sep 2011	Income FY11 £m	% of total income FY11	Income FY10 £m	Income change %
North	1,737	118	28	124	(5)
Central	1,520	102	24	103	(1)
South	2,432	181	43	181	-
Total substantives	5,689	401	95	408	(2)
Non substantives	600	20	5	32	(38)
Total	**6,289**	**421**	**100**	**440**	**(4)**

As we seek to build further stability in our pub estate, we are further encouraged by the fact that where publicans have been in their pubs for more than a year, representing 75% of our pub estate by number and 83% by total income, we have seen our income grow on a like-for-like basis.

Years in occupation	No. of pubs at 30 Sept 2011	Income FY11 £m	% of total income FY11	Income FY10 £m	Income change %
Over 5 years	2,443	192	46	194	(1)
1-5 years	2,270	157	37	152	3
Total over 1 year	**4,713**	**349**	**83**	**346**	**1**
< 1 year	976	52	12	62	(16)
Total substantives	5,689	401	95	408	(2)
Non substantives	600	20	5	32	(38)
Total	**6,289**	**421**	**100**	**440**	**(4)**

Of a further 976 publicans on substantive agreements who have been in their pubs for less than one year and who are still settling into their businesses, almost 60% are enjoying introductory stepped rents and other concessions as they seek to build their new businesses. Whilst overall like-for-like annual decline for the whole group reflects the relatively short time that some have been in their pubs, we are pleased that a third are already in growth.

Of the balance of 600 pubs, some 80% are either closed or operating under temporary agreements pending investment and/or the recruitment of a more permanent publican, with the remainder likely to be sold during the coming year.

A ROBUST BUSINESS MODEL DRIVING MUTUAL SUCCESS

The need for financial support is declining as trading performance stabilises

The shared benefits of the ETI tied pub model in aligning the interests of landlord and tenant have never been clearer than during the current period of sustained economic challenge. With some 16% (3,444) of free trade pubs across the UK closing between January 2009 and June 2011, compared to 8% (2,239) of tenanted and leased pubs, there is clear evidence that the tied pub model is helping pubs and publicans to survive.

We have continued to intervene, where appropriate, to provide financial support to protect good publicans who are struggling, despite their best efforts, to tackle the multiple challenges of declining consumer confidence, increased overhead costs, the burden of punitive increases in taxation and the high cost of regulation, and have provided direct financial assistance of £15 million during the year. Having peaked during the first half of the financial year, following a period of severely weather-disrupted pre-Christmas trading and the January VAT increases, it is reassuring to note that the cost of such support has reduced during the second half to a current annualised run-rate of approximately £8 million.

Further reassuring signs of stabilisation of trading come from the underlying cost of bad debt in the year which has reduced to £1.5 million (2010: £2.1 million), with the level of overdue balances also down to £5.0 million (2010: £6.1 million), representing only 0.7% of turnover.

Agreements are evolving to meet the changing demands of the market

The ETI approach to the tie has continued to evolve, and free-of-tie options for bottled beers, ciders and flavoured alcoholic beverages ("FABs"), wines, spirits and minerals, gaming machines and guest ales have been available in every new agreement or renewal since October 2010. Where circumstances have been compelling, we have been able to agree completely free-of-tie terms. This suite of available options ensures that all publicans' needs can be met, whether at the time of a new agreement, or in order to sustain and evolve an existing relationship.

We have concluded a successful trial involving 90 pubs run as managed tenancies under Project Beacon. Whilst similar to a traditional pub tenancy, we apply stricter management control over Beacon pubs, including decisions relating to products available for sale, retail pricing, retail standards and marketing. Our involvement with these pubs focuses on delivering great value to the communities served by the pubs and has resulted in sales volume increases of over 40%, albeit at lower wholesale margins, across the trial population, improving profitability for our publican and ETI alike. We believe this concept will prove successful for many pubs in our estate and are planning, as an initial programme, to convert an additional 300 pubs in the coming year.

Real and measurable benefits are available to assist our publicans

Our regional managers are at the core of the commercial relationship between ETI and our publicans and it is reassuring that successive surveys of publican attitudes continue to demonstrate that more than 80% of respondents believe that the relationship they have with the company is satisfactory or better, and that frequent contact with a regional manager remains an important aspect of their agreement.

Amongst the many support packages available to ETI publicans, our Safety Management Solution has now been taken up by 3,382 publicans. This facility provides professional, qualified audit, advice and remedial actions to enable publicans to address and remain compliant with all aspects of health and safety legislation, at a cost materially less than would be available in the open market. The ETI Buying Group was utilised by 4,149 publicans to access beneficial purchasing terms for dry goods, consumables, utilities and other merchant services, securing savings of over £4 million for publicans during the period. Our training solutions continue to attract extensive support and participation amongst publicans, and 6,020 training days were provided encompassing such areas as social networking and media marketing skills as well as the more traditional business management activities to drive footfall and increase consumer spend-per-head.

Alongside our extensive range of marketing support activity, we continue to provide a market-leading range of drinks brands to meet the requirements of ETI publicans to service the demands of their consumers. In cask ale, which now represents 18% of all beer sales volumes, we now source 1,457 brands from 408 brewers, including 388 members of SIBA, who deliver their products directly to participating pubs, maintaining important local relationships between producer and publican.

We have recently concluded a trial of Brulines iDraught bar management systems in our pubs, providing real benefits to publicans in controlling pouring yields, beer quality and cost management. We expect to make around 500 installations of the iDraught system into our estate in the year ahead, alongside which we are also increasing the provision of EPOS Smart Till systems, where appropriate.

Our market leading Code of Practice exceeds all minimum standards

Underpinning every aspect of the interaction between ETI and our publicans throughout the life of a trading relationship, the ETI Code of Practice (CoP) was extensively revised and relaunched in October 2010 and has now been acknowledged by 97% of all substantive agreement holders. Whilst the clarity and transparency of the workings of the ETI tied pub model are of critical importance in our ability to attract and retain high quality publicans to the ETI estate, our CoP also establishes a significant barrier-to-entry for prospective publicans, by seeking to ensure that only sufficiently qualified individuals who have taken appropriate professional advice can enter into a lease or tenancy agreement with us.

Whilst the recent economic challenges have continued to take their toll on some publicans who have been unable to respond to the demands of the current marketplace, we have continued to enjoy strong demand, with an average of over 50 enquiries per week, from good quality publicans who wish to take up an ETI tied agreement. We will continue to evolve the nature and content of our Code of Practice, our commercial agreements and our extensive range of support packages in order to enable ETI to compete effectively for the best publicans to run our pubs, and for ETI publicans to compete effectively in their local marketplace.

PUB ESTATE

Continued improvement in estate quality

The ETI estate now comprises 6,361 properties valued at £4.6 billion. The property portfolio comprises 6,289 trading pubs and 72 properties which are alternative use outlets or properties permanently closed pending disposal. We own the freehold or quasi-freehold (long term leases on peppercorn rents) of 94% of these pubs with an average value of £753k. The quality of our pub estate is critical to the success of our business, attracting the best publicans and providing a platform for them to invest in the long term profitability of their business. Whilst our acquisition programme remains on hold for the time being, we have continued to invest in the estate, having spent £72 million during the year, working alongside our publicans to improve facilities and long term potential in more than 2,000 pubs.

Successful programme of pub disposals

We disposed of 466 non-core pubs during the year, generating net proceeds of £106 million and continued our successful sale and leaseback programme of 105 pubs for net proceeds of £132 million at an average rental yield of 6.6%. This has been an effective source of financing which has helped to reduce bank borrowings and remains open to us at attractive average rental yields.

We have reported a profit on disposal of £41 million in the year (2010: £52 million) after previously writing down these disposals when they were moved to assets held for resale by £76 million (2010: £70 million), of which £55 million was charged to the income statement in the year (2010: £52 million). We have, in addition, written down the value of pubs moved to assets held for resale but not yet disposed by £23 million (2010: £35 million) of which £18 million (2010: £31 million) was charged to the income statement in the year.

Pub values reviewed annually

Our pub estate is valued every year, analysing not only the current performance of every pub but also its future potential. The valuation is carried out in part by independent valuers and partly by our in-house team, with the end result bench-marked and reviewed for consistency. Once again, the valuation confirmed that whilst the value of top quality pubs remains strong, there is continuing weakness in demand for pubs in poorer locations and with less potential. Across the market, there is a serious lack of bank lending to support those who wish to buy their own pubs, highlighting the importance of the leased and tenanted model in providing opportunities for entrepreneurs who wish to build a pub business of their own.

As a result of this annual review, we have written down the value of the current estate by £173 million, a 4% reduction to £4.6 billion, with £117 million charged to the Income Statement and £56 million reflected in the Revaluation Reserve.

Over the last three years we have recorded reductions in the portfolio of 12% as a result of annual valuations and have disposed of 1,413 pubs from the lower end of our estate, thereby leaving a better quality estate, appropriately valued.

SECURE FINANCING STRUCTURE AND ROBUST CASH FLOW

Despite the economic challenges we have maintained strong cash flows from operating activities, bolstered by proceeds from our sale and leaseback programme and the disposal of under-performing pubs which do not fit the future profile of the ETI business.

Our three-tiered financing structure provides us with a secure, tax efficient and flexible structure, comprising securitised bonds, corporate bonds and bank borrowings. The structure is long-term in nature, has manageable covenants and, in total, has a loan to value ratio of 65%. At 30 September 2011, net debt was £3,003 million compared to £3,305 million at the beginning of the financial year.

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

The £1,436 million of securitised bonds amortise over 20 years and attract an average fixed rate of interest of 6.3% until final maturity. The Group is currently £74 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 30 September 2012. Amortisation of the fixed rate securitised notes is scheduled to commence from September 2013. We are considering mechanisms by which we may be able to avoid excess cash being trapped in the securitisation from that time.

The £1,185 million of corporate bonds are non-amortising, are secured against ring-fenced portfolios of freehold pubs and attract fixed rates of interest averaging approximately 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 bond due in 2014 from cash flow, we would expect to refinance the £600 million bond due in 2018 at or before 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.

Ahead of amortisation schedule for bank borrowings

At 30 September 2011 drawn ETI bank borrowings net of cash were £446 million, a reduction of £232 million during the financial year. Our new £625 million forward start facility replaced the senior debt finance when it matured in May 2011. The new facility comprises tranche A, £419 million which expires in December 2013 and tranche B, £206 million which expires in December 2012. There are certain restrictions on returning cash to shareholders whilst tranche B is in place. To date £80 million of tranche B has been cancelled, providing a total facility at 30 September 2011 of £545 million.

REGULATORY

The final report of the Business, Innovation and Skills Select committee was published on 20 September 2011 and is now in the hands of the Government for a formal response, which is expected before the end of November.

The industry has responded positively to many recommendations in the report but remains convinced that the Select Committee's demand for a statutory code of practice would lead to additional costs and bureaucracy. Generally, however, ETI is comfortable with the recommendations and has indeed led the way in the implementation of many of them over the past seven years since the date of the first Select Committee review in 2004.

OUTLOOK

The new financial year has started well, despite the deepening economic crisis in Europe, weak consumer confidence and increasing unemployment in the UK. We share the sense of uncertainty felt across the industry with the UK facing the risk of recession whilst at the same time the pub industry continues to be burdened with increasing regulatory costs and tax and duty increases.

Nevertheless, our publicans have shown great resilience during the past year and, as we continue to invest in the quality of our estate and offer genuine assistance to our publicans to help them compete in this tough market, we can see that stability and growth are achievable.

The business remains strong and, despite the economic background, we remain committed to our initiatives and strategy and confident that in the medium term we will be in a good position to deliver positive returns to shareholders.

BOARD COMPOSITION

After fifteen years as Chairman of ETI, Hubert Reid has informed the board that he intends to retire. The search for a replacement is now underway and we hope to announce the appointment of a successor at the time of the Annual General Meeting on 9th February 2012.

Hubert has been an excellent Chairman whose leadership of the Board and wise advice has helped to guide the business through a period of rapid growth through acquisition followed by more challenging trading and regulatory times.

We intend to issue an Interim Management Statement on 9th February 2012.

G E Tuppen CBE
22nd November 2011

Group Income Statement
for the year ended 30 September 2011

	Notes	**2011** Pre-exceptional items £m	**2011** Exceptional items £m	**2011** Total £m	2010 Pre-exceptional items £m	2010 Exceptional items £m	2010 Total £m
Revenue		**711**	**-**	**711**	753	5	758
Cost of sales		**(312)**	**-**	**(312)**	(311)	(3)	(314)
Gross profit		**399**	**-**	**399**	442	2	444
Administrative expenses		**(33)**	**(2)**	**(35)**	(37)	(7)	(44)
EBITDA +		**366**	**(2)**	**364**	405	(5)	400
Depreciation and amortisation		**(14)**	**-**	**(14)**	(13)	-	(13)
Operating profit/(loss)		**352**	**(2)**	**350**	392	(5)	387
Profit on sale of property, plant and equipment	4	**-**	**41**	**41**	-	52	52
Goodwill allocated to disposals	5	**-**	**(15)**	**(15)**	-	(17)	(17)
Net profit on sale of property, plant and equipment		**-**	**26**	**26**	-	35	35
Movements in the valuation of the pub estate and related assets	6	**-**	**(191)**	**(191)**	-	(225)	(225)
Interest receivable		**1**	**-**	**1**	1	-	1
Interest payable		**(196)**	**(3)**	**(199)**	(218)	-	(218)
Movement in financial instruments	7	-	**(1)**	**(1)**	-	(11)	(11)
Total finance costs		**(196)**	**(4)**	**(200)**	(218)	(11)	(229)
Profit/(loss) before tax		**157**	**(171)**	**(14)**	175	(206)	(31)
Taxation	8,9	**(40)**	**78**	**38**	(46)	103	57
Profit/(loss)after tax attributable to members of the parent company		**117**	**(93)**	**24**	129	(103)	26
Earnings per Share							
Basic	10			**4.8p**			5.2p
Basic Diluted	10			**4.8p**			5.2p
Adjusted *	10	**23.4p**			25.9p		
Adjusted diluted *	10	**23.4p**			25.8p		

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

Group Statement of Comprehensive Income
for the year ended 30 September 2011

	2011 **£m**	2010 £m
Profit for the year	**24**	26
Other comprehensive income:		
Unrealised (deficit)/surplus on revaluation of pub estate	**(56)**	38
Movement in deferred tax liability related to revaluation of pub estate	**20**	(41)
Write down of non-current assets held for sale	**(26)**	(22)
Actuarial loss on defined benefit pension scheme	**(1)**	-
Movement in cash flow hedge reserve	**3**	21
Deferred tax relating to movements in cash flow hedge reserve	**-**	(7)
Restatement of deferred tax liability related to the revaluation of pub estate for change in UK tax rate	**25**	15
Other comprehensive income for the year net of tax	**(35)**	4
Total comprehensive income for the year attributable to members of the Parent Company	**(11)**	30

Group Balance Sheet
at 30 September 2011

	Notes	2011 £m	2010 £m
Non-current assets			
Goodwill		**377**	392
Intangible assets: operating lease premiums		**12**	13
Property, plant and equipment	11	**4,572**	4,972
		4,961	5,377
Current assets			
Assets held for sale		**5**	4
Trade and other receivables		**64**	67
Cash		**114**	108
		183	179
Non-current assets held for sale	12	**27**	30
Total assets		**5,171**	5,586
Current liabilities			
Trade and other payables		**(205)**	(205)
Current tax payable		**(16)**	(14)
Financial liabilities		**(42)**	(67)
Provisions		**(6)**	(6)
		(269)	(292)
Non-current liabilities			
Financial liabilities		**(3,075)**	(3,346)
Accruals and deferred income		**-**	(2)
Provisions		**(3)**	(2)
Deferred tax		**(426)**	(537)
Pension scheme		**(1)**	-
		(3,505)	(3,887)
Total liabilities		**(3,774)**	(4,179)
Net assets		**1,397**	1,407
Equity			
Called up share capital		**14**	14
Share premium account		**486**	486
Revaluation reserve		**859**	922
Capital redemption reserve		**11**	11
Merger reserve		**77**	77
Treasury share reserve		**(227)**	(227)
Other reserve		**(23)**	(23)
Cash flow hedge reserve		**-**	(3)
Profit and loss account		**200**	150
Enterprise Inns shareholders' equity		**1,397**	1,407

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 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
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**24**	**24**
Other comprehensive income	**-**	**-**	**(37)**	**-**	**-**	**-**	**-**	**3**	**(1)**	**(35)**
Total comprehensive income	**-**	**-**	**(37)**	**-**	**-**	**-**	**-**	**3**	**23**	**(11)**
Transfer of realised revaluation surplus	**-**	**-**	**(26)**	**-**	**-**	**-**	**-**	**-**	**26**	**-**
Share based expense recognised in operating profit	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**
At 30 September 2011	**14**	**486**	**859**	**11**	**77**	**(227)**	**(23)**	**-**	**200**	**1,397**

Group Cash Flow Statement
for the year ended 30 September 2011

	2011 £m	2010 £m
Cash flow from operating activities		
Operating profit	**350**	387
Depreciation and amortisation	**14**	13
Share-based expense recognised in profit	**1**	2
Increase in receivables	**-**	(1)
(Decrease)/increase in payables	**(12)**	2
Increase in provisions	**1**	6
(Decrease)/increase in current assets held for sale	**(1)**	1
	353	410
Tax paid	**(27)**	(43)
Net cash flows from operating activities	**326**	367
Cash flows from investing activities		
Payments made on improvements to public houses	**(71)**	(54)
Payments to acquire other property, plant and equipment	**(1)**	(1)
Receipts from sale of property, plant and equipment	**238**	270
Net cash flows from investing activities	**166**	215
Cash flows from financing activities		
Interest paid	**(192)**	(220)
Interest received	**1**	1
Issue costs of long-term loans	**(2)**	(12)
Cancellation of interest rate swaps	**(6)**	(53)
New loans	**1,134**	367
Repayment of loans	**(1,421)**	(658)
Net cash flows from financing activities	**(486)**	(575)
Net increase in cash	**6**	7
Cash at start of year	**108**	101
Cash at end of year	**114**	108

Notes

1. Status of information

The financial information for the years ended 30 September 2011 and 2010 are based on the statutory accounts for those years. The auditors issued unqualified opinions on the statutory accounts for those years which did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and which did not contain a statement under s498(2) or (3) of the Companies Act 2006. The statutory accounts for the year ended 30 September 2010 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 30 September 2011 have not yet been delivered to the Registrar of Companies. The information contained in this announcement was approved by the Board on 21 November 2011.

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 2011.

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

	2011 £m	2010 £m
Impact of operating Temporary Management Agreements (TMA):		
Revenue	**-**	5
Cost of sales	**-**	(3)
Administrative costs	**-**	(4)
Net cost of operating TMAs	**-**	(2)
Reorganisation and regulatory costs	**(2)**	(3)
	(2)	(5)

The exceptional revenue, cost of sales and administrative costs that related to the operation of TMAs were presented as exceptional based on the fact that the cost was not considered to be part of the normal course of business and was not expected to be incurred for an extended period.

All contractual arrangements under the TMA programme ended on 30 September 2010 and therefore no further exceptional costs have been incurred in the year to 30 September 2011. Any on-going costs and income from pubs that were previously traded within the TMA programme are now included as pre-exceptional items.

An exceptional charge of £2 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

	2011 £m	2010 £m
Normal disposals		
Profits on sale of property, plant and equipment	**23**	30
Losses on sale of property, plant and equipment	**(12)**	(9)
	11	21
Sale and leaseback disposals		
Profits on sale of property, plant and equipment	**30**	31
Total net profit before tax on sale of property, plant and equipment	**41**	52

During the year 466 pubs (2010: 579 pubs) and various other plots of land with a book value of £95 million (2010: £137 million) were sold generating gross proceeds of £117 million (2010: £166 million) which, after taking account of disposal costs of £11 million (2010: £8 million), resulted in an overall profit of £11 million (2010: £21 million).

In addition to the above, 105 pubs with a book value of £102 million (2010: £81 million) were sold as part of the Group's sale and leaseback programme. These pubs generated gross proceeds of £133 million (2010: £114 million) which, after taking account of disposal costs of £1 million (2010: £2 million), resulted in a profit over book value of £30 million (2010: £31 million). These pubs were immediately leased back by the Group and are now classified as 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 £15 million (2010: £17 million) has been allocated to the 571 pubs disposed of during the year (2010: 650 pub disposals).

6. Movements in valuation of the pub estate

	2011 £m	2010 £m
Movements in property, plant and equipment from revaluation of pub estate (see note 11)	**(117)**	(141)
Movements in intangible assets from revaluation of pub estate	**(1)**	(1)
Write down of non-current assets held for sale to fair value less costs to sell (see note 11)	**(73)**	(83)
	(191)	(225)

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 £173 million. Of this write-down, £56 million has been debited to the revaluation reserve and £117 million has been charged to the Income Statement as an exceptional item, reflecting pub values which have fallen below historic cost.

In respect of assets transferred to non-current assets held for sale, a total write-down of £99 million has been recorded. Of this write-down, £26 million has been debited to the revaluation reserve and £73 million has been charged to the Income Statement as an exceptional item. At the year end, there are 95 pubs (2010: 120 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.

At 30 September 2011 the Group has three interest rate swaps which expire between 2012 and 2013. The fair value of these interest rate swaps is a liability of £4 million at 30 September 2011 (2010: £12 million). The movement in the fair value of the interest rate swaps has been accounted for as follows:

	2011	2010
	£m	£m
Opening fair value	**12**	75
Cancellation and restructuring of interest rate swap	**(6)**	(53)
Fair value movements:		
- Income Statement	**(2)**	(8)
- Cash flow hedge reserve	**-**	(2)
	4	12

The movement in financial instruments comprises the following:

	2011	2010
	£m	£m
Movement in fair value of interest rate swaps	**2**	8
Reclassification from hedge reserve	**(3)**	(19)
	(1)	(11)

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 changes in the rate of UK tax, the movement is recognised in the Income Statement. The impact of capital gains indexation relief is calculated based on the movement in the Retail Price Index (RPI).

This credit of £22 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 £37 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 the Statement of Comprehensive Income.

In March 2011, the UK government announced its intention to accelerate the planned phased decrease in the rate of corporation tax with a reduction to 26% on 1 April 2011 and further reducing by 1% per annum until it reaches 23% on 1 April 2014. At 30 September 2011 the change in corporation tax rate to 25% on 1 April 2012 had been substantively enacted and therefore the deferred tax assets and liabilities included within these results have been calculated based on the reduced current UK corporation tax rate of 25%. An exceptional tax credit of £11 million has been recognised in relation to this restatement of deferred tax balances to 25% at 30 September 2011.

An exceptional tax credit of £8 million has been recognised in relation to all other exceptional items in the Income Statement. The total exceptional tax credit is therefore £78 million.

The forecast effect of the proposed reductions in the corporation tax rate by 2014 would be to decrease the net deferred tax liability by £34 million. £10 million is expected to be recognised in the Income Statement and £24 million in equity.

9. Taxation

The pre-exceptional tax charge of £40 million (2010: £46 million) for the year equates to an effective tax rate of 25.5% (2010: 26.3%). 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 £24 million (2010: profit of £26 million) and on 499.0 million (2010: 498.6 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 £117 million (2010: £129 million) and on 499.0 million (2010: 498.6 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 £24 million (2010: profit of £26 million) and adjusted profit of £117 million (2010: £129 million) and on 499.8 million (2010: 500.5 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	Landlord's fixtures and fittings	Other assets	Total
	£m	£m	£m	£m
Cost or valuation				
At 1 October 2010	4,753	230	36	5,019
Additions	38	36	1	75
Revaluation:				
- Recognised in the Statement of Comprehensive Income	(56)	-	-	(56)
- Recognised in the Income Statement	(117)	-	-	(117)
Write down to fair value less costs to sell:				
- Recognised in the Statement of Comprehensive Income	(26)	-	-	(26)
- Recognised in the Income Statement	(73)	-	-	(73)
Net transfers to non-current assets held for sale	(173)	(20)	-	(193)
Net transfers from current assets held for sale	-	3	-	3
Disposals	-	(4)	(1)	(5)
At 30 September 2011	**4,346**	**245**	**36**	**4,627**
Depreciation				
At 1 October 2010	11	24	12	47
Charge for the period	3	9	2	14
Net transfers to non-current assets held for sale	(2)	(4)	-	(6)
At 30 September 2011	**12**	**29**	**14**	**55**
Net book value				
At 30 September 2011	**4,334**	**216**	**22**	**4,572**
At 30 September 2010	4,742	206	24	4,972

12. Non-current assets held for sale

	2011	2010
	£m	£m
At 1 October	**30**	43
Net transfer from property, plant and equipment	**187**	202
Write-down to fair value less costs to sell	**(1)**	(3)
Disposals	**(189)**	(212)
At 30 September	**27**	30
Representing:		
Property, plant and equipment	**27**	30
	27	30

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 95 pubs (2010: 120 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

	2011 **£m**	2010 £m
Increase in cash in the year	**6**	7
Cash outflow from change in debt	**287**	291
Issue costs of new long term loans	**2**	12
Change in net debt resulting from cash flows	**295**	310
Amortisation of issue costs and discounts/premiums on long-term loans	**(6)**	(4)
Amortisation of securitised bonds	**5**	5
Change in fair value of interest rate swaps	**8**	63
Movement in net debt in the year	**302**	374
Net debt at start of year	**(3,305)**	(3,679)
Net debt at end of year	**(3,003)**	(3,305)

b) Analysis of net debt

	2011 **£m**	2010 £m
Bank borrowings	**(464)**	(686)
Corporate bonds	**(1,185)**	(1,185)
Securitised bonds	**(1,436)**	(1,501)
Gross debt	**(3,085)**	(3,372)
Cash	**114**	108
Underlying net debt	**(2,971)**	(3,264)
Capitalised debt issue costs	**20**	24
Fair value adjustments on acquisition of bonds	**(44)**	(49)
Fair value of interest rate swaps	**(4)**	(12)
Finance lease payables	**(4)**	(4)
Net debt	**(3,003)**	(3,305)
Balance sheet:		
Current financial liabilities	**(42)**	(67)
Non-current financial liabilities	**(3,075)**	(3,346)
Cash	**114**	108
Net debt	**(3,003)**	(3,305)

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