17 November 2015

Enterprise Inns plc

Preliminary announcement for the financial year ended 30 September 2015

“Further operational progress and strategic execution on track”

Enterprise Inns plc (ETI or Enterprise), the largest pub owner in the UK, today announces its results for the year ended 30 September 2015.

Financial highlights

- Like-for-like net income growth of 1.0% in the final quarter resulting in an increase of 0.8% for the full year
- EBITDA* before exceptional items of £296 million (2014: £302 million), in line with expectations following the impact of planned asset disposals
- Profit before tax and exceptional items increased to £122 million (2014: £121 million)
- Adjusted earnings per share# up 2.1% at 19.4p (2014: 19.0p)
- Strong cash generation enables further net debt reduction, down to £2.3 billion (2014: £2.4 billion)

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

Statutory results

- Statutory loss after tax of £65 million (2014: £30 million profit) after net exceptional charges of £162 million (2014: £65 million) which primarily relates to the impact of the total estate revaluation, which is down 2.7% (2014: down 1.9%).

Operational & strategic highlights

- The execution of our strategic plan for the business is on track. Delivery of this plan will ensure we can best serve our publicans and communities whilst providing a clear path to maximising shareholder value through the optimisation of returns from every asset within our estate.
- *Reinvigorated tied tenanted business*
  - Operational enhancements aimed at improving publican profitability have helped deliver a further 18% reduction in the number of business failures
- *Expanded managed business*
  - Total number of managed house pubs trading under our Bermondsey and Craft Union operations increased from 16, at the time of our strategy announcement on 12 May 2015, to 35 at 30 September 2015.
  - Our first managed expert pub successfully opened on 8 October 2015 in Forest Hill, London
- *Quality commercial property portfolio*
  - We have increased our portfolio of commercial properties from 185 sites, at 12 May 2015, to 213 sites and have increased the average annualised rental income from £53,000 to £56,000.
- *Capital investment and disposals*
  - Capital investment of £69 million (2014: £66 million) of which 44% was focused on growth driving initiatives yielding expected returns on investment in excess of our 15% hurdle rate
  - Net proceeds from disposal of primarily under-performing assets of £75 million (2014: £73 million) used to fund investment programme

Commenting on the results, Simon Townsend, Chief Executive Officer said:

We are pleased to report further operational progress and a second, successive full year of like-for-like growth in net income across our leased, tenanted and free-of-tie estate. This has been achieved by maintaining a relentless focus on the many operational activities and initiatives with which we are supporting our publicans to improve their profitability. Trading in the first six weeks of the new financial year has been in line with our expectations and continues to maintain our growth momentum.

While the market in which our pubs operate remains highly competitive, and as we prepare for the implementation of new legislation in 2016, we are encouraged by the continuing momentum of our business, reflecting the exceptional efforts of our publicans and the strength of our relationships with them.

The implementation of our strategic plan is on track, providing us with greater flexibility with which to optimise returns from each of our assets and deliver greater value to our shareholders. Our managed house estate is being successfully expanded and our commercial property portfolio continues to grow in both scale and quality in line with our plans.

We have attracted some outstanding talent to help us execute our new strategy. They bring a wealth of experience to complement the quality, loyalty and determination of the existing Enterprise team which, combined with the skills and expertise of our publicans, gives us confidence in the Group's prospects.

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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 today. Alternatively, a live conference call of the presentation can be accessed at 9.30am GMT by dialling +44 (0) 20 3003 2666 or +1 866 966 5335 (USA callers). A replay of the conference call will be available for 7 days on +44 (0) 20 8196 1998 and +1 866 595 5357 (USA callers), replay passcode 8622131#.

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

Maintaining growth momentum

We are pleased to report our full year results for the year ended 30 September 2015, during which period we have delivered EBITDA before exceptional items of £296 million, down £6 million on the comparative period primarily as a result of planned asset disposals. Profit before taxation, excluding exceptional items, increased by £1 million to £122 million as lower interest costs, resulting from debt reduction, have offset the decline in EBITDA. With a lower effective tax rate the increased profits before taxation deliver adjusted earnings per share, before exceptional items, of 19.4p, an increase of 2.1% on the previous year.

The earnings growth momentum has been delivered through an improvement in like-for-like net income achieved from our leased, tenanted and free-of-tie estate. We have grown our like-for-like net income in every quarter of the year with the full year growing by 0.8%. We are pleased with this outcome particularly as the previous year, which included the FIFA World Cup, represented a strong comparative period. As with last year, all geographies across our estate reported year-on-year stability of income, but it was the South where the growth was once again most significant. Trading in the 661 pubs based in the Greater London region remained particularly strong with like-for-like net income up by 3.1%. We have a strong core of our estate trading very well with the top 90% (4,532 pubs), in terms of income earned, showing like-for-like net income growth of 2.6% on the previous year.

Like-for-like net income growth has been derived from increased rental income and growth in the net income from the sale of beer and other products to our publicans. The strong rental income performance is driven by returns from our capital investment supplemented by reductions in the level of business failures and a return to rental increases

achieved at rent reviews, particularly in the South, which provide reassurance with regard to the stabilisation of trading for us and our publicans. The growth in net income from the sale of beer and other products reflects a "wet-led" business revival fuelled by the provision of deeper discounts to our publicans complemented by the availability of the widest range of product choice in the market, including craft and local beers.

Supporting our publicans

We have seen an improvement in consumer confidence and the broader economic environment through the year which has provided a more stable backdrop for our publicans and this has been enhanced by the successful implementation of our many initiatives aimed at enhancing publican profitability. The continued provision of discounted services such as WiFi, sports TV packages and food offerings, combined with training programmes and product marketing services, are aimed at assisting publicans to grow sales and reduce costs.

We also continue to offer direct financial assistance where it is deemed appropriate, to aid publicans to sustain their businesses through more difficult trading periods, and have spent £6 million in the year (2014: £7 million) on such assistance.

As a consequence of the successful application of this support framework we have further reduced the level of business failures, by 18%, during the year compared to the previous year. We actively monitor our estate for the signs of potential business failure and proactively manage the process of publican change when it is unavoidable. Approximately 8% (2014: 9%) of the estate has seen a change of publican due to failure during the financial year but more significantly only 2% of the estate (2014: 3%) has seen a change due to an unplanned failure rather than a managed transition.

During the next year we will move into a new regulatory environment with the expected introduction of the Market Rent Only (MRO) option. While this is likely to present some challenges to the stability of the tied estate it may also offer opportunities for us to re-evaluate the optimal use of each asset and its retail proposition to enhance shareholder value in accordance with our strategic plans.

Optimising returns from the estate

Our capital re-investment strategy is an important contributor to the delivery of like-for-like net income growth. We actively identify opportunities to invest in our estate, often alongside our publicans, in order to enhance returns from our assets by providing local communities and consumers with well invested, attractive retail offerings. During the year we re-invested £69 million (2014: £66 million) in our estate with 44% (2014: 41%) directed toward income enhancing opportunities. We target Return on Investment (ROI) in excess of 15% on our growth oriented capital expenditure and have achieved an average ROI of 19% on such schemes completed in the last twelve months.

We are using market analysis to identify the optimum use of our assets and to identify the priorities for capital investment. The segmentation analysis applies an understanding of demand and supply characteristics of the local market for every property to identify the optimum retail proposition for the property and the most appropriate operating model to deliver that proposition. The segmentation analysis is increasingly used to identify assets that are under-performing and which have challenging local market conditions such that disposal becomes the optimum outcome so that cash can be realised and re-invested in the retained estate. During the year we disposed of 260 (2014: 230) assets realising £75 million (2014: £73 million) of net proceeds.

Enhancing shareholder value

In May of this year we announced our new strategy for the business, which enables us to unlock the embedded value in every one of our assets and ensures that we are ready to respond to the potential implications of impending regulatory changes. The strategy aims to bring about an evolution of our business model, utilising consumer insight, to develop a plan for every pub in order to maximise value for shareholders. We are pleased with the progress we have made with the implementation of this strategic plan.

Implementation of our new strategy will further strengthen the highly cash generative nature of our business. In the current year we delivered £265 million (2014: £278 million) of cash flow from operating activities which, after net interest costs, yields £108 million (2014: £111 million) of free cash flow. Our re-investment strategy of funding capital investment requirements broadly through the disposal of under-performing assets leaves free cash flow available for allocation.

We operate a disciplined approach to the allocation of this free cash flow. Currently the most appropriate use of our free cash flow is to meet our debt repayment obligations, primarily through the scheduled amortisation of the Unique securitisation notes.

Outlook

Trading in the first six weeks of the new financial year has been in line with our expectations and continues to maintain the growth momentum of last year. We aim to deliver positive like-for-like net income in our leased, tenanted and free-of-tie estate for the full financial year.

Regulatory

During 2014, the then Government published its proposals, contained within the Small Business, Enterprise and Employment (SBEE) Bill, to introduce a Statutory Code of Practice, to be overseen by an independent Adjudicator, for all companies with over 500 pubs operating under tied leased and tenancy agreements in England and Wales. In November 2014, the proposals were amended to include a tenant's right, under certain limited circumstances, to change the freely-negotiated commercial terms of their agreement to a new MRO contract. This MRO option enables some occupational tenants to elect to opt-out of the supply tie at certain points or after certain exceptional events during the term of their lease agreement and therefore occupy the premises on a standard commercial property lease, paying rent only. In the event that a tenant elected to invoke this option, whilst our income derived from the supply of tied drinks products would be partially offset by increases in rent, it is possible that our total income from that property would be adversely affected.

The SBEE Bill received Royal Assent on 26 March 2015 and has therefore become primary legislation. Further work is now taking place to finalise the detail of the new regulatory regime. The Government has advertised the position of the Adjudicator and it has launched the first tranche (of two) of its Consultation on the wording of the statutory Pubs Code, which is expected to come into effect on 26 May 2016. We continue to participate in the process to develop the Pubs Code and associated guidance and shall respond formally to both tranches of the Consultation. We already operate effective policies and procedures in order to satisfy the existing industry code of practice framework and we have recently recruited additional compliance resource to ensure that we satisfy any additional requirements of the statutory Pubs Code.

While the unintended consequences of the SBEE Act will only become clear over time, we are prepared for the implementation of the legislation and its potential impact on our business. The impact will be phased over five years from the implementation of the Act, as MRO events are largely expected to arise through the cycle of five yearly rent reviews and renewals.

Subject to the date of implementation of the MRO option, we anticipate that in our 2016 financial year we will have approximately 200 events that may potentially constitute an MRO event under the new regulatory regime and some 600 such events per year thereafter. We have already started to address outstanding rent reviews and renewal discussions with publicans and have introduced strategies to mitigate potential MRO risks, as this often enables us to make assets available for alternative operating models where our returns can be optimised. Resolution can take many forms and can include renewals where the MRO risk has not been removed but has most likely been delayed until the next trigger event, usually five years later.

In our management of these potential MRO events it is clear that many publicans recognise the value of working with us as our partner and appreciate the support and operational simplicity the tied tenanted model offers. Additionally they recognise the increased risk to their business associated with MRO as their operational gearing is significantly higher and their working capital funding needs increased.

OPERATIONAL & STRATEGIC REVIEW

Our pubs operate in a dynamic marketplace. We have set out to improve our capability in retailing, developing our understanding and usage of consumer and competitor insights to help us to identify the most appropriate retail proposition for each pub, to inform our subsequent investment decisions and to determine the appropriate operating model with which to optimise the pub's performance and deliver greater shareholder value as a result.

Reinvigorated tied tenanted business

Against a background of fragile economic recovery, intense competition and legislative uncertainty, the performance of our leased and tenanted pub estate has been transformed over the last two years, demonstrating improved underlying stability and growth momentum. This has been achieved as a result of the quality of the publicans who occupy our pubs, and the hard work of our operational teams who help our publicans grow their sales and improve their profitability. We have continued to extend the range of goods and services available to our publicans, to help them reduce costs, and were pleased to commence a strategic partnership with the Booker Group to provide high quality food services to Enterprise publicans at extremely competitive prices.

We have pursued a sales-led recovery, ensuring that we provide an extensive range of drinks, comprising over 1,745 beers, lagers and ciders, and utilising discounts to ensure that the drinks offer in our pubs is both attractive and competitive. This has been demonstrably successful in our Beacon tenancies, and it has been encouraging to see this sales-led recovery translated into like-for-like growth in rental income during 2015, a key indicator of stability which demonstrates the improving prospects and profitability of our pubs.

Our support and proactive intervention in businesses facing financial difficulty has also led to the further reduction in business failures, and to the majority of the changes of publican associated with those failures being managed in a planned and less costly manner. We disposed of 260 individual pubs during the year that, in the main, we did not believe could be sustainably profitable in the long term, ensuring that we maintain our focus on those assets and businesses where we can generate optimal returns.

We have developed, with the support of LEK Consulting and Deloitte, a comprehensive segmentation model which allows our operational teams to assess the supply and demand dynamics of the local markets in which every one of our pubs is located. We have now started to utilise these consumer insights to inform recruitment and investment decisions, and to determine the optimal retail format in which each of our pubs could potentially operate.

The forthcoming secondary legislation, which is due to be implemented during 2016, has created uncertainty as to the returns that might be generated from some pubs on certain types of agreement, and is likely to lead to some pubs becoming unattractive to the Group. We are unlikely to invest in businesses on leases where our returns are unclear, and we will only grant long-term, tied leases in exceptional circumstances.

We remain committed to the successful partnerships that can be created between the landlord company and tenant. Their success is clearly evident within the tied model operated by Enterprise, and we will be re-launching the Enterprise tied offer prior to the implementation of the new legislation. This will ensure that every Enterprise publican understands the merits of the tied agreement under which they occupy their pub, and can accurately and comprehensively compare their agreement with that which would be available to them if they were to elect to take up the MRO option.

Expanded managed business

Our strategy to build capability in the direct management of pubs is progressing well, and while it remains early days, we are pleased that the majority of the 35 pubs trading in this model are performing well and in line with our expectations. Greater operational control, complete transparency of all sales and cost lines and the use of consumer insights are giving us greater certainty over the returns we can generate from these pubs, together with the opportunity to leverage best practice across the wider Enterprise estate. We have demonstrated how such attributes can be applied to great effect in smaller, wet-led pubs in our Beacon estate over the last few years, and are now applying these disciplines more widely.

Furthermore, we now have the opportunity to occupy our properties at the expiry of a lease agreement, where previously we might have renewed such agreements regardless of whether the performance of the pub was being optimised. This approach enables us to take possession of underperforming assets and allows us to create additional value for our shareholders.

Recognising that the operation of managed houses requires different skills and capabilities from our historical leased and tenanted business, we have developed three managed house operating models that are designed to secure maximum operational control while mitigating the execution risks associated with such operating models.

i) Managed expert

We have developed a partnership “Expert” model whereby we can work with expert managed house operators in order to utilise their retail flair and capability in pubs with retail complexity and exceptional profit potential, thereby optimising the value of such sites. In this model, the operational resource and expertise are provided by our retail partners.

Our first variant of the Expert model is a partnership with Rupert Clevely, founder of Geronimo Inns and most recently with Youngs & Co, to operate premium, mixed food and drink outlets in central London in a subsidiary called Hippo Inns.

Hippo opened its first pub, The Signal in Forest Hill, on 8 October 2015. The pub is trading well, in line with our expectations, offering craft beers, ales, select wines and cocktails alongside high quality, well-priced food. We have identified a further four sites which will convert to the Hippo trading format over the next year.

We are aiming to establish, at least, a further three Expert partnerships during 2016, with the objective of having around 8 to 12 sites in total operating in the Expert model by 30 September 2016. The experience we have gained in working with Rupert in the design and execution of the model gives us confidence that this approach provides us with the optimum means with which to operate sites with exceptional profit potential.

We also recognise that we require tailored agreements which suit the particular circumstances of our operating partners, and have therefore designed three variants of the commercial agreement to allow us to partner with both start-up and established businesses and to enable us to work alongside other investors.

ii) Bermondsey Pub Company

Fourteen of our current managed houses are operated by our Bermondsey Pub Company. We have recruited and resourced our own team and are using our segmentation work to identify those pubs into which we can most effectively install a managed operating model utilising one of two preferred choices of retail proposition. As demonstrated by our experience in the existing sites this managed model is best suited to a mainstream offer which has a mix of food and wet sales.

We currently have eight of the Bermondsey Pub Company sites operating in our "Meeting House" format, an upper mid-market, mixed food and drink offer. Four of these sites are in London and the South East. Our "Friends & Family" format is currently operating six sites in the mid-market, mixed food and drink segment, predominantly in the North.

Our average capital investment in these sites has been £159,000 to date, and the sites are currently achieving average weekly takings of £11,000. It remains early days for many of these investments as we build sales and capability, but we expect to deliver returns in excess of our 15% ROI hurdle rate across this estate.

We have recently recruited Karen Baskett (formerly of Mitchells & Butlers) as Operations Director for the Bermondsey Pub Company. Karen is an experienced multi-site operator who will ensure that these two trading formats are tightly defined and executed, and able to evolve as market opportunities arise. We anticipate operating approximately 25 to 35 sites in the Bermondsey Pub Company by 30 September 2016, and have identified a pipeline of suitable conversions to meet this aspiration.

iii) The Craft Union Pub Company

In addition to the fourteen managed sites operated by the Bermondsey Pub Company we are currently operating 21 managed sites within our Craft Union Pub Company, which has developed a wet-led, good value, community pub offer operating in predominantly urban and neighbourhood locations. This model allows us to attract the entrepreneurial flair of great managers, who seek the opportunity to enjoy the support and protection of our managed business, whilst retaining some freedom to co-evolve our retail offer in order to best meet the needs of their local communities.

Conversion to this trading format is relatively straightforward and we are pleased with the performance of these outlets to date. Capital investment upon conversion has averaged £105,000, with a significant proportion of the expenditure directed towards high quality installations of sports-viewing audio visual equipment, and we are currently generating average weekly takings of £7,000 and returns on investment ahead of our 15% ROI hurdle rate.

We have identified a strong pipeline of future conversions and anticipate operating 60 to 80 outlets in this model by 30 September 2016.

Quality commercial property portfolio

Where appropriate, our high quality, well located, estate of sites are suitable for letting under standard commercial property agreements. The capital expenditure requirement in this estate is low, and the overhead required to manage the portfolio is extremely low.

Under such agreements, our predominant source of income is rent, paid quarterly in advance and reviewed every five years on an upwards-only basis, and the properties are let on a fully repairing and insuring basis, in common with standard commercial property agreements. The majority of such sites continue to operate as pubs, and the operators may choose to procure their drinks requirements from us, taking advantage of the extensive range we offer. We now have four pubs within our commercial property estate operating on turnover-related rental agreements where we receive a fixed monthly rent and a supplementary share of turnover, allowing the Group to share in the upside of sales growth in such sites.

We have grown our commercial property estate from 185 sites at 12 May 2015 to 213 sites at 30 September 2015, adding a net 28 sites at an average rent of £89,000 during this period, demonstrating the high quality of the assets converted, and the quality and covenant strength of the occupational tenants in situ. The average rent in the whole commercial property estate has therefore increased from £53,000 in May 2015 to £56,000 by the year-end. This estate is currently 100% let with 94% on substantive agreements with an average length of lease of 18 years and average length of agreement remaining of 13 years. The quality of tenure in this estate is high, with minimal overdue balances or bad debt history.

Our total income (annualised) in the commercial property estate is £12 million, and the estate is currently valued at £142 million, implying a yield of 8.4% or a multiple of twelve times earnings.

We anticipate growing our commercial property estate to 300-350 sites by 30 September 2016, and we are committed to maintaining the high quality of the characteristics of the properties in this estate. When we believe that the scale and economics of the portfolio are optimal, we hope to be in a position to secure the potential benefits of conversion to REIT status, were the Board to determine that it was in the best interests of shareholders to make such election at the relevant time.

Where publicans who are currently on tied agreements transfer to the MRO model, the sites will be managed by our commercial property team, but will only be transferred to our commercial property estate on a permanent basis if they meet our strict quality criteria, in order that the underlying quality of the estate is not compromised. Sites that fail to meet the quality criteria, and where we believe that the MRO outcome is unattractive, will be run as commercial properties until such time as an opportunity arises to generate optimal returns through conversion to an alternative model.

Enhancing our team

Our continuing operational momentum is due, in no small part, to the quality and tenacity of the Enterprise team. While our strategy requires new skills and capabilities, we are committed to developing and redeploying the necessary talent from within, wherever possible, in order to facilitate the effective execution of our plans.

However we have identified the requirement to recruit new expertise, particularly in such areas as retail operations, concept development, change programme management and systems and financial reporting. We are very pleased to have been able to attract high quality, experienced recruits into all of these areas in order to underpin the effective delivery of our strategy and drive returns to shareholders.

As our strategic execution grows in pace and scale, we expect to grow our central overhead in a disciplined, but forward-looking manner, and anticipate costs to increase from £37 million to £39 million in 2016, with similar increases in each of 2017 and 2018.

FINANCIAL REVIEW

Income statement

	2015 **£m**	2014 £m
Revenue	**625**	632
Operating costs before depreciation and amortisation*	**(329)**	(330)
EBITDA*	**296**	302
Profit before tax*	**122**	121
Earnings per share*	**19.4p**	19.0p

*presented before exceptional items

EBITDA before exceptional items for the year ended 30 September 2015 is £296 million, £6 million lower than the previous year primarily due to disposals of underperforming assets.

Like-for-like net income represents like-for-like pub level profits from our leased, tenanted and free-of-tie estate, defined as pre-exceptional EBITDA stated before property costs of £29 million, administrative expenses of £37 million, unallocated other costs and income of £4 million and excluding £4 million of net income relating to disposals or non-licensed premises. We have seen our like-for-like net income for the year grow to £362 million (2014: £359 million). The growth in our like-for-like net income has been derived from a £1 million increase in rental income, a £1 million increase in income from beer supply as pricing and mix benefits, net of discounts, have offset volume decline and £1 million saving on discretionary support costs.

Pre-exceptional net finance costs of £158 million are £7 million lower than the previous 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 securitisation notes following scheduled repayments totalling £71 million during the year. This equates to an average interest rate in the year of 6.7% (2014: 6.7%).

The effective tax rate on the pre-exceptional trading profits arising in the year was 20.5%, lower than the previous year (2014: 21.5%) primarily due to a reduction in the statutory corporation tax rate.

Adjusted earnings per share of 19.4p, was up 2.1% on the previous year. Basic EPS was a loss in the year of 13.0p compared to earnings of 5.9p in the previous year, driven predominantly by the impact of the annual property valuation.

Exceptional items

Total pre-tax exceptional charges are £193 million (2014: £85 million) comprising a charge of £26 million (2014: £nil) in respect of debt refinancing charges; a £163 million (2014: £75 million) charge in respect of a reduction in the value of the estate of which £120 million (2014: £42 million) arose from the annual valuation exercise and £43 million (2014: £33 million) arose from the revaluation of assets on transfer to non-current assets held for sale; an £8 million (2014: £7 million) charge relating to goodwill allocated to disposals; a £nil (2014: £10 million) provision for a settlement charge in respect of our pension obligations; £1 million (2014: £3 million) of exceptional administrative charges and £nil (2014: £2 million) of exceptional net finance costs. These exceptional charges are partly offset by the profit on disposal of property, plant and equipment (before goodwill allocation) of £5 million (2014: £12 million). The exceptional tax credit of £31 million (2014: £20 million) primarily relates to the deferred tax credits on the movement in the valuation of the pub estate.

The annual revaluation resulted in a write down of the total estate of £101 million or 2.7% (2014: £75 million or 1.9%) of which £120 million (2014: £42 million) was charged to the income statement and £19 million credited (2014: £33 million charged) to other comprehensive income. Each year we undertake a full revaluation of the total asset portfolio using a combination of internal and external qualified valuers. This year we appointed a new valuer, Colliers International, to value the entire Unique estate. Previously this estate was largely valued internally with a representative sample of 200 assets valued by Christie & Co. The basis of valuation remains consistent with previous years but with the appointment of Colliers 92% of the total Group estate is now valued externally compared to 47% in previous years.

Balance sheet

Our balance sheet remains strong with a total net asset value of £1.35 billion (2014: £1.40 billion). Gross property assets are the most significant assets in the balance sheet and are recorded at £3.7 billion (2014: £3.9 billion) of which 92% (2014: 47%) is valued on an annual basis by external, independent valuers. Group net debt includes the most significant liabilities in the balance sheet and has reduced to £2.3 billion (2014: £2.4 billion) during the year.

The share price at 30 September 2015 of £1.08 (2014: £1.24), which equates to an equity value of £541 million, compares to a net asset value per share of £2.70 (2014: £2.80). The differential between net asset value and market value reflects current market sentiment but does not, we believe, reflect the underlying value of the Group.

Cash flow

Net cash flow from operating activities at £265 million (2014: £278 million), was down primarily due to the reduction in pre-exceptional operating profits of £6 million, a cash outflow of £4 million from working capital and a £5 million increase in tax paid in respect of a settlement agreement with HMRC regarding a long outstanding tax matter.

Net cash flows from investing activities generated £6 million in the year (2014: £7 million) as disposal proceeds of £75 million (2014: £73 million) were used to fund capital investment of £69 million (2014: £66 million).

Financing cash flows primarily reflect interest paid of £158 million (2014: £167 million), net loan repayments of £77 million (2014: £129 million) and £28 million paid on the bank and bond refinancing completed during the year. In addition, the Group has paid £5 million during the year (2014: £nil) to buy back shares in order to satisfy outstanding share awards. No Unique securitisation notes have been purchased and cancelled in the year (2014: £10 million).

Capital structure

We have a long-term, secure, flexible and tax efficient financing structure comprising bank borrowings, securitised notes and corporate bonds. We are a cash generative business and have used excess cash flows to reduce debt. During the current financial year we have reduced net debt to £2.3 billion (2014: £2.4 billion) and at the year end we have property assets, with an up to date value in our balance sheet at £3.7 billion (2014: £3.9 billion), representing a loan to value ratio of 63% (2014: 62%)

To align our capital structure with our operational strategy we are today launching a proposal to the holders of our Enterprise corporate bonds which will align the permitted business within the bond definitions to facilitate our new business strategy. In addition we are in the process of reviewing the Unique securitisation structure to identify enhancements that could be proposed which would further facilitate the delivery of our strategic objectives.

Corporate and convertible bonds
As at 30 September 2015 we had £1,125 million (2014: £1,125 million) of secured corporate bonds which are non-amortising, secured against ring-fenced portfolios of freehold pubs and attract fixed interest rates averaging approximately 6.4% (2014: 6.5%).

On 7 October 2014, we completed a partial refinancing of our 2018 corporate bonds lowering interest cost and extending debt maturity. Prior to the refinancing, £600 million of secured corporate bonds due in 2018 were outstanding with a coupon of 6.5%. We received and accepted tender instructions for £249.5 million of these bonds at a cash purchase price of 108.75% of their principal amount. In connection with this partial refinancing we issued a new £249.5 million secured corporate bond due in October 2023 at a coupon of 6.0%, resulting in a reduction of the corporate bonds due in 2018 to £350.5 million. The new issue benefits from a security package on substantially the same terms as the 2018 bonds.

In addition to the corporate bonds, we have an unsecured seven year convertible bond that was issued in September 2013 for gross proceeds of £97 million. The convertible bond has a coupon rate of 3.5% and is convertible at a share price of £1.91 into 50.8 million ordinary shares.

Bank borrowings
At 30 September 2015 our drawn bank borrowings net of Enterprise cash were £50 million (2014: £46 million), broadly in line with the previous year as cash generated from the business has been used to meet scheduled amortisation of the securitised notes and to fund the costs of the 2018 bond refinancing.

On 7 October 2014 we replaced our bank facilities with a new £138 million non-amortising revolving credit facility which is available through to September 2018. This extended the maturity of our previous facility and benefits from improved terms, simplified covenants and lower pricing with a new interest rate of 300 basis points above LIBOR.

The total cash outflow arising from the bank and bond refinancing was £28 million, being £22 million in respect of the repurchase premium on the bond, which has been charged as an exceptional item, and total fees and disbursements of £6 million, of which £4 million has been charged as an exceptional item and £2 million deferred over the life of the new debt instruments.

Securitised notes
During the year we have repaid scheduled amortisation of £71 million of the Unique class A3 and A4 securitised notes, leaving £1.2 billion outstanding at the year end. The notes amortise over a period to 2032 and attract interest rates of between 5.7% and 7.4%. At 30 September 2015 the Group was £74 million ahead of the amortisation schedule of the "class A" securitised notes through early repayment and market purchases. Although we have not purchased any notes during the current year, we still remain one year ahead of our amortisation schedule which will require us to make payments of £74 million during 2016, £78 million in 2017 and £82 million in 2018.

We intend to issue a trading update to coincide with our Annual General Meeting on 11 February 2016.

W S Townsend
17 November 2015

Group Income Statement
for the year ended 30 September 2015

	Notes	**2015** Pre-exceptional items £m	**2015** Exceptional items £m	**2015** Total £m	2014 Pre-exceptional items £m	2014 Exceptional items £m	2014 Total £m
Revenue		**625**	**-**	**625**	632	-	632
Operating costs before depreciation and amortisation		**(329)**	**(1)**	**(330)**	(330)	(13)	(343)
EBITDA #		**296**	**(1)**	**295**	302	(13)	289
Depreciation and amortisation		**(16)**	**-**	**(16)**	(16)	-	(16)
Operating profit/(loss)		**280**	**(1)**	**279**	286	(13)	273
Profit on sale of property, plant and equipment	4	**-**	**5**	**5**	-	12	12
Goodwill allocated to disposals	4	**-**	**(8)**	**(8)**	-	(7)	(7)
Net (loss)/profit on sale of property, plant and equipment		**-**	**(3)**	**(3)**	-	5	5
Movements in the valuation of the estate and related assets	5	**-**	**(163)**	**(163)**	-	(75)	(75)
Finance costs	6	**(158)**	**(26)**	**(184)**	(165)	(2)	(167)
Profit/(loss) before tax		**122**	**(193)**	**(71)**	121	(85)	36
Taxation	7,8	**(25)**	**31**	**6**	(26)	20	(6)
Profit/(loss) after tax attributable to members of the Parent Company		**97**	**(162)**	**(65)**	95	(65)	30
Earnings per share							
Basic	9			**(13.0)p**			5.9p
Basic diluted	9			**(13.0)p**			5.8p
Adjusted *	9	**19.4p**			19.0p		
Adjusted diluted *	9	**19.4p**			18.6p		

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

Statement of Comprehensive Income
for the year ended 30 September 2015

	2015 **£m**	2014 £m
(Loss)/profit for the year	**(65)**	30
Items that will not be reclassified to the Income Statement:		
Unrealised surplus/(deficit) on revaluation of the estate	**19**	(33)
Movement in deferred tax liability related to revaluation of the estate	**(7)**	7
Revaluation of assets on transfer to non-current assets held for sale	**(1)**	(5)
Remeasurement of defined benefit pension scheme	**-**	(1)
Other comprehensive income/(loss) for the year net of tax	**11**	(32)
Total comprehensive loss for the year attributable to members of the Parent Company	**(54)**	(2)

Group Balance Sheet
as at 30 September 2015

	Notes	**2015 £m**	2014 £m
Non-current assets			
Goodwill		**330**	338
Intangible assets: operating lease premiums		**10**	10
Property, plant and equipment	10	**3,663**	3,834
Trade receivables		**3**	3
		4,006	4,185
Current assets			
Trade and other receivables		**40**	36
Cash		**127**	123
		167	159
Non-current assets held for sale	11	**33**	30
Total assets		**4,206**	4,374
Current liabilities			
Trade and other payables		**(176)**	(179)
Current tax payable		**(3)**	(12)
Financial liabilities		**(74)**	(109)
Pension		**(2)**	(3)
		(255)	(303)
Non-current liabilities			
Financial liabilities		**(2,373)**	(2,418)
Provisions		**(4)**	(4)
Current tax payable in more than one year		**-**	(2)
Deferred tax		**(223)**	(237)
Pension		**(5)**	(7)
		(2,605)	(2,668)
Total liabilities		**(2,860)**	(2,971)
Net assets		**1,346**	1,403
Equity			
Called up share capital		**14**	14
Share premium account		**486**	486
Revaluation reserve		**730**	723
Capital redemption reserve		**11**	11
Merger reserve		**77**	77
Treasury share reserve		**(227)**	(227)
Other reserve		**9**	8
Profit and loss account		**246**	311
Enterprise Inns shareholders' equity		**1,346**	1,403

Group Statement of Changes in Equity
at 30 September 2015

	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 1 October 2013	14	486	754	11	77	(227)	2	285	1,402
Profit for the year	-	-	-	-	-	-	-	30	30
Other comprehensive loss	-	-	(31)	-	-	-	-	(1)	(32)
Total comprehensive (loss)/income	-	-	(31)	-	-	-	-	29	(2)
Transfer of realised revaluation surplus	-	-	(6)	-	-	-	-	6	-
Transfer of deferred tax	-	-	6	-	-	-	-	(6)	-
Share based expense recognised in operating profit	-	-	-	-	-	-	-	2	2
Share option entitlements exercised in the year	-	-	-	-	-	-	6	(5)	1
At 30 September 2014	14	486	723	11	77	(227)	8	311	1,403
Loss for the year	-	-	-	-	-	-	-	(65)	(65)
Other comprehensive income	-	-	11	-	-	-	-	-	11
Total comprehensive income/(loss)	-	-	11	-	-	-	-	(65)	(54)
Transfer of realised revaluation surplus	-	-	(9)	-	-	-	-	9	-
Transfer of deferred tax	-	-	5	-	-	-	-	(5)	-
Share based expense recognised in operating profit	-	-	-	-	-	-	-	2	2
Share option entitlements exercised in the year	-	-	-	-	-	-	6	(6)	-
Purchase of own shares into EBT	-	-	-	-	-	-	(5)	-	(5)
At 30 September 2015	14	486	730	11	77	(227)	9	246	1,346

Group Cash Flow Statement
for the year ended 30 September 2015

	2015	2014
	£m	£m
Cash flow from operating activities		
Operating profit	**279**	273
Depreciation and amortisation	**16**	16
Share-based expense recognised in profit	**2**	2
Pension settlement charge recognised in profit	**-**	10
(Increase)/decrease in receivables	**(4)**	9
Decrease in payables	**(2)**	(4)
Decrease in provisions	**-**	(7)
	291	299
Tax paid	**(26)**	(21)
Net cash flows from operating activities	**265**	278
Cash flows from investing activities		
Payments made on improvements to public houses	**(66)**	(64)
Payments to acquire other property, plant and equipment	**(3)**	(2)
Receipts from sale of property, plant and equipment	**75**	73
Net cash flows from investing activities	**6**	7
Cash flows from financing activities		
Interest paid	**(158)**	(167)
Interest received	**1**	-
Receipts from exercise of share options	**-**	1
Repayment of finance lease creditors	**-**	(1)
Debt extinguishment costs	**(26)**	-
Issue costs of new debt	**(2)**	-
Payments to acquire own debt	**-**	(10)
Payments to acquire own shares	**(5)**	-
New loans	**397**	140
Repayment of loans	**(474)**	(269)
Net cash flows from financing activities	**(267)**	(306)
Net increase/(decrease) in cash	**4**	(21)
Cash at start of year	**123**	144
Cash at end of year	**127**	123

Notes

1. Status of information

The financial information for the years ended 30 September 2015 and 2014 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 2014 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 30 September 2015 have not yet been delivered to the Registrar of Companies. The information contained in this announcement was approved by the Board on 16 November 2015.

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 2014 with the exception of the following new standards, interpretations and amendments which are effective for periods beginning on or after 1 January 2014 and have therefore been adopted since 30 September 2014:

- Amendment to IFRS 2: Share Based Payments – Definition of vesting conditions
- Amendment to IFRS 13: Fair Value Measurement – Short-term receivables and payables
- Amendment to IAS 24: Related Party Disclosures – Key management personnel
- Amendment to IAS 32: Financial Instruments: Presentation – Offsetting financial assets and financial liabilities
- IFRIC 21: Levies
- IFRS 10: Consolidated Financial Statements
- IFRS 11: Joint Arrangements
- IFRS 12: Disclosure of Interest in Other Entities

The above amendments to the published standards have not had a material impact on the results or the financial position of the Group.

The directors have considered the Group's financial resources including a review of the medium-term financial plan, which includes a review of the Group's cash flow forecasts for the period of at least 12 months from the date of approval of these financial statements.

The directors have also considered the impact of the Small Business, Enterprise and Employment Act which includes the introduction of a Statutory Code of Practice for the sector and a Market Rent Only option for certain leased pubs including the current anticipated timetable for implementation and the alternative actions available to the Enterprise Group in response to the legislation.

Based on the outcome of the above consideration the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the period of the review. 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 £1 million has been recognised in the year relating to costs incurred in respect of assignment premiums paid. The prior year charge of £13 million includes £10 million in relation to the charge for the future settlement of the defined benefit pension scheme and £3 million relates to reorganisation costs, primarily costs associated with the retirement of the former Chief Executive Officer, a fundamental reorganisation of the Group's operations team and costs incurred in respect of one-off regulatory matters.

4. (Loss)/profit on sale of property, plant and equipment

	2015 £m	2014 £m
Profits on sale of property, plant and equipment	**8**	16
Losses on sale of property, plant and equipment	**(3)**	(4)
Profit on sale of property, plant and equipment	**5**	12
Goodwill allocated to disposals	**(8)**	(7)
Net (loss)/profit on sale of property, plant and equipment	**(3)**	5

During the year 260 properties (2014: 230 properties) and various other plots of land with a book value of £68 million (2014: £61 million) were disposed of generating gross proceeds of £82 million (2014: £80 million) which, after taking account of disposal costs, resulted in an overall profit of £5 million (2014: £12 million).

In accordance with IAS 36 purchased goodwill is allocated to operations disposed of, based on the relative value of the disposal to operations retained. Accordingly, goodwill of £8 million (2014: £7 million) has been allocated to the 260 properties (2014: 230 properties) disposed of during the year.

5. Movements in valuation of the estate and related assets

	2015 £m	2014 £m
Movements in property, plant and equipment from revaluation of the estate (see note 10)	**(120)**	(42)
Revaluation of assets on transfer to non-current assets held for sale (see note 10)	**(43)**	(33)
	(163)	(75)

A valuation of the entire estate excluding non-current assets held for sale has been carried out at the year end. The result of the valuation is that the estate, excluding non-current assets held for sale, has fallen by £101 million. Of this net write-down, £19 million has been credited to Other Comprehensive Income and £120 million has been charged to the Income Statement as an exceptional item, reflecting property value movements below historic cost.

In respect of assets revalued on transfer to non-current assets held for sale, a total net write-down of £44 million has been recorded. Of this net write-down, £1 million has been debited to Other Comprehensive Income and £43 million has been charged to the Income Statement as an exceptional item. At the year end, there are 114 properties (2014: 118 properties) included within non-current assets held for sale which have been recorded at the lower of carrying value on transfer to non-current assets held for sale, as assessed at the time of transfer, and fair value less costs to dispose.

6. Exceptional net finance costs

On 7 October 2014 the Group completed a partial refinancing of the 2018 corporate bonds. The partial refinancing has resulted in a lower interest cost and an extended debt maturity. Prior to the refinancing £600 million of 2018 corporate bonds were outstanding with a coupon of 6.5%. The Group received and accepted tender instructions for £249.5 million of these bonds at a cash purchase price of 108.75% of their principal amount. In connection with this partial refinancing the Group issued new £249.5 million secured corporate bonds due in October 2023 at a coupon of 6.0%, resulting in a reduction of the corporate bonds due in 2018 to £350.5 million. The new issue benefits from a security package on substantially the same terms as the 2018 bonds.

On 7 October 2014 the Group also replaced the bank facilities previously in place with a new £138 million non-amortising revolving credit facility which is available through to September 2018. This extends the maturity of the previous facility and also benefits from improved terms, simplified covenants and lower pricing with a new interest rate of 300 basis points above LIBOR. As the commercial features of the borrowings have fundamentally changed, the Group classified this as an extinguishment.

The total cash outflow arising from the bank and bond refinancing was £28 million, being £22 million in respect of the repurchase premium on the extinguished bond, which has been charged as an exceptional item, and total fees and disbursements of £6 million, of which £4 million has been charged as an exceptional item and £2 million arising on the new bond has been deferred over the life of the new debt instruments.

The exceptional finance costs incurred in the prior year included interest accrued on tax provisions and finance arrangement fees written off following the Group's commitment to the new revolving credit facility.

7. Exceptional taxation

Under IFRS, a deferred tax liability has been recognised on the Balance Sheet relating to the 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 debit of £7 million (2014: credit of £2 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 £28 million (2014: £10 million) relating to the revaluation of the estate and net profit on disposal of properties recognised in the Income Statement reduces the deferred tax liability.

An exceptional tax credit of £10 million (2014: £8 million) has been recognised in relation to all other exceptional items in the Income Statement. The total exceptional tax credit is therefore £31 million (2014: £20 million).

The UK Government reduced the rate of corporation tax from 21% to 20% effective from 1 April 2015. Deferred taxation has been calculated based on the current substantively enacted rate of 20%.

8. Taxation

The pre-exceptional tax charge of £25 million (2014: £26 million) for the year equates to an effective tax rate of 20.5% (2014: 21.5%). The effective tax rate does not include the effect of exceptional items.

9. Earnings per share

The calculation of basic earnings per share is based on the (loss)/profit attributable to ordinary shareholders for the year divided by the weighted average number of equity shares in issue during the year after excluding shares held by trusts relating to employee share options and shares held in treasury.

Adjusted earnings per share, which the directors believe reflects the underlying performance of the Group, is based on earnings attributable to ordinary shareholders adjusted for the effects of exceptional items, net of tax divided by 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 2015 any potential ordinary shares to be included when considering diluted earnings per share are anti-dilutive. 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 2014 diluted earnings per share is based on the profit for the year divided by the weighted average number of equity shares in issue during the year adjusted for dilutive ordinary shares relating to share options. The potential adjustment in relation to the convertible bonds was anti-dilutive to the calculation of basic diluted earnings per share and was therefore not included in the calculation for both basic diluted and adjusted diluted earnings per share. The 30 September 2014 basic diluted and adjusted diluted earnings per share have been amended on this basis.

	2015		2014	
	Earnings	**Per share amount**	Earnings	Per share amount
	£m	**p**	£m	p
Basic (loss)/profit per share	**(65.3)**	**(13.0)**	29.7	5.9
Diluted (loss)/profit per share	**(65.3)**	**(13.0)**	29.7	5.8
Adjusted profit per share	**97.4**	**19.4**	94.9	19.0
Adjusted diluted profit per share	**97.4**	**19.4**	94.9	18.6

	2015	2014
	m	m
Weighted average number of shares	**501.0**	500.5
Dilutive share options	**-**	9.7
Diluted weighted average number of shares	**501.0**	510.2

10. Property, plant and equipment

	Licensed land and buildings	Landlords' fixtures and fittings	Other assets	Total
	£m	£m	£m	£m
Cost or valuation				
At 1 October 2014	3,613	259	37	3,909
Additions	35	28	3	66
Revaluation:				
- Recognised in the Statement of Comprehensive Income	19	-	-	19
- Recognised in the Income Statement	(120)	-	-	(120)
Revaluation of assets on transfer to non-current assets held for sale:				
- Recognised in the Statement of Comprehensive Income	(1)	-	-	(1)
- Recognised in the Income Statement	(43)	-	-	(43)
Net transfers to non-current assets held for sale	(61)	(14)	-	(75)
Disposals	-	(10)	(1)	(11)
At 30 September 2015	**3,442**	**263**	**39**	**3,744**
Depreciation				
At 1 October 2014	17	46	12	75
Charge for the period	2	11	3	16
Net transfers to non-current assets held for sale	(1)	(3)	-	(4)
Disposals	-	(5)	(1)	(6)
At 30 September 2015	**18**	**49**	**14**	**81**
Net book value				
At 30 September 2015	**3,424**	**214**	**25**	**3,663**
At 30 September 2014	3,596	213	25	3,834

11. Non-current assets held for sale

	2015 £m	2014 £m
At 1 October	**30**	39
Net transfer from property, plant and equipment	**71**	51
Write-down to fair value less costs to dispose	**(1)**	(1)
Disposals	**(67)**	(59)
At 30 September	**33**	30
Representing:		
Property, plant and equipment	**33**	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 revalued at that point to their fair value less costs to dispose. At the end of the year non-current assets held for sale includes 114 properties (2014: 118 properties) 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

	2015	2014
	£m	£m
Increase/(decrease) in cash in the year	**4**	(21)
Cash outflow from change in debt	**77**	139
Issue costs of new long-term loans	**2**	-
Movement in finance lease payables	**-**	1
Change in net debt resulting from cash flows	**83**	119
Amortisation of issue costs and discounts/premiums on long-term loans	**(1)**	(4)
Amortisation of the fair value adjustments of securitised bonds	**5**	4
Convertible loan note effective interest	**(3)**	(2)
Movement in net debt in the year	**84**	117
Net debt at start of year	**(2,404)**	(2,521)
Net debt at end of year	**(2,320)**	(2,404)

b) Analysis of net debt

	2015	2014
	£m	£m
Bank borrowings	**(75)**	(81)
Corporate bonds	**(1,222)**	(1,222)
Securitised bonds	**(1,150)**	(1,221)
Gross debt	**(2,447)**	(2,524)
Cash	**127**	123
Underlying net debt	**(2,320)**	(2,401)
Capitalised debt issue costs	**12**	11
Fair value adjustments on acquisition of bonds	**(25)**	(30)
Convertible loan note effective interest	**(5)**	(2)
Convertible bond reserve	**21**	21
Finance lease payables	**(3)**	(3)
Net debt	**(2,320)**	(2,404)
Balance sheet:		
Current financial liabilities	**(74)**	(109)
Non-current financial liabilities	**(2,373)**	(2,418)
Cash	**127**	123
Net debt	**(2,320)**	(2,404)

Underlying net debt represents amounts repayable to banks and other lenders net of cash retained in the business. Cash includes £93 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 summarises the principal risks and uncertainties facing the Group. Full details of the principal risks and uncertainties are set out in the Annual Report and Accounts. 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 risk management processes in place to identify and evaluate these risks, however some of the risks are external and therefore beyond our direct control. The Board formally reviews all key 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 most significant principal risks and uncertainties are:

Regulatory factors

The Small Business, Enterprise and Employment (SBEE) Bill received Royal Assent on 26 March 2015 and has therefore become primary legislation. Further work is now taking place to finalise the detail of the new regulatory regime, however the key proposals were to establish a Statutory Code of Practice, to be overseen by an independent Adjudicator, and to provide a tenant's right, under certain circumstances, to change the freely-negotiated commercial terms of their agreement to a new Market Rent Only (MRO) contract.

The Government has since launched the first tranche (of two) of its Consultation on the wording of the statutory Pubs Code, which is expected to come into effect by 26 May 2016. Although this removes some of the uncertainty in the sector, until the parliamentary process is complete and the final detail is known, the potential costs of implementation and the operation of the regime could have an impact upon our profitability, our operational strategy and our relationships with our publicans.

Other risks include reputational risk arising from the possibility of legal, 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 and legally binding Code of Practice to promote a mutually beneficial relationship with its publicans.

Whilst we remain of the view that the flexible industry-owned framework of self-regulation is working and is the best solution for all interested parties, we recognise the intent of a statutory regime and are working with the relevant bodies as part of the process to develop the Pubs Code and associated guidance and shall respond formally to both tranches of the Consultation.

In order to mitigate any potential impact to total income, the Group is developing the necessary operational flexibility and capabilities to enable it to apply alternative operating models to the pubs in the estate that could potentially be affected by MRO.

Property valuations

Valuations of the Group's property portfolio have been affected by general economic conditions and resulting downwards pressure on maintainable income streams. These circumstances could continue and therefore reduce the valuation of the portfolio over time. There is a risk that future changes in the UK property market and general economic conditions could impact the value of our portfolio and the ability to dispose of underperforming pubs and the realisations from such disposals. Property valuations also have an implication for the overall value of the Group and impact on financial covenants.

Mitigation process: The Group ensures that every pub in its portfolio is valued annually at market value by qualified external and internal valuers in accordance with RICS Valuation Standards and the requirements of International Financial Reporting Standards. 92% of the estate is now valued by independent, external valuers. We conduct a full estates review on an annual basis which allows us to set a future strategy for each pub in the estate. This review also guides our investment in capital expenditure, allows us to consider possible alternative uses or to dispose of those pubs which no longer fit our strategy.

Liquidity risk

The Group has a flexible financing structure comprising bonds issued from the Unique securitisation (securitised bonds), corporate bonds issued by the Company and bank borrowings. The primary liquidity risks are the requirement to meet all on-going finance costs, repay the principal amounts of the securitised borrowings as they amortise and the corporate bonds as they fall due, ensuring there are sufficient funding facilities in place to enable the business to meet all cash flow requirements as they fall due and meeting the financial covenants associated with the financing structure.

Mitigation process: Throughout the year the Group tests all of the financial covenants and the Board regularly reviews detailed financial forecasts of the Group to ensure there is sufficient headroom on all covenants and cash available to meet the requirements of the Group. There are a number of options available to the Group to manage its financing commitments.

On 7 October 2014 the Group completed a refinancing which effectively moved £249.5 million of the £600 million debt that was due to be repaid in 2018 to a later maturity of 2023. At the same time the bank facility was extended to 2018. Other than the on-going amortisation of the securitised bonds, these are the next scheduled repayments facing the Group.