19 November 2013

Enterprise Inns plc

Preliminary announcement for the financial year ended 30 September 2013

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 2013.

Highlights

- Improving trend in like-for-like net income with growth of 0.6% in the final quarter and a decline of 2.9% for the full year
- EBITDA* before exceptional items £313 million (2012: £340 million) primarily reflecting impact of the disposal programme
- Focus on operational activities to support publican profitability with £62 million of capital investment across the estate during the year
- Strong operational cash generation combined with £150 million net proceeds from disposal programme has reduced net debt by £216 million to £2.5 billion (2012: £2.7 billion)
- Unsecured convertible bond issued, raising £97 million, reducing bank debt, net of cash, to £41 million (2012: £310 million)
- Like-for-like net income growth has been sustained in the first seven weeks of the current financial year

Statutory results

- Profit before tax and exceptional items £121 million (2012: £137 million)
- Adjusted earnings per share# 19.0p (2012: 20.5p)
- Loss after tax of £4 million (2012: profit £44 million) arising after net exceptional charges of £99 million (2012: £58 million) principally relating to property matters

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

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

“We are pleased to report an improving trend in our trading performance which, together with our actions to improve the quality of the estate and reduce our net debt, puts us on a clear path to return to growth in the near term.

This performance was particularly pleasing when set against the challenging economic conditions, the adverse weather at the beginning of the year and the failure of our wines and spirits distributor. It is through the tireless efforts of our employees and the great work of our publicans that we have steered the business toward this growth trajectory and have delivered like-for-like net income growth of 0.6% in our final quarter.

Our strong cash generation from operations combined with our successful disposal programme has reduced net debt by £216 million to £2.5 billion which, combined with our recent convertible bond offering, removes the reliance on disposal proceeds for debt reduction. This is a clear turning point and allows us to drive growth in the business from our operational initiatives and the reinvestment of future disposal proceeds to enhance the income potential of our estate.

Like-for-like net income growth has continued into the first seven weeks of the current financial year. Looking ahead, we believe that the quality of our pub estate, the innovation and resilience of our publicans, the dedication of our team and the proactive actions we are taking provide the foundations for delivering sustainable net income growth.”

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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)203 426 2890 or +1877 841 4558 (USA callers). A replay of the conference call will be available for 7 days on +44 (0)203 426 2807, +1866 535 8030 (USA) Replay Passcode 643352#.

Forward-looking statements
This announcement contains certain statements about the future outlook for ETI. Although we believe our expectations are based on reasonable assumptions, any statements about future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

CHIEF EXECUTIVE'S REVIEW

I am pleased to report our full year results for the year ended 30 September 2013, during which time we have delivered EBITDA before exceptional items of £313 million. We have made good progress securing our financial flexibility and have seen an improving trend in performance during the year which has culminated in the delivery of like-for-like net income growth of 0.6% in the final quarter.

Like-for-like net income for the total estate for the full year was down by 2.9%. Within the year there has been steady improvement in the underlying trading performance. In the first half of the year we reported a 4.2% decline in total estate like-for-like net income as trading was adversely impacted by heavy snow in January and the coldest March for many years. In addition, the cessation of trading on 1 October 2012 of Waverley, our wines and spirits distributor, adversely impacted the business as we were unable to supply these products to publicans, resulting in a direct loss of nearly £2 million of trading income. We now have a new two year distribution agreement for wines and spirits which has been operational throughout the second half and has enabled us to return to a normalised level of trading for these categories of products.

The second half of the financial year has delivered a 1.8% decline in like-for-like net income with the third quarter facing tough comparatives against the prior year due to the timing of Easter, a positive impact from the Euro 2012 football championship and the Queen's Diamond Jubilee celebrations. In the final quarter of our year we received some benefit from a hot spell of weather in July but were also adversely impacted in the final weeks of the year by disruption caused to beer deliveries by the industrial action of employees of KNDL, our national distributor. Against this backdrop we were pleased to achieve growth of 0.6% in total estate like-for-like net income in the final quarter.

While there have been two events disrupting our supply chain that have had some financial impact during the year, it is pleasing that contingency plans and intense management actions have minimised the impact to the business.

Debt reduction remained a core element of our strategy during the year, driving the accelerated disposal programme which generated £150 million of net disposal proceeds. In addition, in September 2013, we successfully issued an unsecured, seven year convertible bond for gross proceeds of £97 million, with the proceeds used to reduce existing bank debt. The convertible bond issuance represents a new source of financing for the business which, with the proceeds from our accelerated disposal programme, has removed the requirement for significant bank amortisation in the next few years and extended our debt maturity profile. We now have a manageable amortisation profile which means we are able to return to a normalised level of asset disposals with the intention of only disposing of underperforming assets each year and reinvesting the c.£60 million of proceeds from such disposals to fund annual investment in the retained estate. Realising proceeds from asset disposals with very low yields and using those proceeds to generate more significant returns will provide incremental income to the business which will assist in the delivery of sustainable like-for-like net income growth.

We have a manageable and tax efficient capital structure comprising predominantly long term debt, consistent with the long term nature of our freehold assets. Our strong cash generation from operations combined with the successful disposal programme has enabled us to reduce total net debt from £2.7 billion to £2.5 billion during the year. The Board currently believes that the best use of available cash is to continue to reduce debt to achieve a transfer of value to shareholders and as such will not resume the payment of dividends at this time.

During the year Vince Cable, Secretary of State for Business, Innovation and Skills (BIS) initiated a further consultation into the operations of the tied pub sector. While we await the findings of the consultation, we remain firmly of the view that any statutory intervention would be unnecessary, disproportionate, without reasonable foundation and potentially subject to multiple legal challenges. Taxes suffered by pubs increased by 17% over the five years to September 2013, and now accounts for around £1 in every £3 taken across the bar. Over the same five years we worked hard to improve our pubs, investing in the region of £300 million in the fabric of the estate whilst seeing our average net income per pub fall by 12% as we have transferred significant value to our publicans through reduced rents and increased discounts.

TRADING REVIEW

Total estate like-for-like net income performance

Following a difficult start, like-for-like net income trends have improved throughout the year with the final quarter achieving growth of 0.6%. The year began with challenging conditions resulting in like-for-like net income decline of 4.2% in the first half, which then improved to a decline of 1.8% in the second half, producing a full year decline of 2.9%.

Total estate like-for-like net income - geography

Our estate in the South, representing 42% of total net income, contracted by 1.5% as the weaker trade across the country was partially offset by the effects of a stronger London economy. The agenda for our southern team is a growth strategy, prioritising return generating investment opportunities and ensuring our publican selection process leads to optimal performance. In the North and the Midlands our teams face a different set of challenges. Whilst our business building activities apply across all geographic regions a much greater proportion of our publican support is focused on the North and Midlands where economic pressures provide difficult conditions for publicans and their customers. Improvements in trading performance have been experienced across all geographies in the final quarter of the year, with the South returning to net income like-for-like growth.

Location	No. of pubs at 30 Sept 2013	Net income* FY13 £m	% of total net income FY13	Net income FY12 £m	Net income change FY13 %
North	1,640	104	28	108	(3.7)
Midlands	1,773	112	30	116	(3.4)
South	2,080	155	42	158	(1.9)
Total	**5,493**	**371**	**100**	**382**	**(2.9)**

* Net income represents like-for-like pub level gross profits, stated before property costs of £28 million, unallocated central costs of £6 million and excluding £8 million of net income relating to pubs that have been disposed or non-licensed premises.

OPERATIONAL REVIEW - SUSTAINABLE INCOME GROWTH

In order to secure our objective of sustainable growth in like-for-like net income across the estate, our operational teams continue to focus on four key differentiating activities: enhancing the quality of the estate; attracting and retaining the right publicans; selling in smarter ways to optimise income; and providing exceptional local support.

Enhancing the quality of the estate

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. Property condition is a shared responsibility between ourselves and our publicans. We have continued to invest in enhancing the quality of the estate with £62 million of capital investment during the year. This investment is often made working alongside our publicans, who will additionally invest in facilities and fixtures and fittings, to reposition the pub for long term growth.

During the current year, some 32% of our capital investment has been directed at growth-driving initiatives up from the 23% achieved in the prior year. Our expectation is that we will move this proportion toward 60% of total capital investment over the next three years. Growth orientated capital investment during the current year ranged from some 15 individual large-scale projects of over £100,000, where we are delivering immediate returns on investment of approximately 15%, to our exterior decorations programme, where we invested in over 1,000 of our pubs at an average cost of £10,000 to improve the curb appeal of our pubs. An additional benefit of the exterior decorations programme is that it encourages investment from the publicans on interior decorations or enhancements to their offer to complement the exterior improvements.

We plan to invest £60 million a year for the foreseeable future to further improve the quality of our estate. This investment will not only enhance our income but will also represent a significant contribution toward supporting publican profitability and is expected to assist with a reduction in publican churn arising from business failures.

Attracting and retaining the right publicans to the Enterprise offer

Rental income is a material component of our net income and therefore rental income stability is critical for like-for-like net income growth. We have seen some encouraging signs of stability, with rent reviews in the year reducing annualised rents, on average, by only 0.3%. In addition we are working to align rents to current market conditions with some 94% of pubs having a rent review or renewal over the past five years.

While a change of publican can be the catalyst for revitalising the prospects of a pub, reducing the instances of business failure is one of our key strategies to maintain and grow our like-for-like performance as such instances have the most significant impact upon our rental income. We are pleased with the progress we have made with reducing the level of business failure from the peak of 972 in the extremely difficult trading environment of 2008/09 to 579 in the current financial year and our objective is to deliver further improvement over the coming years.

Even the best publicans may need our support to tackle the multiple challenges of weak consumer confidence, increased overhead costs, the burden of punitive increases in taxation and the high cost of regulation. We therefore continue to provide temporary concessions and support to publicans, where considered appropriate, and are pleased to have seen this stabilise at a cost of £6 million, which is in line with the prior year. We are targeting this concessionary support more toward business-building activities that will enhance footfall and income for the publican rather than purely defensive financial support.

In addition, one of the means of reducing the instances of publican change has been the use of our Beacon “managed tenancy” agreements, which has delivered a great foundation for our Beacon publicans to grow successful businesses in a challenging marketplace. Under the Beacon model, we have a much closer relationship with the publican and we get more involved with their operational decisions, retail offerings and retail standards. During the course of the year, we have reviewed our Beacon estate and have identified a number of sites that have traded successfully which could be returned to a normal tenancy agreement. We have also identified sites where, despite our best efforts, the trade from the pub was insufficient to support our continued involvement resulting in their disposal. At the financial year end we had 185 trading Beacon pubs, the majority of which have traded as Beacons for over twelve months and it is pleasing to report that these pubs increased their like-for-like net income by 8% in the year.

Through Beacon we have seen evidence that our increased involvement in the operation of a pub can assist its trading income and its potential and this has encouraged us to assess whether we should operate a broader range of formats targeted at supporting those pubs at the lower end of our estate. Our core offering will remain the leased and tenanted model, incorporating the flexibility offered by our range of tied arrangements, but it is important that we understand how other formats could assist our ability to optimise our income whilst offering publicans a number of options to best match their appetite for the risk and rewards of pub management. Within the assessment we are considering the full range of formats including commercial leases, franchise arrangements, partially managed and fully managed operations. We will examine current and anticipated market and consumer trends and will consider regulatory influences. The outcome may require us to develop an operational infrastructure capable of supporting such models. Of course, were we to develop a capability to support a managed format for the lower end of our estate, this could represent an opportunity to explore how we might use such a capability to optimise our income from other assets within the estate.

Recognising that a successful pub requires skilled staff and publicans, we have continued to invest in the quality of our training programmes. In addition to our existing free courses, such as “Food Retailing, Education and Development”, “Winning in a Local Market Area” and “Ways of Winning”, we have launched a new course called “Profit Through People”, which is designed to help publicans improve business performance and get the best out of their staff. The course educates publicans on how to coach and develop a motivated team, how to strategically review customer care and how to identify what makes a successful, profitable and sustainable business. Alongside these classroom courses, we have also launched an e-learning suite of over 20 courses, so that publicans can improve their skills without having to leave their business.

We have also partnered with Charnwood Training Group to give publicans easier access to apprenticeships that help improve core staff skills, covering the essentials required to run or work in a pub, including customer service, health and safety, licensing law compliance and handling money. By offering these apprenticeships, we are demonstrating to people that working in this industry means much more than standing behind a bar and are providing the tools they need to develop a successful and fruitful career.

Our “100 Days” project, which launched this year, is a key component of our strategy to recruit and support better quality publicans through our commitment to make the first “100 Days” of a publican's journey with Enterprise as smooth as possible. Building upon our existing comprehensive support to help publicans get their businesses off to the best start, the project has enhanced the tools and framework for Enterprise and third parties to deliver it. In return for the unrivalled support that is offered, we insist on quality and commitment, both of which contribute to a more sustainable long-term business.

We have also redesigned our website, as we identified a need to have more accessible information and to improve the communication of the Enterprise offer to all audiences to demonstrate why we believe it is the most competitive within our industry.

Selling smarter

Our activities in this area are designed to support publicans in order to enhance their income, to reduce costs paid to third parties and to improve beer sales and margins.

Product Offer

We have developed new strategic partnerships to help our publicans by making their businesses even more competitive and attractive. With regard to entertainment, we have agreed terms with Molson Coors to provide the Sky entertainment package to Enterprise pubs at a 30% discount to list price, a potential average saving for each participating pub of £3,000 per annum. To date over 495 publicans have taken advantage of this offer. Additionally we have negotiated market-leading terms to enable Enterprise publicans to enjoy significant discounts while taking full advantage of the investment made by BT into sports viewing. We have also partnered with the communications infrastructure and media services company Arqiva to offer a free, high speed WiFi service to our publicans and their customers. Not only will this service help our publicans to attract additional footfall and increase customer dwell time in their pubs, it will also typically save them £500 per annum. Over 1,500 publicans have signed up for this offer and we are busy working with our partners to install the service as quickly as possible. Increasing the number of pubs that have access to high speed internet also gives us the opportunity to interact with our publicans through our digital communication channels and will provide the platform for increased electronic ordering and marketing as we further develop our digital capabilities.

With the importance of a quality food offering now well established, we have also introduced a new partnership with Brakes – the “Enterprise Pub Club” – which is bringing cost savings, exclusive promotions, business planning, menu design, print services and other business tools to over 150 of our publicans.

We have partnered with Crown Cellars of Carlsberg UK to provide a new wines and spirits portfolio. Crown Cellars have been supplying wines and spirits for over 20 years and their expert team has worked closely with us to develop a range that is broader and deeper than ever before. The new range has been considerably extended to include a large number of new premium spirits to capitalise on the growing consumer trend for this category. Along with our extended range, publicans have access to merchandising hints and tips, food matching suggestions and profit calculators.

Pub Offer

We continue to provide meaningful support to publicans in a number of different ways through help with marketing initiatives. This year, we have distributed thousands of free business support kits to help publicans with the key occasions through from Halloween to New Year (“Countdown to Christmas”), the spring months (“Spring into Action”), and all the sporting occasions and festival opportunities of the summer (“Summer Drinks” and “Cask and Quality”). All kits are delivered to our pubs, packed full with point-of-sale resources and advice to help maximise trade in the pub over the relevant months.

Through our “empower” communications, a monthly newspaper and a weekly e-bulletin, we keep our publicans up-to-date with industry news, commercial offers and events throughout the year. In addition, 75% of our publicans are registered to use a dedicated publican channel on enterpriseinns.com where they can access further support, tools and advice on running their business.

Exceptional local support

Through the local management of our pubs, we tailor our support as appropriate for each area. For example, during the year we have trialled a cluster approach to identifying the appropriate offer for all our pubs in and around the centre of Wakefield. Within a one mile radius of Wakefield city centre we own 13 pubs which collectively delivered a like-for-like decline in net income in 2012 of some 20% arising from extremely difficult market conditions. Rather than look at each pub individually the local team focused on a holistic strategy to cover all of the pubs together. As a result of this cluster strategy we invested a total of £280,000 to differentiate between the sites, we transferred two sites to a Beacon operation, changed the pub offer in seven pubs and sold one site. Collectively the Wakefield pubs delivered a 7% like-for-like net income growth in the current year and an estimated return on investment of some 15%.

Our regional managers are critical to the commercial relationship between us and our publicans and three of them were finalists at the 2012 ALMR Operations Managers Awards, proving themselves as excellent leaders in their field. As at September 2013, we also had five regional managers as finalists in the 2013 awards.

All our regional managers are currently engaged in the BII Level 4 Certificate in Multiple Licensed Premises Management course and all will have completed the course by the end of the 2013 calendar year. This accreditation requires a great deal of work, including exams, coursework and conducting role play assessments on a number of modules integral to their relationship with publicans, such as P&L and budget control, negotiation and communication skills, as well as business planning and managing meetings.

Behind every great community pub, there is a great publican. In 2012 we launched our Community Hero Awards programme where we committed £1 million over 10 years to community causes and initiatives promoted by our publicans and their customers. Many regularly make an incredibly positive impact on the communities they serve. We like to call them Community Heroes and their activities can involve anything from providing a local meeting space for a community group or raising awareness and funds for a chosen charity. The inaugural awards strengthened the outstanding community work of 18 pubs. Again this year, a panel of judges – including the 2012 National Winner, publican Jim Woolley from the Hare Inn in Leighton Buzzard – selected the 18 Regional Winners for 2013 who were awarded £5,000 each to build on their support for local causes. At the Community Hero Awards ceremony attended by Brandon Lewis MP, the minister responsible for community pubs, the National Winner was unveiled as Debbie Collinge of The Lord Nelson, Luddenden, West Yorkshire and she was awarded a further £5,000 to invest in her chosen community initiatives.

In April and May of this year, we hosted a series of roadshows – called "empowerlive!" – presenting our publicans with a great opportunity to not only network with suppliers and professionals from across the industry, but also to profit from access to over £6,000 worth of exclusive, show-only offers and deals, a host of prizes and activities, upcoming products and services, insightful seminars and interactive workshops to help them build their businesses. The roadshows were open to all Enterprise publicans, taking place at seven key locations around the country such as Wembley Stadium and Leeds United FC, and brought together a huge range of major suppliers such as AB InBev, Diageo, Heineken, Molson Coors, Brakes, Mediatheme, BII and Drinkaware to name but a few.

PROPERTY REVIEW – OPTIMISING OUR FREEHOLD ESTATE

Our estate now comprises 5,636 properties with a book value of £3.97 billion. The property portfolio comprises 5,493 trading pubs and 143 properties which are alternative use outlets or properties pending disposal. The estate is predominantly freehold, with 94% by number and 99% by value of the estate held as freehold or quasi-freehold (long term leases on peppercorn rents).

Portfolio as at 30 September 2013	No. of pubs	Total value £m
Current Estate		
- Freehold and finance leases	5,228	3,916
- Operating leases	265	11
	5,493	3,927
Non-viable		
- Freehold and finance leases	136	46
- Operating leases	7	-
TOTAL	**5,636**	**3,973***

** Represented by total PPE (£3,947 million) excluding other assets (£24 million), together with non-current assets held for sale (£39 million) and operating lease premium (£11 million).*

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 in part by our in-house team, with the end result bench-marked and reviewed for consistency. The valuation has confirmed that whilst the value of top quality pubs remains strong, there is a continuing weakness in the value of pubs in poorer locations and with less potential. As a result of this annual review, we have written down the value of the current estate by £139 million, a 3% reduction to £3.97 billion, with £84 million charged to the Income Statement and £55 million reflected in the revaluation reserve.

£150 million raised from successful programme of pub disposals

Total net proceeds received from our successful disposal programme in the year to 30 September 2013 amounted to £150 million, from the disposal of 428 properties in the year. The majority of these pubs, 400, were considered to be underperforming tail end pubs which generated net proceeds on disposal of £116 million, at an average value of £290,000, with an additional 28 properties considered to be exceptional generating net proceeds of £34 million at an average multiple of 14 times income.

Following the issue of a convertible bond during the year, we now intend to reduce our disposal programme to focus purely on the underperforming element of the estate to generate sufficient cash proceeds each year to fund the annual capital investment in the retained business to enhance its income potential. Total disposal proceeds for the year to 30 September 2014 are expected to be in the region of £70 million of which some £20 million is expected from our Unique estate.

£62 million invested to enhance the estate and support publican profitability

Our property team works with publicans and our operational team to optimise the use and value of our assets and to implement suitable capital investment projects. During the year we invested £62 million enhancing the quality of the estate with an increased proportion of our investment focused on growth-driving activities. The property team work closely with operations to identify the optimum economic use for every asset, including reviewing the property condition, assessment of appropriateness of the retail offer of the pub and assessing the capabilities of the publican. These considerations drive the identification of an agreed strategy between our operational and property teams so that we have a plan for every pub which will determine prioritisation of capital investment and early identification of underperforming pubs which should be disposed of.

Effective asset management

An important aspect of the role of our property team is to operate as any commercial landlord should. Our publicans have legal responsibilities with regard to the upkeep of our pubs and we need to ensure that: firstly, our publicans are aware of, and understand, their obligations; and secondly, these obligations are enforced. During the year we have enhanced our property maintenance procedures such that the property condition of every pub is assessed on a quarterly basis and the findings discussed and actions agreed with the publican. We then have a monitoring and enforcement process to ensure required property work is completed and legally enforced where necessary. Such procedures, combined with a reduction in the instances of publican change, are important to enable us to increase the proportion of our capital investment on growth driving activities.

REGULATORY INTERVENTION – DISPROPORTIONATE AND UNWARRANTED

During the year we welcomed the decision of the Chancellor of the Exchequer to abolish the Beer Duty Escalator and to reduce the duty on beer by 1p per pint, bringing welcome relief to our publicans. We were also pleased by the introduction of an employment allowance, reducing employers' National Insurance bills by £2,000 from April 2014. Against this backdrop it is particularly disappointing and unfortunate for the whole industry that BIS has again challenged the self-regulation in the landlord-tenant relationship. We have proactively engaged in the consultation process and await the outcome before considering any further course of action. Rather than adopting the proposals of the consultation, we believe that the industry should instead work together to increase transparency, awareness and understanding of the self-regulatory system among tied tenants. The rights and benefits of this system are assured under an improving code of conduct, which is already legally binding through contract, without the need for the damaging and costly straitjacket of statutory intervention imposing unworkable rent controls that override the market.

As always, we have continued to work with representative bodies of property owners, brewers and publicans to further evolve the Industry Framework Code of Practice and firmly believe that self-regulation is effective. Key elements of the self-regulatory regime are the low cost and easily accessible services provided by the Pub Independent Rent Review Scheme (PIRRS) and the Pub Independent Conciliation and Arbitration Service (PICAS). PIRRS provides publicans with independent determination of rent at the time of a rent review, while PICAS provides a mechanism for dispute resolution and remedy. We will continue to extensively promote the availability of these services to publicans.

FINANCE REVIEW – DEBT REDUCTION STRATEGY

Financial results

For the year ended 30 September 2013 we have delivered EBITDA before exceptional items of £313 million, down £27 million compared to the prior year primarily due to the on-going disposal programme and the decline in like-for-like net income.

Pre-exceptional finance costs of £177 million are £12 million lower than the prior year as a result of our strategy of debt reduction, the primary savings being a significantly reduced average drawn debt on the bank facilities and reduced costs in relation to the Unique bonds due to prepayment and bond buybacks to-date. This equates to an average interest rate in the year of 6.7% (2012: 6.6%).

Total pre-tax exceptional charges are £163 million (2012: £103 million) split between: operating costs of £2 million (2012: £4 million) relating to costs incurred in respect of the BIS consultation and internal costs of reorganisation; profit on disposal of property, plant and equipment of £7 million (2012: £15 million) including goodwill allocated to disposals; a reduction in the valuation of the pub estate of £84 million (2012: £83 million); a write down of non-current assets of £81 million (2012: £44 million); and net finance costs of £3 million (2012: £13 million gain) which reflects an acceleration of debt financing costs from the cancellation of Tranche A of the new forward start bank facility, partially offset by a gain of £1 million (2012: £13 million) on the buyback and cancellation of Unique bonds during the first half of the year.

We have reported a net profit on disposal of property, plant and equipment (before goodwill allocation) of £21 million in the year (2012: £33 million) after writing down those pubs that were moved to assets held for resale by £74 million (2012: £25 million), of which £57 million was charged to the income statement in the year (2012: £17 million). We have, in addition, written down the value of pubs moved to assets held for resale but not yet disposed of by £35 million (2012: £36 million) of which £24 million (2012: £27 million) was charged to the income statement in the year.

Total tax in the year was a credit of £38 million, representing a charge of £26 million (2012: £35 million) on the pre-exceptional trading profit and a credit of £64 million (2012: £45 million) relating to the tax on exceptional items, largely related to the deferred tax impacts of the valuation movement and the lower statutory tax rates enacted in the year. The effective tax rate on the pre-exceptional trading profits arising in the year was 21.5% (2012: 25.5%), 4.0% lower than the prior year largely due to the lower statutory tax rate in the year.

Adjusted earnings per share (EPS) of 19.0p was 1.5p (7%) lower than prior year. Basic EPS at a loss of 0.8p is 9.6p lower than 2012, primarily due to the impact of the disposal programme and the annual property valuation.

Cashflow

Net cash flow from operating activities at £291 million (2012: £296 million), was only slightly lower than the prior year in spite of the fact that operating profit was £26 million lower due mainly to an improvement in working capital of £18 million. The total working capital movement in the year was an inflow of £7 million compared to an outflow of £11 million as the prior year included an outflow of £17 million relating to a change to supply terms as we moved to benefit from taking control of order processing and supply chain management.

Capital structure

We have a long term, secure, flexible and tax efficient financing structure comprising bank borrowings, securitised bonds and corporate bonds. Despite the continued economic challenges we have maintained strong cash flows from operating activities, as well as generating £150 million net proceeds from the disposal of pubs in the year, which has enabled us to reduce net debt at 30 September 2013 to £2.5 billion compared to £2.7 billion at last year end.

Corporate and convertible bonds

In September 2013 we successfully issued an unsecured, seven year convertible bond for gross proceeds of £97 million, with the proceeds used to reduce existing bank debt. The bond was issued with a coupon rate of 3.5% and at a premium of 35% to the “reference” share price of 141.5p, which means that the bonds are convertible at a share price of £1.91 into 50.8 million ordinary shares. The proceeds from this bond have been used to cancel £70 million of our new forward start bank facility and will enable us to reduce the requirement for future asset disposals as well as extending our debt maturity profile.

The opportunity to issue this bond and to move some of our financing into unsecured debt was due, in no small part, to the stabilisation of the business, the success of the disposal programme over the past few years and the refinancing of the existing bank debt in 2012. A consequence of this issue is a slowdown in the level of the disposal programme which will lead to a quicker return to EBITDA stabilisation and growth once we return to a sustainable like-for-like growth in net income.

In addition to the new convertible bond we have £1,185 million of secured corporate bonds which are non-amortising, 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. Following the issue of the convertible bond and the delivery of £150 million of proceeds from our disposal programme in the year, we will be able to repay the £60 million bond due in 2014 from existing resources. We would expect to refinance the £600 million bond due in 2018 at or before maturity, bearing in mind that it is secured on a portfolio of pubs with an up-to-date valuation of £1 billion and interest cover of two times.

Bank borrowings

At 30 September 2013 our drawn bank borrowings net of cash were £41 million (2012: £310 million), a reduction of £269 million during the financial year. This was achieved through strong cash generation in the underlying business, the proceeds from the disposal programme and the proceeds of the convertible bond issued in September 2013. We have reduced available bank facilities from £389 million to £180 million at the year end.

These existing facilities expire in December 2013 and, as announced on 1 June 2012, were to be replaced by a new £220 million forward start bank facility. Following the issue of the convertible bond, Tranche A of the new facility, which was to attract interest of 5.0% (increasing to 6.5%) over LIBOR, was permanently cancelled, reducing the new facility to £150 million, which is committed to 15 June 2016 (Tranche B: £75 million and Tranche C: £75 million), with all of the same financial covenants previously disclosed.

As a result of our strategic intent to reduce debt, and specifically our exposure to bank debt, we have seen total bank facilities decline from £1.1 billion in 2008 to the new level of £150 million in December 2013.

Securitised bonds

During the year we have repaid £11 million of the Unique A4 securitised bonds, which, together with £9 million of bonds purchased and cancelled, leaves £1.3 billion outstanding at the year end. The bonds amortise over a period to 2032 and attract an interest rate of 5.7% to 7.4%. At 30 September 2013 the Group was £73 million ahead of the amortisation schedule of the “A class” securitised bonds through early repayment and market purchases.

The £9 million Unique A4 securitised bonds were purchased in the year at an average discount of 5% to their nominal value. Following the year end date, we have also acquired and cancelled a further £6 million Unique A4 securitised bonds at a discount of 3% to their nominal value. These purchases represent the planned programme of purchase and cancellation of Unique Class A Notes that will keep us one year ahead of the scheduled debt profile. No further material purchases are required for the foreseeable future, although we will continue to monitor the bond markets for opportunities to capture value.

Over the next three financial years to September 2016, the bonds are expected to amortise by £69 million in 2014, £71 million in 2015 and £74 million in 2016.

Balance sheet

Our balance sheet remains strong with total net assets of £1.4 billion, in line with the prior year, with no impairments to goodwill or other intangible assets. Within that we have £4.0 billion of tangible fixed assets, primarily reflecting the freehold value of the pubs, financed through £2.5 billion of net debt, which is generally long term secured financing, representing a loan to value of 62% (2012: 63%).

The share price at 30 September 2013 of £1.44 (2012: £0.63) equates to an equity value of £722 million, up from £315 million in 2012, which compares with a net asset value per share of £2.81 (2012: £2.85). The differential between net asset value and market value has significantly reduced during the year as confidence in our capital structure has grown and as indications of trading performance stabilisation have become evident.

OUTLOOK

After a difficult start, we ended the 2013 financial year with an improving trend in our trading performance. Current and foreseeable market conditions remain volatile and challenging, economic confidence is returning but consumer spending remains restrained, with cost inflation exceeding income growth. To have delivered like-for-like net income growth in such conditions in our final quarter is pleasing and to have continued this into the first seven weeks of the current financial year is encouraging.

We are confident that the improving quality of our pub estate, the innovation and resilience of our publicans, the dedication of our team and proactive actions we are taking provide the appropriate foundations for delivering sustainable net income growth which will generate significant cash flows and value for shareholders.

We intend to issue an Interim Management Statement on 6 February 2014.

G E Tuppen CBE
19 November 2013

Group Income Statement
for the year ended 30 September 2013

	Notes	2013 Pre-exceptional items £m	2013 Exceptional items £m	2013 Total £m	2012 Pre-exceptional items £m	2012 Exceptional items £m	2012 Total £m
Revenue		**639**	**-**	**639**	692	-	692
Cost of sales		**(294)**	**-**	**(294)**	(318)	-	(318)
Gross profit		**345**	**-**	**345**	374	-	374
Administrative expenses		**(32)**	**(2)**	**(34)**	(34)	(4)	(38)
EBITDA #		**313**	**(2)**	**311**	340	(4)	336
Depreciation and amortisation		**(15)**	**-**	**(15)**	(14)	-	(14)
Operating profit/(loss)		**298**	**(2)**	**296**	326	(4)	322
Profit on sale of property, plant and equipment	4	**-**	**21**	**21**	-	33	33
Goodwill allocated to disposals	4	**-**	**(14)**	**(14)**	-	(18)	(18)
Net profit on sale of property, plant and equipment		**-**	**7**	**7**	-	15	15
Movements in the valuation of the pub estate and related assets	5	**-**	**(165)**	**(165)**	-	(127)	(127)
Total finance costs		**(177)**	**(4)**	**(181)**	(189)	-	(189)
Gain on purchase of own debt		**-**	**1**	**1**	-	13	13
Net finance costs	6	**(177)**	**(3)**	**(180)**	(189)	13	(176)
Profit/(loss) before tax		**121**	**(163)**	**(42)**	137	(103)	34
Taxation	7,8	**(26)**	**64**	**38**	(35)	45	10
Profit/(loss) after tax attributable to members of the Parent Company		**95**	**(99)**	**(4)**	102	(58)	44
Earnings per Share							
Basic	9			**(0.8)p**			8.8p
Basic Diluted	9			**(0.8)p**			8.8p
Adjusted *	9	**19.0p**			20.5p		
Adjusted diluted *	9	**19.0p**			20.4p		

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

Statement of Comprehensive Income
for the year ended 30 September 2013

	2013 £m	2012 £m
(Loss)/profit for the year	**(4)**	44
Items that will not be reclassified to the Income Statement:		
Unrealised deficit on revaluation of pub estate	**(55)**	(22)
Movement in deferred tax liability related to revaluation of pub estate	**10**	6
Write down of non-current assets held for sale	**(28)**	(18)
Actuarial loss on defined benefit pension scheme	**-**	(1)
Restatement of deferred tax liability related to the revaluation of pub estate for change in UK tax rate	**30**	17
Other comprehensive income for the year net of tax	**(43)**	(18)
Total comprehensive (loss)/income for the year attributable to members of the Parent Company	**(47)**	26

Group Balance Sheet
as at 30 September 2013

	Notes	**2013 £m**	2012 £m
Non-current assets			
Goodwill		**345**	359
Intangible assets: operating lease premiums		**11**	11
Property, plant and equipment	10	**3,947**	4,259
		4,303	4,629
Current assets			
Assets held for sale		**-**	3
Trade and other receivables		**48**	55
Cash		**144**	125
		192	183
Non-current assets held for sale	11	**39**	46
Total assets		**4,534**	4,858
Current liabilities			
Trade and other payables		**(182)**	(180)
Current tax payable		**(10)**	(16)
Financial liabilities		**(129)**	(95)
Provisions		**(7)**	(7)
		(328)	(298)
Non-current liabilities			
Financial liabilities		**(2,536)**	(2,767)
Provisions		**(4)**	(3)
Deferred tax		**(264)**	(364)
Pension scheme		**-**	(1)
		(2,804)	(3,135)
Total liabilities		**(3,132)**	(3,433)
Net assets		**1,402**	1,425
Equity			
Called up share capital		**14**	14
Share premium account		**486**	486
Revaluation reserve		**754**	807
Capital redemption reserve		**11**	11
Merger reserve		**77**	77
Treasury share reserve		**(227)**	(227)
Other reserve		**2**	(20)
Profit and loss account		**285**	277
Enterprise Inns shareholders' equity		**1,402**	1,425

Group Statement of Changes in Equity
at 30 September 2013

	Share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Merger reserve £m	Treasury share reserve £m	Other reserve £m	Profit and loss account £m	Total £m
At 30 September 2011	14	486	859	11	77	(227)	(23)	200	1,397
Profit for the year	-	-	-	-	-	-	-	44	44
Other comprehensive income	-	-	(17)	-	-	-	-	(1)	(18)
Total comprehensive income	-	-	(17)	-	-	-	-	43	26
Transfer of realised revaluation surplus	-	-	(35)	-	-	-	-	35	-
Transfer of shares from Employee Benefit Trust to Share Incentive Plan	-	-	-	-	-	-	3	(3)	-
Share based expense recognised in operating profit	-	-	-	-	-	-	-	2	2
At 30 September 2012	14	486	807	11	77	(227)	(20)	277	1,425
Loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4)**	**(4)**
Other comprehensive income	**-**	**-**	**(43)**	**-**	**-**	**-**	**-**	**-**	**(43)**
Total comprehensive income	**-**	**-**	**(43)**	**-**	**-**	**-**	**-**	**(4)**	**(47)**
Transfer of realised revaluation surplus	**-**	**-**	**(16)**	**-**	**-**	**-**	**-**	**16**	**-**
Transfer of deferred tax on disposals	**-**	**-**	**6**	**-**	**-**	**-**	**-**	**(6)**	**-**
Transfer of shares from Employee Benefit Trust to Share Incentive Plan	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**(1)**	**-**
Share based expense recognised in operating profit	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**2**
Deferred tax in relation to share options	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**
Equity element of convertible bond issue	**-**	**-**	**-**	**-**	**-**	**-**	**22**	**-**	**22**
Equity element of financing costs paid on issue of convertible bond	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
At 30 September 2013	**14**	**486**	**754**	**11**	**77**	**(227)**	**2**	**285**	**1,402**

Group Cash Flow Statement
for the year ended 30 September 2013

	2013 **£m**	2012 £m
Cash flow from operating activities		
Operating profit	**296**	322
Depreciation and amortisation	**15**	14
Share-based expense recognised in profit	**2**	2
Decrease in receivables	**6**	9
Decrease in payables	**(5)**	(25)
Increase in provisions	**1**	1
Decrease in current assets held for sale	**3**	2
	318	325
Tax paid	**(27)**	(29)
Net cash flows from operating activities	**291**	296
Cash flows from investing activities		
Payments made on improvements to public houses	**(60)**	(61)
Payments to acquire other property, plant and equipment	**(2)**	(2)
Receipts from sale of property, plant and equipment	**150**	208
Net cash flows from investing activities	**88**	145
Cash flows from financing activities		
Interest paid	**(183)**	(188)
Interest received	**1**	1
Issue costs of long-term loans	**(2)**	(8)
Cancellation and restructuring of interest rate swaps	**-**	(3)
Payments to acquire own debt	**(8)**	(52)
Proceeds from issue of convertible bond	**97**	-
New loans	**110**	160
Repayment of loans	**(375)**	(340)
Net cash flows from financing activities	**(360)**	(430)
Net increase in cash	**19**	11
Cash at start of year	**125**	114
Cash at end of year	**144**	125

Notes

1. Status of information

The financial information for the years ended 30 September 2013 and 2012 is 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 2012 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 30 September 2013 have not yet been delivered to the Registrar of Companies. The information contained in this announcement was approved by the Board on 18 November 2013.

2. Accounting policies and basis of preparation

These results have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

These preliminary financial statements have been prepared on a consistent basis using the accounting policies set out in the Annual Report and Accounts for the year ended 30 September 2012.

The directors have made enquiries into the adequacy of the Group's financial resources including a review of its budget, forecasts and medium term financial plan, including a review of cash flow forecasts and financial covenant calculations, and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

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 7 below:

3. Exceptional items recognised in operating profit

An exceptional charge of £2 million (2012: £4 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

	2013 £m	2012 £m
Normal disposals		
Profits on sale of property, plant and equipment	**26**	42
Losses on sale of property, plant and equipment	**(5)**	(10)
Profits on sale and leaseback disposals	**-**	1
Profit on sale of property, plant and equipment	**21**	33
Goodwill allocated to disposals	**(14)**	(18)
Net profit on sale of property, plant and equipment	**7**	15

During the year 428 pubs (2012: 301 pubs) and various other plots of land with a book value of £127 million (2012: £154 million) were sold generating gross proceeds of £157 million (2012: £193 million) which, after taking account of disposal costs of £9 million (2012: £7 million), resulted in an overall profit of £21 million (2012: £32 million).

During the prior year, 17 pubs were sold as part of the Group's sale and leaseback programme. These pubs generated gross proceeds of £24 million and resulted in a profit over book value, after fees, of £1 million. These pubs were immediately leased back by the Group and are now classified as pubs held under operating leases. No further pubs have been sold on a sale and leaseback basis since this time.

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 £14 million (2012: £18 million) has been allocated to the 428 pubs disposed of during the year (2012: 318 pub disposals).

5. Movements in valuation of the pub estate

	2013 £m	2012 £m
Movements in property, plant and equipment from revaluation of pub estate (see note 10)	**(84)**	(83)
Write down of non-current assets held for sale to fair value less costs to sell (see note 10)	**(81)**	(44)
	(165)	(127)

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 £139 million. Of this write-down, £55 million has been debited to Other Comprehensive Income and £84 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 £109 million has been recorded. Of this write-down, £28 million has been debited to Other Comprehensive Income and £81 million has been charged to the Income Statement as an exceptional item. At the year end, there are 138 pubs (2012: 159 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.

6. Exceptional finance cost

	2013 £m	2012 £m
Movement in fair value of financial instruments	**-**	1
Other interest payable and finance costs	**(4)**	(1)
Gain on purchase of own debt	**1**	13
	(3)	13

The exceptional other interest payable and finance costs in the year of £4 million (2012: £1 million) relates to interest accrued on tax provisions and finance arrangement fees written off.

During the year ended 30 September 2013, £9 million (2012: £65 million) Unique securitised bonds were purchased and cancelled at an average purchase price of 95p (2012: 80p) for each £1 of nominal value generating a gain of £1 million (2012: £13 million), shown in the Income Statement as an exceptional item.

7. 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 £5 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 £38 million relating to the revaluation of the pub estate and net profit on disposal of pubs recognised in the Income Statement also reduces the deferred tax liability.

The UK Government reduced the rate of corporation tax by 1% from 24% to 23% effective from 1 April 2013 and announced its intention to reduce the rate further by 2% to 21% by 1 April 2014 and an additional 1% to 20% by 1 April 2015. The change in corporation tax from 23% to 20% has been substantively enacted and therefore the deferred tax assets and liabilities included within these results have been based on the reduced rate of 20%. An exceptional tax credit of £10 million has been recognised in relation to this restatement of deferred tax balances to 20% at 30 September 2013.

An exceptional tax credit of £11 million has been recognised in relation to all other exceptional items in the Income Statement. The total exceptional tax credit is therefore £64 million (2012: £45 million).

8. Taxation

The pre-exceptional tax charge of £26 million (2012: £35 million) for the year equates to an effective tax rate of 21.5% (2012: 25.5%). The effective tax rate does not include the effect of exceptional items.

9. Earnings per Ordinary Share

The calculation of basic earnings per ordinary share is based on the loss of £4 million (2012: profit of £44 million) and on 499.5 million (2012: 499.4 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 profits adjusted for the effects of exceptional items, net of tax, of £95 million (2012: £102 million) and on 499.5 million (2012: 499.4 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.

For the year ended 30 September 2013, any potential ordinary shares to be included when considering diluted earnings per share are antidilutive. As a result there is no difference between basic earnings per share and basic diluted earnings per share, or between adjusted earnings per share and adjusted diluted earnings per share. For the year ended 30 September 2012, diluted earnings per share is based on the profit for the year of £44 million and adjusted profit of £102 million and on 500.2 million ordinary shares, being the basic weighted average number of shares of 499.4 million adjusted for 0.8 million dilutive ordinary shares relating to employee share options.

10. 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 2012	4,031	257	35	4,323
Additions	35	30	3	68
Revaluation:				
- Recognised in the Statement of Comprehensive Income	(55)	-	-	(55)
- Recognised in the Income Statement	(84)	-	-	(84)
Write down to fair value less costs to sell:				
- Recognised in the Statement of Comprehensive Income	(28)	-	-	(28)
- Recognised in the Income Statement	(81)	-	-	(81)
Net transfers to non-current assets held for sale	(91)	(26)	-	(117)
Net transfers from current assets held for sale	-	3	-	3
Disposals	-	(13)	(3)	(16)
At 30 September 2013	**3,727**	**251**	**35**	**4,013**
Depreciation				
At 1 October 2012	14	38	12	64
Charge for the period	1	12	2	15
Net transfers to non-current assets held for sale	-	(4)	-	(4)
Disposals	-	(6)	(3)	(9)
At 30 September 2013	**15**	**40**	**11**	**66**
Net book value				
At 30 September 2013	**3,712**	**211**	**24**	**3,947**
At 30 September 2012	4,017	219	23	4,259

11. Non-current assets held for sale

	2013 **£m**	2012 £m
At 1 October	**46**	27
Net transfer from property, plant and equipment	**113**	190
Write-down to fair value less costs to sell	**(1)**	(2)
Disposals	**(119)**	(169)
At 30 September	**39**	46
Representing:		
Property, plant and equipment	**39**	46

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 138 pubs (2012: 159 pubs) which are expected to be sold within the next year.

12. Additional cash flow information

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

	2013	2012
	£m	£m
Increase in cash in the year	**19**	11
Cash outflow from change in debt	**176**	232
Issue costs of new long term-loans	**2**	8
Change in net debt resulting from cash flows	**197**	251
Amortisation of issue costs and discounts/premiums on long-term loans	**(8)**	(7)
Gain on purchase of own debt	**1**	13
Amortisation of fair value adjustments in respect of bonds	**5**	5
Movement in other reserves arising from convertible bond issue	**21**	-
Change in fair value of interest rate swaps	**-**	4
Movement in net debt in the year	**216**	266
Net debt at start of year	**(2,737)**	(3,003)
Net debt at end of year	**(2,521)**	(2,737)

b) Analysis of net debt

	2013	2012
	£m	£m
Bank borrowings	**(81)**	(335)
Corporate bonds	**(1,282)**	(1,185)
Securitised bonds	**(1,300)**	(1,320)
Gross debt	**(2,663)**	(2,840)
Cash	**144**	125
Underlying net debt	**(2,519)**	(2,715)
Capitalised debt issue costs	**15**	21
Fair value adjustments on acquisition of bonds	**(34)**	(39)
Convertible bond reserve	**21**	-
Finance lease payables	**(4)**	(4)
Net debt	**(2,521)**	(2,737)
Balance sheet:		
Current financial liabilities	**(129)**	(95)
Non-current financial liabilities	**(2,536)**	(2,767)
Cash	**144**	125
Net debt	**(2,521)**	(2,737)

Underlying net debt represents amounts repayable to banks and other lenders net of cash retained in the business. Cash includes £104 million held in the securitised Unique sub-group, of which £65 million is held in a securitised Reserve account.

ADDITIONAL INFORMATION

Principal risks and uncertainties

This section highlights the principal risks and uncertainties facing the Group. Further details of the principal risks and uncertainties are set out in the Annual Report and Accounts. The Group is exposed to a variety of financial, operational, economic and regulatory risks and uncertainties. This is not an exhaustive analysis of all the risks the Group may face: some risks have not been included in this section on the basis that they are not considered to be material. The Group has formal management processes in place to identify and evaluate these risks. Some of the risks are external and therefore beyond our control. The Board formally reviews these material risks and ensures that these are appropriately managed by the executive management team and the Board retains overall responsibility for the Group's risk management framework.

The internal audit function provides assurance to the Audit Committee on the effectiveness of the internal control procedures. This is done through completion of the annual internal audit plan, which takes into account current business risks. The Board has delegated to the Audit Committee responsibility for reviewing annually the overall effectiveness of the risk management programme.

In summary the principal risks and uncertainties are:

Financial risks

The Group has a flexible financing structure comprising bonds issued from the Unique securitisation (securitised bonds), corporate bonds issued by Enterprise Inns plc (Enterprise corporate bonds), a convertible bond and bank borrowings. Certain changes are expected in the financing structure in the next twelve months. In December 2013, the current bank facility of £180 million is due to be repaid and will be replaced with a new agreed forward start bank facility at a reduced total facility level of £150 million. In February 2014, an Enterprise corporate debenture of £60 million matures and is expected to be repaid from cash (see capital structure section)

Mitigation process: The cash inflow required in the next twelve months to meet our funding needs is expected to be generated from the operating cashflow of the business. The Board regularly reviews detailed financial and covenant forecasts and closely monitors the on-going debt reduction programme to ensure there is sufficient headroom on funding and the financial covenants.

Operational risks

Operational risks present in the Group's business include the risk of a failure of our information technology systems or our supply chain and our reliance on our employees and Publicans.

Mitigation process: The Group adopts a number of policies, including maintaining a rigorous business continuity plan, adopting a partnership approach with key suppliers and ensuring robust recruitment and training programmes for employees and Publicans to minimise operational risks.

Economic risks

The Group's business operations are sensitive to economic conditions and these conditions have had an adverse impact on consumer spending affecting our Publicans and suppliers with resulting cash flow implications for the Group. Valuations of the Group's property portfolio could be affected by general economic conditions with resulting downwards pressure on maintainable income streams and the ability to meet key financial covenants.

Mitigation process: The Group invests in developing and improving our pubs to ensure that we remain competitively placed in the market. The Board regularly monitors and reviews the performance and valuation of the estate with external valuers and advisers.

Regulatory risks

On 22 April 2013 the Department for Business, Innovation and Skills (BIS) issued a consultation paper proposing the introduction of a statutory code of practice (the code) and an independent adjudicator to enforce the code to regulate large tied pub companies. Depending on the outcome of the consultation process the requirements of the code, if implemented, could have an impact upon our profitability, our operational strategy and our relationship with our Publicans (see regulatory intervention section).

Other risks include reputational risk arising from the possibility of legal or statutory proceedings and health and safety incidents. There is also a risk that changes to the licensing regulations relating to the sale of alcohol could have an impact on the Group's business and the ability of our Publicans to operate their pubs.

Mitigation process: The Group is committed to the tied pub model and works closely with a number of stakeholders to support the pub sector, evolve the tied pub model and ensure it operates an appropriate Code of Practice to promote a mutually beneficial relationship with its Publicans. The Group actively engages with Government, trade bodies and stakeholders to evolve the tied pub model and has participated in the BIS consultation process as appropriate.