20 November 2018

Ei Group plc

Preliminary announcement for the financial year ended 30 September 2018

A great summer for pubs and another successful year

Ei Group plc (EIG or Group), the largest owner and operator of pubs in the UK, today announces its results for the year ended 30 September 2018.

Financial highlights

- Further growth in net asset value to £3.34 per share (2017: £3.13 per share)
- Underlying EBITDA# level at £287 million (2017: £287 million), in line with expectations and assisted by a great summer for pubs given the success of the England football team at the FIFA World Cup and some prolonged periods of good weather
- Underlying profit before tax# of £122 million (2017: £121 million)
- Statutory profit after tax of £72 million (2017: £54 million), after non-underlying finance costs of £6 million (2017: £30 million) and non-underlying property charges of £25 million (2017: £24 million)
- Basic earnings per share of 15.2p (2017: 11.2p) which, adjusting for non-underlying items, delivers underlying earnings per share# of 21.2p (2017: 20.5p)
- Announcement of a further share buyback programme of up to £20 million commencing with immediate effect which follows completion of £20 million share buyback in March 2018

Operational progress

- **Positive momentum in our operating divisions**
  - *Publican Partnerships*
    - Like-for-like net income# up 1.2% (2017: up 2.3%) with growth across all geographic regions
    - Average net income per pub# up 2.3% to £81,400 (2017: £79,600)
  - *Commercial Properties*
    - Total portfolio of 412 (2017: 331) commercial properties generating net annualised rental income of £29 million (2017: £23 million)
    - Average net income per property# up 8.2% to £72,300 (2017: £66,800)
    - Exploring monetisation of the commercial property portfolio which may include the disposal of all or part of the portfolio
  - *Managed Pubs*
    - Like-for-like sales growth of 7.1% (2017: up 2.4%) across our largely wet-led managed house businesses
    - Managed Operations – building scale and performance; growth on track with 308 (2017: 226) pubs trading within our 100% owned Managed Operations division with 54 (2017: 48) trading within our Bermondsey operation and 254 (2017: 178) within our drinks-led Craft Union operation.
    - Managed Investments - continued progress with 47 (2017: 30) pubs trading within our Managed Investments division with 11 specialist partners

- **Stable and robust balance sheet and cash flows**
  - Annual property estate valuation stable for third consecutive year
  - Strong operating cash flows of £271 million (2017: £261 million) and disposal proceeds of £66 million (2017: £100 million) funded capital investment of £81 million (2017: £80 million) and debt reduction
  - Sufficient available bank facilities to repay the £100.5 million corporate bonds due 6 December 2018
  - Net debt reduced to £2.0 billion (2017: £2.1 billion), equivalent to loan-to-value of 56%

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

"2018 has been a notable year for the Group, as the strategic plan we launched in 2015 has evolved and matured to the extent that our implementation of the strategy is now "business as usual". We are very pleased to have maintained positive momentum in our leased and tenanted business whilst at the same time transitioning selected assets into the alternative formats and operating models of our other business units. The good investment returns we are achieving upon conversion to Managed Operations have been maintained, and the like-for-like sales performance of the enlarged managed business has been very encouraging throughout the year. Our commercial property estate has grown substantially in quality and scale and, consistent with our objective to consider monetising the value of all or part of this business, we have received indications that this attractive, diverse, well-located, income-yielding portfolio of assets is of considerable interest to potential acquirers.

We welcome the Chancellor of the Exchequer's decisions in the Autumn Budget to freeze beer duty and to reduce the burden of business rates for small businesses which are important gestures of support for the role that UK pubs and publicans play at the heart of their local communities. Notwithstanding the wider uncertainty that prevails across the UK currently, our strategy and our flexible business models provide us with the confidence that we can continue to deliver like-for-like net income growth for the current year in our Publican Partnerships and Commercial Properties businesses, and like-for-like sales growth in our expanding managed businesses.

We continue to take appropriate steps to ensure that the Group's capital structure enables and supports our objective to deliver attractive and sustainable returns for shareholders, as demonstrated by today's announcement to initiate a further share buyback programme of up to £20 million.

Our strategic plan is on track and we remain focussed on driving long-term growth in shareholder value."

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The Preliminary Results presentation will be available on the Company website at www.eigroupplc.com. A live video webcast of the presentation will be available on the investor zone section on the above website from 11.30am. Alternatively, a live conference call of the presentation can be accessed at 11.30am by dialling +44 (0) 20 3003 2666 or 1 866 966 5335 (USA callers). A replay of the conference call will be available for seven days on +44 (0) 20 8196 1998 and 1 866 595 5357 (USA callers) using replay passcode 7198871#.

 # Alternative Performance Measures (APMs)

In the reporting of financial information throughout these results, the Directors have adopted various APMs that are not required by, or presented in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS**") or any other Generally Accepted Accounting Standards. These non-IFRS measures are presented in order to provide important alternative measures with which to assess the Group's underlying trends, performance and position and to present additional information that reflects how the Directors monitor and measure the progress of the Group. You should not consider these measures as alternatives for IFRS measures and you should be aware that our calculations of these measures may be different from the calculation used by other companies and, therefore, comparability may be limited. Further details and definitions of the APMs included in this announcement, including reconciliation to reported measures can be found in notes 4, 5, 6 and 12.

Forward-looking statements

This announcement contains certain statements about the future outlook for EIG. Although we believe that 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.

OPERATIONAL AND STRATEGIC REVIEW

Overview

We are pleased to report our preliminary results for the year ended 30 September 2018, the third complete financial year following the launch of the Group's new strategy in May 2015. We have delivered underlying EBITDA of £287 million, in line with the prior year, despite the continuation of planned asset disposals. Underlying profit before taxation was £122 million, up £1 million on the prior year as lower interest costs, resulting from reduced levels of debt, have offset higher depreciation charges.

The Group has made good progress in each of its three reportable segments: Publican Partnerships, our leased and tenanted business; Commercial Properties, our free-of-tie and non-pub property business; and Managed Pubs, which include Managed Operations that are 100% owned by the Group and Managed Investments that are joint ventures with experienced retail partners.

As our business has evolved since we launched our new strategy, we have modified the execution of that strategy, reflecting on our experiences to date and also taking account of the rapidly changing marketplace in which we operate. At the same time as building a substantial managed business which now comprises 355 outlets, with the necessary skills and infrastructure to operate such a business successfully and efficiently, we have grown a high quality, diversified commercial property business comprising 412 sites, predominantly pubs and restaurants but also including a variety of other commercial and residential uses. The Group has continued to optimise both its organisational structure and the deployment of resources in order to accommodate such a transformation, as assets have transferred out of the leased and tenanted estate into the managed and commercial property estates.

Against this background, it is testament to the skill and professionalism of our operational teams in the Publican Partnerships business, and the strength of relationships that they have built with the vast majority of lessees and tenants, that we have continued to deliver growth in like-for-like net income across the estate throughout the financial year. In addition to the transition of 180 sites into alternative operating models, the Publican Partnerships team have also accommodated the ongoing complexity of the Pubs Code Regulations 2016 (the "Pubs Code") which came into effect in July 2016 and the Market Rent Only (MRO) option that it provides, whilst at the same time deploying capital into growth opportunities across the estate and delivering a substantial range of services and support to our publicans.

As our managed businesses grow in scale, diversity and geographic reach, delivering increased earnings to the Group, we are able to bring more examples of best practice to bear in our leased and tenanted pub business and utilise our purchasing scale to greater effect to help our publicans grow their sales and reduce their costs. By adding operational value in this way, and by deploying the Group's capital to drive earnings growth, we will continue to create sustainable value in our two primary businesses of leased and tenanted pubs and wholly-owned Managed Operations.

Separately, through the progressive transfer of selected assets to commercial property lease agreements, we are unlocking the embedded value that resides in such properties. Our ability thereafter to add further value to the portfolio is limited, to the extent that the potential disposal of some, or all, of the portfolio is likely to realise best value for shareholders. Similarly, we have built our Managed Investments joint ventures specifically to realise value in selected sites to a much greater extent than would be achievable under our own Managed Operations, with a clear objective to monetise the value of those businesses when appropriate. We anticipate that, over time, the Group will realise proceeds which may then be deployed to create further value through repayment of debt, investment in our retained businesses or returns to shareholders.

Publican Partnerships

Publican Partnerships is the trading name for our tied leased and tenanted business which remains the largest part of our Group. Publican Partnerships contributed £307 million (2017: £325 million) to the underlying EBITDA of the Group reported in the year.

As at 30 September 2018, we had 3,718 (2017: 4,051) pubs trading within the leased and tenanted estate with average net income per pub growing by 2.3% to £81,400 (2017: £79,600). The success of the England football team in the FIFA World Cup combined with some prolonged periods of good weather resulted in a great summer for pubs and provided us with an estimated £2 million incremental benefit to income. We delivered like-for-like net income growth of 1.2% (2017: 2.3%) for the full year with our Northern estate sustaining the positive momentum that was achieved last year, with further growth (income up 0.5%), while we maintained our like-for-like net income growth in the Midlands (income up 0.9%) and delivered strong growth in the South (income up 1.6%).

Location	No. of trading pubs at 30 September 2018	Net income FY18 £m	% of total net income FY18	Net income FY17 £m	Net income change FY18 %
North	1,031	78.2	26	77.8	0.5
Midlands	746	55.0	18	54.5	0.9
South	1,941	169.5	56	166.9	1.6
Total	**3,718**	**302.7**	**100**	**299.2**	**1.2**

Like-for-like net income growth in the leased and tenanted business has been maintained through the great work of our publicans supplemented by our business enhancing support and our desire to invest capital alongside the best publicans to improve the trading performance by enhancing the retail offer. In the year to 30 September 2018 we invested £19 million (2017: £20 million) in growth-orientated schemes across 322 (2017: 351) tied agreements and have delivered an average pre-tax return on investment (ROI) of 19% (2017: 21%).

We provide our tied leased and tenanted publicans with a broad range of services to help them increase sales and reduce costs, and to operate their pubs efficiently and effectively. Our growing managed businesses are now providing us with additional insight, experience and best practice with which to further enhance the support we can provide to tied publicans in the Publican Partnerships business. We have now published a total of 28 Pub Principle Guides, including such business areas as product range, pricing, social media and GDPR-readiness, and our highly successful “eilive” roadshows saw an increase in number of publicans attending year on year. In the period we launched a new online ordering platform, and almost half of our publicans order a sizeable proportion of their weekly drinks requirement using this service.

The ability to assist publicans during periods of economic challenge is a key attribute of the business model operated by our Publican Partnerships business. The proactive intervention of our regional managers to identify and then avoid potential business failures is particularly important should our publicans be facing increased inflationary pressures. Despite such external pressures there has been no material change in the number of unexpected business failures with 83, or 1.8% of the estate, (2017: 61, or 1.3% of the estate) suffering such failure in the period. Where appropriate we continue to provide direct financial assistance to tied publicans and this cost remains stable at £4 million in the year (2017: £4 million).

We have embraced the requirements of the Pubs Code and we have not seen a material impact on our financial results from its implementation. From the date of its introduction to 30 September 2018, there were 1,194 rent review or agreement renewal events which could potentially have triggered an MRO request. As required under the Pubs Code, we issued 310 MRO offers in response to requests by publicans of which 168 have been concluded by way of mutually agreed tied deals and 27 have resulted in new mutually agreed free-of-tie terms. In addition, 3 pubs have been sold, 16 leases have been repurchased from the occupational tenant and 5 claims have been cancelled by the tenant, with the balance of 91 not yet concluded. Of these, 54 have been referred to the Pubs Code Adjudicator for determination. It remains our working assumption that the majority of those cases which have been referred to the Adjudicator will ultimately lead to new, free-of-tie agreements being granted.

For the 1,194 pubs referred to above there are 894 which are still operated by the same publican on either tied or new free-of-tie agreements and in the year to 30 September 2018 these pubs delivered like-for-like net income growth of 0.2% compared to the prior period. The movement in our income for this group of pubs has not been as strong as the like-for-like net income growth of 1.2% achieved for the total estate reflecting, in part, the stronger negotiating position for publicans which the Pubs Code sets out to achieve.

We have reduced the number of longer-term leases and increased the proportion of our tied business operating under shorter-term tenancy agreements of up to five years in length. Since the concept of MRO agreements was first announced in November 2014 we have reduced the number of long-term agreements from 3,035 at that time to 1,804 as at 30 September 2018.

Managed Pubs

Our largely wet-led managed pubs contributed £28 million (2017: £13 million) to the underlying EBITDA of the Group reported in the year, with those sites that traded as managed pubs throughout both this year and the prior year delivering like-for-like sales growth of 7.1%. We are operating a significant managed house business and remain pleased with the progress made to date.

The current level of managed house conversions reflects the profile of opportunities that arise and represents an efficient transition pipeline. As such, looking forward, we expect to maintain a similar level of asset transition, converting in the region of 110-125 pubs per annum to managed formats, which will deliver approximately 600 managed pubs by 30 September 2020 and we expect conversions to continue beyond 2020.

Profile of pubs under management:	Actual as at 30 September 2017	Actual as at 30 September 2018	Indicative as at 30 September 2020
Managed Operations	226	308	500
Managed Investments	30	47	100
Total Managed Pubs	**256**	**355**	**600**

Managed Operations:

Our Managed Operations business represents our 100% owned managed pubs which are traded in two unbranded formats. The Craft Union format now has national coverage as a leading scale operator of community pubs, with one clear retail offer that is drinks-led with quality beers, at affordable prices, served in local, well-invested facilities. The Bermondsey format also operates nationally but has a more flexible retail offering, which can incorporate an element of food, and is increasingly tailored to reflect the pre-existing retail offer and consumer occasion.

As at 30 September 2018, we operated 308 pubs within Managed Operations (2017: 226) and we expect to add in the region of 90-100 further pubs in the current financial year.

As at 30 September 2018, we had 232 (2017: 109) pubs operating within Managed Operations that had been invested in and traded for more than six months. To that date, these pubs generated average annualised site EBITDA of £102,000, (2017: £96,000) from an average capital investment of £154,000 (2017: £154,000), which delivered an ROI of 23% (2017: 25%). As the estate matures we would expect our Managed Operations sites to continue to generate average site EBITDA in the region of £100,000 to £110,000. After an average capital investment in the region of £150,000, we expect to continue to deliver an ROI in excess of 20%.

Managed Investments:

In our Managed Investments business, we have developed a partnership model whereby we can work with carefully selected managed house operators to share in the benefits of trading in certain high quality and specialist retail segments. While we expect to selectively grow the number of partners with whom we are operating, our primary focus is to grow the scale of our existing partners, and enhance the quality of trading operations with the strategic intention of monetising their value at the appropriate time.

As at 30 September 2018, we had 47 pubs (2017: 30) trading with a total of eleven partners and we expect to add a further 20-25 pubs in the current financial year.

As at 30 September 2018, we had 27 (2017: 13) pubs operating within our Managed Investments business that had been invested in and traded for more than six months and these pubs to that date generated average annualised site EBITDA of £214,000 (2017: £230,000), from an average site capital investment of £392,000 (2017: £530,000), which delivered an ROI, after the relevant partner's minority interest, of 21% (2017: 17%). As we evolve and grow the Managed Investments business we expect the average capital investment to be in the region of £400,000 to £500,000 with average site EBITDA to be in the region of £175,000 to £225,000, which we expect to continue to deliver an ROI in excess of 20%.

Commercial Properties

Our Commercial Properties division contributed £27 million (2017: £21 million) to the underlying EBITDA of the Group reported in the year, with the average net income per property growing by 8.2% to £72,300 (2017: £66,800). Properties that traded as commercial properties throughout both the current year and the prior year delivered a strong like-for-like net income growth of 5.1% (2017: 1.4%).

The scale of the Commercial Properties division continues to grow as we transfer assets, predominately from our leased and tenanted business, in order to optimise value. As at 30 September 2018 we had 412 commercial properties (2017: 331), the vast majority of which trade as pubs on a free-of-tie basis. The underlying quality of the commercial property estate continues to improve, evidenced by the average annualised rental income per property increasing to £71,000 (2017: £69,000).

The expansion of our high quality commercial property portfolio will continue through open market negotiations with exceptional operators who offer good covenant strength, running highly profitable businesses in well-located properties.

Reflecting our value-led approach we have recently appointed Rothschild & Co to assist us to explore various possible routes to optimise value from this portfolio. This may include the disposal of all or part of the portfolio. We have received indications of interest to acquire the portfolio from a number of parties and if we were to reach agreement to sell all or a substantial part of the portfolio the sale would be conditional on shareholder approval. However, there can be no certainty at this time that a sale of all or part of the portfolio will be completed. Should no material monetisation occur beforehand, we would expect our commercial property business to grow to be in the region of 500 assets by September 2020.

OUTLOOK

The new financial year has started well, and the trading performance of our portfolio of businesses, together with the transfer of assets into alternative operating models, is progressing in line with our expectations.

Notwithstanding the current uncertainty which prevails across the UK, and the expectation of rising input costs, the underlying quality, diversity and resilience of our leased and tenanted and wet-led managed estate, combined with our ongoing investment and support, give us confidence that we can continue to deliver sustainable growth in like-for-like net income for the full year in our Publican Partnerships and Commercial Properties businesses, and like-for-like sales growth for the full year in our expanding managed house businesses.

FINANCIAL REVIEW

Income statement

	Underlying 30 September 2018 £m	Underlying 30 September 2017 £m
Revenue	**695**	648
Operating costs before depreciation and amortisation	**(408)**	(361)
EBITDA	**287**	287
Profit before tax	**122**	121
Earnings per share	**21.2p**	20.5p

We delivered underlying EBITDA of £287 million in line with the prior year. Within Publican Partnerships, our leased and tenanted business, like-for-like net income, the primary component of our underlying EBITDA, is derived from our rental income and our net income from the sale of beer and other products to our publicans. Adjusted for the effect of disposals we saw our like-for-like leased and tenanted net income grow to £303 million (2017: £299 million). Our like-for-like net income from rent was in line with the prior year, whilst our net income from beer supply grew by £3 million as pricing and mix benefits, net of discounts, offset volume decline and we delivered an incremental £1 million of net income from the sale of wines, spirits and minerals.

Underlying administrative costs in the year were £44 million (2017: £42 million), reflecting the development of capability to deliver our strategic objectives and additional administrative costs arising from the continued operation of the Pubs Code. We expect current year underlying administrative costs to be in the region of £45-£46 million.

Underlying net finance costs of £146 million were £3 million lower than the prior year as a result of our planned debt reduction.

Total pre-tax non-underlying charges were £35 million (2017: £63 million) comprising £6 million (2017: £30 million) in respect of debt refinancing costs; £25 million (2017: £24 million) in respect of property net charges, £1 million profit on sale of the interest in Hunky Dory Pubs Limited and £5 million (2017: £9 million) of other charges. The property charges were made up of £8 million (2017: £4 million) arising from the annual revaluation exercise; a charge of £11 million (2017: £20 million) on the revaluation of assets on transfer to non-current assets held for sale; a profit on the disposal of property (before goodwill allocation) of £2 million (2017: £10 million) and a £8 million (2017: £10 million) charge relating to goodwill allocated to those disposals. The other charges in the period related to £4 million (2017: £6 million) of surrender premiums paid to publicans to recover control of our pub assets and £1 million (2017: £3 million) of restructuring costs incurred to conclude our support team reorganisation to meet our future needs.

Total tax in the period was a charge of £15 million (2017: £4 million), representing a charge of £22 million (2017: £22 million) on the underlying trading profit and a credit of £7 million (2017: £18 million) relating to the tax on non-underlying items. The effective tax rate on the underlying trading profits arising in the period was 18.0% (2017: 18.2%), which is in line with our estimated effective tax rate for the current financial year.

Statutory profit after taxation was £72 million (2017: £54 million) which reflects the stable underlying profit of the business and the lower non-underlying items detailed above.

Underlying earnings per share (EPS) of 21.2p, were up 0.7p on the prior year. Basic EPS was 15.2p compared to 11.2p in the prior year, primarily due to higher non-underlying charges incurred in the prior year in respect of debt refinancing.

Cash flow

Net cash flow from operating activities at £271 million (2017: £261 million), was higher than the prior year due primarily to tax payments in the current year being £7 million lower than the prior year following repayments from HMRC in respect of prior year overpayments and capital allowance claims.

Net cash flow from investing activities created an outflow of £15 million (2017: £20 million inflow). We reinvested our net disposal proceeds into capital investment in the estate, with the net proceeds received from disposals of £66 million (2017: £100 million) partially funding the £81 million (2017: £80 million) invested in the year. Absent material monetisation of our commercial property portfolio, we expect our disposal proceeds for the current year to be in the region of £60 million.

Total capital investment in the year was £81 million (2017: £80 million), of which 60% (2017: 60%) was directed towards income growth opportunities. We target an ROI in excess of 15% on our growth-oriented capital expenditure and have achieved an average ROI of 22% (2017: 20%) on all such schemes delivered over the last twelve months. We anticipate the total capital investment for the current year will be in the region of £75 to £80 million.

Financing cash flows of £249 million (2017: £275 million), primarily reflect interest paid of £143 million (2017: £149 million), net loan repayments of £66 million (2017: £77 million), net share repurchases of £21 million (2017: £16 million), bond purchases of £5 million (2017: £nil) and refinancing costs of £14 million (2017: £33 million).

Capital allocation

We generate significant cash flows from trading activities supplemented by the proceeds of disposals, predominantly of under-performing assets. We have established a returns-based approach to the utilisation of our future cash flows. We plan to continue to reduce the level of our outstanding debt towards our medium term leverage targets of around 6.0 times net debt to EBITDA but also to provide a balance between additional value enhancing investment opportunities and more immediate returns to shareholders.

Our capital allocation framework ensures that all priority calls upon cash flows are satisfied, including corporation tax, interest, scheduled debt amortisation and other debt refinancing objectives, followed by on-going investment in our business. We are committed to gradually reducing our leverage over the medium-term and, assuming we are on track to satisfy this objective, then any “excess” cash flow can be assessed for alternative use, including in particular, the return of capital to shareholders.

We continually review the optimal use of excess cash flow and in November 2017 we determined that the best use of £20 million of excess cash flow expected to be generated in the financial year to September 2018 was to fund a share buyback programme. This programme commenced on 21 November 2017 and was completed on 22 March 2018 with some 15 million shares in EIG having been purchased and cancelled at an average price of £1.32.

Looking forward the Board has in place sufficient bank facilities to repay the £100.5 million corporate bonds due on 6 December 2018 and expects the business to generate at least a further £20 million of excess cash flow in the current financial year. Taking this into account and based upon current trading and the good progress the Group is making against our strategic objectives the Board has approved the return of up to £20 million to shareholders via a further share buyback programme which will commence immediately.

Balance sheet

Our balance sheet remains strong with a total net asset value of £1.55 billion (2017: £1.50 billion), primarily represented by £3.62 billion (2017: £3.63 billion) of property assets offset by net debt of £2.0 billion (2017: £2.1 billion). The property asset valuation reflects the valuation undertaken as at 30 September 2018. The Unique property estate is valued by Colliers International and the assets that secure the EIG corporate bonds are valued by GVA Grimley with the balance of the estate valued internally. The basis of the valuation is consistent with the prior year with 95% (2017: 95%) of the property portfolio valued by independent external valuers. The result of this year’s valuation was no net movement in the total value of the estate (2017: 0.2% increase).

The share price at 30 September 2018 of £1.66 (2017: £1.38), which equates to an equity value of £771 million (2017: £661 million), compares to a net asset value per share of £3.34 (2017: £3.13). We believe that the continued successful execution of our strategic plan, which aims to optimise the use and value of our asset portfolio, should continue to reduce this value differential.

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, over the past few years, used excess cash flows to reduce debt and fund share buybacks. During the year we have used cash generated by the business to meet the scheduled amortisation of securitised notes leaving total net debt at £2.0 billion (2017: £2.1 billion).

Corporate and convertible bonds

As at 30 September 2018 we had £1,125 million (2017: £1,125 million) of secured corporate bonds outstanding which are non-amortising, secured against ring-fenced portfolios of properties and attracting fixed interest rates averaging approximately 6.4% (2017: 6.4%). In the near-term we have £100.5 million of corporate bonds falling due which we expect to repay at maturity on 6 December 2018 from available resources including our bank facilities and bank term loan.

In addition to the secured corporate bonds we now have a £150 million bond that was issued on 25 September 2018. This bond is not secured over properties, has an interest rate payable of 7.5% and a maturity date of 15 March 2024. The bond contains a covenant package restricting certain aspects of our business that is customary for a bond of its type. In general, the covenants are incurrence-based and therefore apply when certain corporate activities occur, such as asset disposals. Amongst other things, in relation to disposals, the covenant package allows for up to 20% of the proceeds from the disposal of non-tied pubs to be released to equity.

The proceeds of the bond issuance have, in part, been used to fund a tender offer to repay the unsecured seven year convertible bonds that were issued in September 2013 for gross proceeds of £97 million. The tender offer was at a purchase price of 107% (together with accrued interest) and was accepted by £95.4 million of the bonds outstanding, with the balance of £1.6 million being subsequently redeemed at their principal amount earlier this month.

Bank borrowings

As at 30 September 2018 our drawn bank borrowings were £15 million and net of company cash were £12 million net cash (2017: £29 million net debt). On 14 August 2018, in agreement with our bank group, we increased the size of our bank revolving credit facilities from £140 million to £150 million and extended the availability of the facilities from August 2020 to August 2022 on substantially the same commercial terms including, without limitation, any drawn portion of the facility continuing to bear interest at a rate per annum of LIBOR plus 3%.

In addition to the bank revolving credit facilities we have a £50 million term loan facility, which was undrawn as at 30 September 2018, available for drawing until December 2018 with repayment of any amount drawn due by July 2020. The facility was established to provide additional funds, if required, for the settlement of the £100.5 million corporate bonds due in December 2018. For the first year following utilisation it will attract an interest rate of 3.1%-3.3% above LIBOR depending on our compliance with certain undertakings regarding energy efficiency.

Securitised notes

During the year we used operational cash generated from the business to repay, in accordance with scheduled amortisation, £81 million (2017: £77 million) of the Unique A3 and A4 securitised notes. In addition we purchased and cancelled £5 million (2017: nil) of the Unique securitised notes in the open market, which left £0.9 billion (2017: £1.0 billion) outstanding at 30 September 2018. The notes amortise over a period to 2032 and attract interest rates of between 5.7% and 7.4%. As at 30 September 2018 the Group was £75 million (2017: £76 million) ahead of the amortisation schedule of the Unique A3 and A4 securitised notes through early repayment and market purchases. We expect to make amortisation payments of £84 million in 2019 and £89 million in 2020, subject to any further market purchases or repayments arising from monetisation of non-tied pubs.

On 6 July 2018 the holders of the Unique A3 and A4 securitised notes voted in favour of proposals to amend the permitted disposals clause within the Unique securitisation to allow the Group greater flexibility in disposing of non-tied pubs out of the Unique estate so long as the proceeds from such disposals are used to repay Unique securitised notes in class order with the applicable redemption premium.

With these amendments in place, we believe the capital structure can fully accommodate the delivery of any monetisation of parts of our non-tied pub estate and we will allocate proceeds from such monetisation to the benefit of all stakeholders.

W S Townsend
19 November 2018

Group income statement
for the year ended 30 September 2018

	Notes	2018 £m	2017 £m
Revenue		**695**	648
Operating costs before depreciation and amortisation		**(413)**	(370)
EBITDA *		**282**	278
Depreciation and amortisation		**(19)**	(17)
Operating profit		**263**	261
Profit on sale of controlling interest in subsidiary undertaking	4	**1**	-
Profit on sale of property		**2**	10
Goodwill allocated to disposals		**(8)**	(10)
Net loss on sale of property	4	**(6)**	-
Movements in valuation of the estate and related assets	4	**(19)**	(24)
Finance costs		**(152)**	(179)
Profit before tax		**87**	58
Taxation	5	**(15)**	(4)
Profit after tax attributable to members of the Parent Company		**72**	54
Earnings per share	6		
Basic		**15.2p**	11.2p
Diluted		**14.7p**	11.1p

* Earnings before finance costs, taxation, depreciation and amortisation

Statement of comprehensive income
for the year ended 30 September 2018

	2018	2017
	£m	£m
Profit for the year	**72**	54
Items that will not be reclassified to the income statement:		
Unrealised surplus on revaluation of pub estate	**8**	11
Revaluation of assets on transfer to investment property	**-**	1
Revaluation of assets on transfer to non-current assets held for sale	**-**	(6)
Movement in deferred tax liability related to revaluation of the estate	**-**	3
Other comprehensive income for the year net of tax	**8**	9
Total comprehensive income for the year attributable to members of the Parent Company	**80**	63

Group balance sheet
as at 30 September 2018

	Notes	**2018 £m**	2017 £m
Non-current assets			
Goodwill		**304**	312
Intangible assets: operating lease premiums		**9**	9
Property, plant and equipment	7	**3,228**	3,322
Investment property	8	**368**	270
Trade receivables		**3**	2
		3,912	3,915
Current assets			
Inventories		**3**	2
Trade and other receivables		**55**	53
Financial assets		**3**	-
Cash		**158**	151
		219	206
Non-current assets held for sale	9	**13**	25
Total assets		**4,144**	4,146
Current liabilities			
Trade and other payables		**(207)**	(197)
Current tax payable		**(10)**	(2)
Financial liabilities		**(186)**	(81)
Pension		**(1)**	(2)
Provisions		**(1)**	(1)
		(405)	(283)
Non-current liabilities			
Financial liabilities		**(2,006)**	(2,180)
Provisions		**(5)**	(4)
Deferred tax		**(174)**	(176)
		(2,185)	(2,360)
Total liabilities		**(2,590)**	(2,643)
Net assets		**1,554**	1,503
Equity			
Called up share capital		**13**	13
Share premium account		**486**	486
Revaluation reserve		**751**	747
Capital redemption reserve		**12**	12
Merger reserve		**77**	77
Treasury share reserve		**(227)**	(227)
Other reserve		**(2)**	18
Profit and loss account		**443**	376
Equity attributable to members of the Parent Company		**1,553**	1,502
Non-controlling interests		**1**	1
Total equity		**1,554**	1,503

Group statement of changes in equity
at 30 September 2018

	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	Equity attributable to members of the Parent Company £m	Non-controlling interests £m	Total £m
At 30 September 2016	14	486	748	11	77	(227)	10	328	1,447	1	1,448
Profit for the year	-	-	-	-	-	-	-	54	54	-	54
Other comprehensive income	-	-	9	-	-	-	-	-	9	-	9
Total comprehensive income	-	-	9	-	-	-	-	54	63	-	63
Transfer of realised revaluation surplus	-	-	(14)	-	-	-	-	14	-	-	-
Transfer of deferred tax	-	-	4	-	-	-	-	(4)	-	-	-
Share-based expense recognised in operating profit	-	-	-	-	-	-	-	3	3	-	3
Share option entitlements exercised in the year	-	-	-	-	-	-	10	(9)	1	-	1
Purchase of own shares into EBT	-	-	-	-	-	-	(2)	-	(2)	-	(2)
Share buybacks	(1)	-	-	1	-	-	-	(15)	(15)	-	(15)
Share buyback commitment	-	-	-	-	-	-	-	5	5	-	5
At 30 September 2017	13	486	747	12	77	(227)	18	376	1,502	1	1,503
Profit for the year	-	-	-	-	-	-	-	72	72	-	72
Other comprehensive income	-	-	8	-	-	-	-	-	8	-	8
Total comprehensive income	-	-	8	-	-	-	-	72	80	-	80
Transfer of realised revaluation surplus	-	-	(7)	-	-	-	-	7	-	-	-
Transfer of deferred tax	-	-	3	-	-	-	-	(3)	-	-	-
Share-based expense recognised in operating profit	-	-	-	-	-	-	-	2	2	-	2
Share option entitlements exercised in the year	-	-	-	-	-	-	2	(2)	-	-	-
Purchase of own shares into EBT	-	-	-	-	-	-	(1)	-	(1)	-	(1)
Share buybacks	-	-	-	-	-	-	-	(20)	(20)	-	(20)
Convertible bond redemption	-	-	-	-	-	-	(21)	11	(10)	-	(10)
At 30 September 2018	13	486	751	12	77	(227)	(2)	443	1,553	1	1,554

Group cash flow statement
for the year ended 30 September 2018

	2018 £m	2017 £m
Cash flow from operating activities		
Operating profit	**263**	261
Depreciation and amortisation	**19**	17
Share-based expense recognised in profit	**2**	3
Increase in receivables	**(7)**	(7)
Increase in payables	**3**	3
Increase in inventories	**(1)**	(1)
Increase in provisions	**1**	1
	280	277
Tax paid	**(9)**	(16)
Net cash flows from operating activities	**271**	261
Cash flows from investing activities		
Payments made on improvements to public houses	**(75)**	(72)
Payments to acquire other property, plant and equipment	**(6)**	(7)
Receipts from sale of property	**66**	100
Acquisition of subsidiary undertaking	**-**	(1)
Net cash flows from investing activities	**(15)**	20
Cash flows from financing activities		
Interest paid	**(143)**	(149)
Debt extinguishment costs	**(7)**	(30)
Debt restructuring costs	**(7)**	(3)
Payments to acquire own debt	**(5)**	-
Payments to acquire own shares	**(21)**	(17)
Receipts from exercise of share options	**-**	1
New loans	**340**	520
Repayment of loans	**(406)**	(597)
Net cash flows from financing activities	**(249)**	(275)
Net increase in cash	**7**	6
Cash at start of year	**151**	145
Cash at end of year	**158**	151

Notes

1. Status of information

The financial information for the years ended 30 September 2018 and 2017 is based on the statutory accounts for those years. The auditor issued unqualified opinions on the statutory accounts for those years which did not include a reference to any matters to which the auditor 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 2017 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 30 September 2018 have not yet been delivered to the Registrar of Companies. The information contained in this announcement was approved by the Board on 19 November 2018.

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 2017. New standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee becoming effective during the year 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 this statement and the principal risks facing the Group.

Based on the outcome of the above considerations 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.

3. Segmental analysis

The Group has five distinguishable operating segments being Publican Partnerships, Commercial Properties, Bermondsey Pub Company, Craft Union Pub Company and Managed Investments which reflect the different nature of income earned, types of property and profile of customers. The five segments have been identified because the Chief Operating Decision Maker (CODM) regularly reviews discrete financial information relating to them.

Operating segments are aggregated when they have similar economic characteristics and therefore Bermondsey Pub Company, Craft Union Pub Company and Managed Investments have been combined as they represent income earned from the direct operation of pubs albeit through differing trading styles. This results in three reportable segments being Publican Partnerships, Commercial Properties and Managed.

The CODM reviews the financial results by segment to underlying EBITDA and this therefore provides the basis for the disclosures below.

All of the Group's revenue is generated in the United Kingdom and is not further segmented based on location, therefore no geographical segmental analysis has been provided. The balance sheet is not reviewed by the CODM on a segmented basis and therefore no disclosure has been made in relation to segmental assets and liabilities.

3. Segmental analysis (continued)

Year ended 30 September 2018	**Publican Partnerships £m**	**Commercial Properties £m**	**Managed £m**	**Central £m**	**Total £m**
Revenue	**516**	**27**	**152**	**-**	**695**
Operating costs before depreciation and amortisation	**(209)**	**-**	**(124)**	**(75)**	**(408)**
Underlying EBITDA	**307**	**27**	**28**	**(75)**	**287**
Non-underlying operating costs before depreciation and amortisation					**(5)**
Depreciation and amortisation					**(19)**
Profit on sale of controlling interest in subsidiary undertaking					**1**
Net loss on sale of property					**(6)**
Movements in valuation of the estate and related assets					**(19)**
Net finance costs					**(152)**
Profit before tax					**87**
Taxation					**(15)**
Profit after tax					**72**

Year ended 30 September 2017	Publican Partnerships £m	Commercial Properties £m	Managed £m	Central £m	Total £m
Revenue	547	21	80	-	648
Operating costs before depreciation and amortisation	(222)	-	(67)	(72)	(361)
Underlying EBITDA	325	21	13	(72)	287
Non-underlying operating costs before depreciation and amortisation					(9)
Depreciation and amortisation					(17)
Movements in valuation of the estate and related assets					(24)
Net finance costs					(179)
Profit before tax					58
Taxation					(4)
Profit after tax					54

4. Non-underlying items

The Group uses adjusted figures as key performance measures in addition to those reported under IFRS, as management believe these measures better reflect the ongoing trading transactions and enable better comparability and accountability for performance for them and other stakeholders. Adjusted figures exclude non-underlying items which comprise exceptional items, non-recurring items and other adjusting items.

Non-underlying items include reorganisation costs, assignment premiums paid to a publican in order to take the assignment of a lease or to break a lease at any point other than at renewal during the period of our realignment of properties, the profit on sale of controlling interest in subsidiary undertaking, the profit/loss on sale of property, the movement in valuation of the estate and related assets and costs incurred in respect of refinancing.

4. Non-underlying items (continued)

The adjusted figures are derived from the reported figures under IFRS as follows:

	2018			2017		
	Underlying items £m	**Non-underlying items £m**	**Total £m**	Underlying items £m	Non-underlying items £m	Total £m
Revenue	**695**	**-**	**695**	648	-	648
Operating costs before depreciation and amortisation	**(408)**	**(5)**	**(413)**	(361)	(9)	(370)
EBITDA	**287**	**(5)**	**282**	287	(9)	278
Depreciation and amortisation	**(19)**	**-**	**(19)**	(17)	-	(17)
Operating profit/(loss)	**268**	**(5)**	**263**	270	(9)	261
Profit on sale of controlling interest in subsidiary undertaking	**-**	**1**	**1**	-	-	-
Profit on sale of property	**-**	**2**	**2**	-	10	10
Goodwill allocated to disposals	**-**	**(8)**	**(8)**	-	(10)	(10)
Net loss on sale of property	**-**	**(6)**	**(6)**	-	-	-
Movements in valuation of the estate and related assets	**-**	**(19)**	**(19)**	-	(24)	(24)
Finance costs	**(146)**	**(6)**	**(152)**	(149)	(30)	(179)
Profit/(loss) before tax	**122**	**(35)**	**87**	121	(63)	58
Taxation	**(22)**	**7**	**(15)**	(22)	18	(4)
Profit/(loss) after tax attributable to members of the Parent Company	**100**	**(28)**	**72**	99	(45)	54
Earnings per share						
Underlying	21.2p			20.5p		
Underlying diluted	20.0p			19.5p		

4. Non-underlying items (continued)

Those items identified as non-underlying are explained further below:

a) Operating costs before depreciation and amortisation

A charge of £5 million (2017: £9 million) has been incurred in respect of assignment premiums paid and reorganisation costs.

During the period of our strategic evolution, the £4 million (2017: £6 million) of assignment premiums paid to a publican in order to take the assignment of a lease or to break a lease at any point other than at renewal would be treated as non-underlying. These costs have been incurred following the strategic review and the introduction of the Pubs Code in July 2016 and are not considered to be part of the underlying business as they are not expected to recur once the realignment of properties has been completed. This treatment is expected to apply for five years following the implementation of the Pubs Code which will allow for a full cycle of rent reviews over which time the Group will assess the optimal location for each asset which may include the payment of an assignment premium to allow the Group access to the property.

In addition, following the reorganisation of a number of support teams in the business in the prior year at a cost of £3 million, a further £1 million has been incurred in the current year to conclude this exercise. These charges have been allocated to non-underlying as they are one-off in nature.

b) Profit on sale of controlling interest in subsidiary undertaking

On 21 September 2018 the Group completed the sale of its 51% controlling interest in Hunky Dory Pubs Limited, a company established in May 2016 with Oakman Inns to operate pubs, generating a profit on disposal of £1 million. The proceeds from the sale remain outstanding as at 30 September 2018 and are included in current financial assets on the balance sheet.

c) Net loss on sale of property

	2018	2017
	£m	£m
Profit on sale of property, plant and equipment	**11**	13
Loss on sale of property, plant and equipment	**(8)**	(5)
Net profit on sale of property, plant and equipment	**3**	8
Profit on sale of investment property	**-**	3
Loss on sale of investment property	**(1)**	(1)
Net (loss)/profit on sale of investment property	**(1)**	2
Profit on sale of property	**2**	10
Goodwill allocated to disposals	**(8)**	(10)
Net loss on sale of property	**(6)**	-

During the year 174 properties (2017: 224 properties) and various other plots of land with a book value of £64 million (2017: £86 million) were disposed of generating gross proceeds of £71 million (2017: £109 million) which, after taking account of disposal costs resulted in an overall profit of £2 million (2017: £10 million).

Included within the total profits on sale of property above of £11 million, £5 million related to 18 properties and various plots of land with a 'special interest' value to particular buyers. The remaining profits of £6 million arose on 69 properties sold at an average profit of £83,000. The total losses on sale of property above of £9 million related to 87 properties sold at an average loss of £103,000.

4. Non-underlying items (continued)

In accordance with IAS 36 purchased goodwill is allocated to operations disposed. Accordingly, goodwill of £8 million (2017: £10 million) has been allocated to the 174 properties (2017: 224 properties) disposed during the year.

d) Movements in valuation of the estate and related assets

	2018 £m	2017 £m
Movement in property, plant and equipment from revaluation of the estate (see note 7)	**(23)**	(11)
Movement in investment property from revaluation of the estate (see note 8)	**15**	7
Revaluation movement from retained estate	**(8)**	(4)
Revaluation of non-current assets held for sale (see note 7)	**(11)**	(20)
	(19)	(24)

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 increased in value by £nil (2017: £7 million). Of this, £8 million (2017: £11 million) has been credited to other comprehensive income and £8 million (2017: £4 million) has been charged to the income statement as a non-underlying item. The £8 million charge reflects a charge of £23 million (2017: £11 million) for property value movements below historic cost for properties held in property, plant and equipment and a £15 million (2017: £7 million) credit for the fair value movement for pubs held as investment property.

In respect of assets revalued on transfer to non-current assets held for sale, a total net write-down of £11 million (2017: £26 million) has been recorded. Of this net write-down, £nil (2017: £6 million) has been debited to other comprehensive income and £11 million (2017: £20 million) has been charged to the income statement as a non-underlying item. At the year end, there are 47 properties (2017: 85 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.

e) Finance costs

During the year ended 30 September 2018, Unique securitised bonds with a nominal and book value of £4 million (2017: £nil) were purchased and cancelled for the equivalent price of £1.14 (2017: £nil) for each £1 of outstanding nominal value, generating a loss of £1 million (2017: £nil).

On 6 July 2018 the Group concluded a consent solicitation exercise to amend certain terms within the Unique securitisation documents to allow greater flexibility over disposals of pubs that are not subject to the tie. This has been accounted for as a non-substantial modification and the total costs and cash outflow of £4 million has been included in the carrying value of the Unique bonds.

Furthermore, on 14 August 2018 the Group completed an increase and two-year extension of its £140 million existing revolving credit facility (RCF). The new maximum facility is £150 million and it is now available until August 2022. This has been accounted for as a non-substantial modification and the total costs and cash outflow of £1 million has been included in the carrying value of the RCF.

On 25 September 2018 the Group issued a new £150 million bond and at the same time a tender offer for the £97 million outstanding convertible bonds. The proceeds of the bond were received on 25 September 2018. The bond has a fixed coupon of 7.5% and is repayable in March 2024. The costs incurred of £4 million (£2 million cash outflow in the year) have been included in the carrying value of the debt.

4. Non-underlying items (continued)

The tender offer for the convertible bonds resulted in £95.4 million of the bonds being redeemed at a premium of 107% of their par value. Of the premium and fees associated with the tender offer totalling £7 million, £5 million has been charged to the income statement in non-underlying finance costs, whilst £2 million has been recognised in the other reserve representing the equity element of the redemption. On 27 September 2018 the Group issued an optional redemption notice to redeem the remaining £1.6 million of convertible bonds at par. This was completed subsequent to the year end on 12 November 2018.

In the prior year, on 24 October 2016 the Group replaced its existing £138 million RCF with a new £120 million facility. Furthermore, on 14 March 2017 the £120 million non-amortising RCF was increased in size to £140 million on the same terms. The facility was available through to August 2020 and attracted an interest rate of 3% above LIBOR applicable to any drawn portion of the facility.

In addition in the prior year, on 4 November 2016 the Group completed a partial refinancing of the 2018 corporate bond. The partial refinancing resulted in a lower interest coupon and an extended debt maturity. Prior to the refinancing £350.5 million of 2018 secured corporate bonds were outstanding with a coupon of 6.5%. The Group received and accepted tender instructions for £250 million of these bonds at a cash purchase price of 111% of their principal amount. In connection with this partial refinancing the Group issued new £250 million secured corporate bonds, due in February 2022, at a coupon of 6.375%, which resulted in a reduction of the corporate bonds maturing in 2018 to £100.5 million. The new issue benefited from a security package on substantially the same terms as the 2018 bonds.

The total cash outflow arising from the bank and bond refinancing in the prior year was £32 million, being £28 million in respect of the repurchase premium on the extinguished bond, which was charged to the income statement, and total fees and disbursements of £4 million, of which £2 million was charged to the income statement and £2 million arising on the new bank facility was deferred over the life of the new debt instrument. Furthermore on 19 September 2017 the Group signed a new £50 million term loan facility, available for drawing until December 2018 with repayment of the amount drawn due by July 2020 which resulted in £1 million of fees that were deferred over the life of the new facility.

5. Taxation

The total tax charge of £15 million (2017: £4 million) represents an underlying charge of £22 million (2017: £22 million) and a non-underlying credit of £7 million (2017: £18 million).

a) Underlying tax

The underlying tax charge of £22 million (2017: £22 million) equates to an effective tax rate of 18.0% (2017: 18.2%). The effective tax rate does not include the effect of non-underlying items.

b) Non-underlying tax

The items below are classified as non-underlying due to their size and either because they do not relate to any income or expense recognised in the income statement in the same period or because they relate to non-underlying items.

5. Taxation (continued)

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). A credit of £1 million (2017: £4 million) has been recognised in the income statement as non-underlying due to its size and because it does not relate to any income or expense recognised in the income statement in the same period.

The current rate of corporation tax is 19%, however the Government announced in March 2016 a reduction in the rate of corporation tax to 17% by 1 April 2020 which was enacted during the prior year. Deferred taxation has been calculated based on the current substantively enacted rate of 17% (2017: 17%).

A deferred tax credit of £5 million (2017: £4 million) relating to the movements in valuation of the estate and related assets and net profit/(loss) on disposal of property has been recognised in the income statement.

A non-underlying tax credit of £1 million (2017: £10 million) has been recognised in relation to all other non-underlying items in the income statement. The total non-underlying tax credit is therefore £7 million (2017: £18 million).

c) Tax recognised in other comprehensive income

A credit of £nil (2017: £3 million) has been recognised in other comprehensive income related to the tax on the revalued estate.

6. Earnings per share

The calculation of basic earnings per share is based on the 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.

Underlying earnings per share, which the Directors believe reflects the underlying performance of the Group, is based on profit attributable to Ordinary Shareholders adjusted for the effects of non-underlying 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.

The dilution adjustments for share options and the convertible bonds are reviewed independently and where they are anti-dilutive to the calculation of diluted earnings per share they are not included in the calculation of both diluted and underlying diluted earnings per share.

For the year ended 30 September 2018, the adjustment for share options is assessed as being dilutive (2017: dilutive) which has resulted in an adjustment to the weighted average number of equity shares in issue during the year of 5.4 million shares (2017: 3.5 million shares).

For the year ended 30 September 2018, the adjustment for the convertible bonds is assessed as being dilutive (2017: dilutive) which has resulted in an adjustment to profit in the calculation of diluted earnings per share of £5.7 million (2017: £5.5 million) for the post tax interest cost associated with the convertible bonds and an adjustment to the weighted average number of equity shares in issue during the year of 50.1 million shares (2017: 50.8 million shares).

	2018		2017	
	Earnings	**Per share amount**	Earnings	Per share amount
	£m	**p**	£m	p
Basic profit per share	**71.7**	**15.2**	53.8	11.2
Diluted profit per share	**77.4**	**14.7**	59.3	11.1
Underlying profit per share	**99.7**	**21.2**	98.9	20.5
Underlying diluted profit per share	**105.4**	**20.0**	104.4	19.5

	No. of shares m	No. of shares m
Weighted average number of shares	**470.9**	481.9
Dilutive share options	**5.4**	3.5
Dilutive convertible bonds shares	**50.1**	50.8
Diluted weighted average number of shares	**526.4**	536.2

Following redemption of 98% of the nominal value of convertible bonds before the current year end, a pro-rated number of shares has been taken into account in the calculation of diluted weighted average number of shares and a prorated value of post-tax interest cost has been added back to the profit in the year.

7. 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 2017	3,083	285	47	3,415
Additions	46	41	5	92
Revaluation:				
- Recognised in the statement of comprehensive income	8	-	-	8
- Recognised in the income statement	(23)	-	-	(23)
Net transfer to investment property	(81)	(8)	-	(89)
Revaluation of assets on transfer to non-current assets held for sale:				
- Recognised in the income statement	(11)	-	-	(11)
Net transfer to non-current assets held for sale	(37)	(9)	-	(46)
Disposals	(1)	(12)	(5)	(18)
At 30 September 2018	**2,984**	**297**	**47**	**3,328**
Depreciation				
At 1 October 2017	16	59	18	93
Charge for the year	2	14	3	19
Revaluation on transfer to investment	-	(2)	-	(2)
Net transfer to non-current assets held for sale	(1)	(1)	-	(2)
Disposals	-	(5)	(3)	(8)
At 30 September 2018	**17**	**65**	**18**	**100**
Net book value				
At 30 September 2018	**2,967**	**232**	**29**	**3,228**
At 30 September 2017	3,067	226	29	3,322

8. Investment property

	2018 £m	2017 £m
At 1 October	**270**	196
Additions	**-**	3
Net transfer from property, plant and equipment	**87**	85
Revaluation	**15**	7
Net transfers to non-current assets held for sale	**(4)**	(21)
At 30 September	**368**	270

9. Non-current assets held for sale

	2018 £m	2017 £m
At 1 October	**25**	21
Net transfer from property, plant and equipment	**44**	70
Net transfer from investment property	**4**	21
Write-down to fair value less costs to dispose	**(1)**	(1)
Disposals	**(59)**	(86)
At 30 September	**13**	25
Representing:		
Property, plant and equipment	**13**	24
Investment property	**-**	1
	13	25

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.

Investment property assets are also moved to non-current assets held for sale at book value when they meet the criteria within IFRS 5.

At the end of the year non-current assets held for sale includes 47 properties (2017: 85 properties) which are expected to be sold within the next year.

10. Additional cash flow information

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

	2018	2017
	£m	£m
Increase in cash in the year	**7**	6
Cash outflow from change in debt	**71**	77
Debt restructuring costs paid	**7**	3
Change in net debt resulting from cash flows	**85**	86
Amortisation of issue costs and discounts/premiums on long-term loans	**(4)**	(4)
Debt restructuring costs not paid	**2**	-
Loss on purchase of own debt	**(1)**	-
Amortisation of the fair value adjustments of securitised bonds	**4**	4
Convertible loan note effective interest	**(3)**	(3)
Movement in other reserve on convertible bond redemption	**(7)**	-
Movement in commitment for share buybacks	**-**	5
Movement in net debt in the year	**76**	88
Net debt at start of year	**(2,110)**	(2,198)
Net debt at end of year	**(2,034)**	(2,110)

b) Analysis of net debt

	2018	2017
	£m	£m
Bank borrowings	**(15)**	(55)
Corporate bonds	**(1,277)**	(1,222)
Securitised bonds	**(904)**	(989)
Gross debt	**(2,196)**	(2,266)
Cash	**158**	151
Underlying net debt	**(2,038)**	(2,115)
Capitalised debt issue costs	**20**	15
Fair value adjustments on acquisition of bonds	**(13)**	(17)
Convertible loan note effective interest	**-**	(11)
Convertible bond reserve	**-**	21
Finance lease payables	**(3)**	(3)
Net debt	**(2,034)**	(2,110)
Balance sheet:		
Current financial liabilities	**(186)**	(81)
Non-current financial liabilities	**(2,006)**	(2,180)
Cash	**158**	151
Net debt	**(2,034)**	(2,110)

Underlying net debt represents amounts repayable to banks and other lenders net of cash retained in the business. Cash includes £121 million (2017: £115 million) held in the securitised Unique sub-group, of which £65 million (2017: £65 million) is held in a securitised reserve account.

11. Post Balance Sheet Events

On 19 November 2018 the Group announced a £20 million share buyback programme.

12. Alternative Performance Measures (APMs)

Like-for-like Publican Partnerships net income

Publican Partnerships like-for-like net income of £303 million (2017: £299 million) represents underlying EBITDA for the Publican Partnerships business of £307 million (2017: £325 million) excluding £2 million (2017: £8 million) of income in respect of disposals and £2 million of net income (2017: £18 million) relating to other non-like-for-like net income.

Like-for-like Commercial Properties net income

Commercial Properties like-for-like net income of £15 million (2017: £15 million) represents underlying EBITDA for the Commercial Properties business of £27 million (2017: £21 million) excluding £nil (2017: £1 million) of income in respect of disposals and £12 million of net income (2017: £5 million) relating to other non-like-for-like net income.

Managed like-for-like sales

Managed like-for-like sales represents revenue from the Managed estate of £152 million (2017: £80 million) excluding Machine sales of £5 million (2017: £2 million) and underlying revenue from those pubs that have not traded for two full years post investment in their managed format of £101 million (2017: £35 million).

Average net income per pub

Average net income per pub represents the annual net income for Publican Partnerships assets trading at 30 September 2018 of £303 million (2017: £322 million) divided by the total Publican Partnerships assets trading at 30 September 2018 of 3,718 properties (2017: 4,051 properties).

Publican Partnerships net income of £303 million (2017: £322 million) represents underlying EBITDA for the Publican Partnerships business of £307 million (2017: £325 million) excluding £2 million (2017: £2 million) of income in respect of disposals and £2 million of net income (2017: £1 million) relating to other non-like-for-like net income.

Average net income per property

Average net income per property represents the annual net income for Commercial Properties assets trading at 30 September 2018 of £30 million (2017: £22 million) divided by the total Commercial Properties assets trading at 30 September 2018 of 412 properties (2017: 331 properties).

Commercial Properties net income of £30 million (2017: £22 million) represents underlying EBITDA for the Commercial Properties business of £27 million (2017: £21 million) excluding £nil (2017: £1 million) of income in respect of disposals and including £3 million of net income (2017: £2 million) relating to the pubs before they were transferred to the Commercial Property segment offset by unlicensed property income.

Excess cash flow

Excess cash flow in the period was £27 million (2017: £55 million) and is derived from net cash flows from operating activities of £271 million (2017: £261 million) less net cash flows from investing activities of £15 million (2017: inflow of £20 million) less net interest paid of £143 million (2017: £149 million) less scheduled debt amortisation and open market debt purchases of £86 million (2017: £77 million).

12. Alternative Performance Measures (APMs) (continued)

Managed annualised site EBITDA

Managed operations annualised average site EBITDA represents annualised EBITDA of sites that have traded post investment for more than six months of £24 million (2017: £10 million) divided by the total number of sites that have traded post investment for more than six months being 232 sites (2017: 109 sites).

Managed investments annualised average site EBITDA represents annualised EBITDA of sites that have traded post investment for more than six months of £6 million (2017: £3 million) divided by the total number of sites that have traded post investment for more than six months being 27 sites (2017: 13 sites).

The total annualised EBITDA for sites that have traded for more than six months referred to above of £30 million (2017: £13 million) represents underlying EBITDA for the Managed business of £28 million (2017: £13 million) excluding costs not allocated at site level of £4 million (2017: £1 million), excluding EBITDA of pubs that have not traded for more than six months post investment of £4 million (2017: £2 million) and including an adjustment of £2 million (2017: £1 million) to annualise the EBITDA of pubs that have traded post investment for more than six months but less than the full year.

EBITDA

EBITDA represents earnings before finance costs, taxation, depreciation and amortisation.

Underlying EBITDA

Underlying EBITDA represents earnings before finance costs, taxation, depreciation and amortisation excluding non-underlying items. Non-underlying items that are excluded from underlying EBITDA include reorganisation costs and assignment premiums paid to a publican in order to take the assignment of a lease or to break a lease at any point other than at renewal during the period of our strategic review.

Underlying profit before tax

Underlying profit before tax excludes non-underlying items. Non-underlying items excluded from profit before tax include reorganisation costs, assignment premiums paid to a publican in order to take the assignment of a lease or to break a lease at any point other than at renewal during the period of our strategic review, the profit/loss on sale of property, the movement in valuation of the estate and related assets and costs incurred in respect of refinancing.

Underlying earnings per share (EPS)

Underlying EPS is based on profits after tax excluding non-underlying items as explained above.

Growth driving capital investment

Growth driving capital investment is discretionary capital cash spend on the Group's assets which is intended to generate incremental income at returns ahead of our target return on investment.

Maintenance and letting capital investment

Maintenance and letting capital investment is all capital cash spend that is not growth driving capital investment, typically focused on maintaining the quality of our assets and supporting the letting programme.

12. Alternative Performance Measures (APMs) (continued)

Return on investment

Return on investment is measured as the incremental income delivered as a result of the investment divided by the value of the capital investment.

Unplanned business failures

Unplanned business failures are all lease and tenancy agreements that do not reach their full term, where failure is not through the mutual agreement of ourselves and the departing publican. For example, through publican abandonment or via legal proceedings.

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 and some risks have not been included in this section on the basis that they are not considered to be material.

The Board is ultimately responsible for ensuring there is a robust assessment of the principal risks facing the Group which it does through our risk identification and evaluation process. The executive directors report to the Board that they are appropriately managing the risks through their senior management team, with each business unit responsible for identifying, assessing and managing risks in their respective areas.

The Board delegates the review of the effectiveness of the Group's risk management processes to the Audit Committee, which formally reports back annually. The Group's internal audit function agree with the Audit Committee an annual internal audit plan which is driven predominantly by business risks and which gives assurance on the internal control environment.

In summary the most significant principal risks and uncertainties are:

Property valuations

The Group's properties have been valued at £3.6 billion at 30 September 2018. Values could, as they have in the past, move downwards due to changes in the UK property market, including the uncertain impact of Brexit, or as a result of more general economic conditions.

This impacts the Group through its ability to dispose of underperforming pubs and realise acceptable disposal proceeds and may also more widely impact the value of the Group and its financial covenants.

Mitigation process: The Group has a policy to revalue every asset in its property portfolio annually at market value by qualified external and internal valuers in accordance with the RICS Red Book (2017 Global Edition plus UK 2014 (revised 2015) supplement). These valuations comply with the requirements of International Financial Reporting Standards (IFRS). The valuation this year has led to a marginal net uplift in the book values of the pubs recorded in property, plant and equipment or investment property.

The valuers have confirmed that there is uncertainty in the general economy around Brexit negotiations, however there has been no significant impact on the property markets, and the market for licensed properties in particular remains buoyant.

Liquidity risk

The Group's primary liquidity risks are to ensure its debt is serviced, financial covenants are met, investment plans are satisfied and working capital requirements are met.

Mitigation process: 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 Board regularly reviews detailed financial forecasts of the Group, including budgets, to ensure there is sufficient headroom on all covenants and that there is sufficient cash available to meet the requirements of the Group. To manage cash, the Group can reduce capital expenditure on pubs, dispose of pubs or raise new finance.

During the year, the Group concluded an increase of its bank facility to £150 million and extended it for two years to August 2022. This was £15 million drawn at year end.

The Group also issued an unsecured and non-amortising £150 million bond due in 2024 and used some of the proceeds to tender and cancel £95.4 million of the convertible bonds due in 2020. At the year end the Group has undrawn facilities of £185 million in order to repay the £100.5 million corporate bonds due in December 2018.

Regulatory factors

The Pubs Code legislation includes a tenant's right, under certain circumstances, to change the freely-negotiated commercial terms of their agreement to a new MRO compliant agreement, and is overseen by an independent Adjudicator. The Code is expected to be reviewed during 2019, being three years after it was introduced.

The operation of the Pubs Code could have an impact upon our profitability, our operational strategy and the relationships with our publicans.

Other regulatory risks that could impact the Group's business include changes in the legislation governing the sale of alcohol, licensing, duty and areas of social responsibility.

Mitigation process: The Group's various operating models enable it to allocate assets to maximise value where opportunities arise and allow it to take the operational control of pubs at the end of leases if this generates incremental income for the Group.

The Group issued its first Pubs Code annual compliance report during the year, which was audited by the internal audit team, giving us additional confidence that all provisions of the Code are being complied with. We work closely with Local Authorities as necessary to ensure licensing requirements are dealt with whenever appropriate.

We are also an active member of the BBPA ensuring that we are aware of and can contribute to discussions that impact the industry and we are a contributor to the Drinkaware Trust, working closely to promote responsible drinking.

Economic climate and market risk

The Group operates in the leisure industry which is sensitive to economic conditions and pressures on disposable income. Whilst the full impact of Brexit remains uncertain, it is unclear to what extent consumer confidence may be impacted.

The Group operates wholly within the UK and all of the Group's supply contracts are sterling denominated such that we do not anticipate that Brexit will have a significant direct impact upon supply. However, as well as consumer spending considerations, the Group could be impacted by restrictions on migrant labour.

The market is also enduring inflationary cost pressures relating to food prices, business rates, utility costs, pension contributions and the national living wage. These impact the Group's managed business directly but also impact publican profitability in our Publican Partnerships estate.

In addition, changes in interest rates and other economic factors could lead to an increase in the Group's weighted average cost of capital (WACC), reduced revenues or increased costs, all of which could impact our profitability and could lead to an impairment in the value of goodwill carried on the balance sheet.

Mitigation process: The Board regularly reviews results and forecasts to assess the impact of economic conditions on its budget, strategic plans and our publicans. The Group is well placed to react to additional competition for leisure spending by being able to respond quickly in our managed pubs to adapt offers, and we also have the scale and tools available to support our publicans in doing likewise.

Although the cost inflationary pressures have a direct impact on our managed pubs, this is a growing business and therefore we are able to design operations to best mitigate increasing costs, albeit we are acutely aware of the cost base that our publicans and operators face and look to support them as best we can.

We also continue to foster mutually beneficial relationships with key suppliers to ensure the impact of any price increases is minimised wherever possible.

The Group regularly reviews its WACC in line with the capital structure, and how it compares to its competitors. It annually reviews the carrying value of goodwill and would write down the value if it deemed an impairment was necessary. Any goodwill that is allocated to pubs that are sold, is written off during the year.