19 November 2019

Ei Group plc

Preliminary announcement for the financial year ended 30 September 2019

Ei Group plc (EIG or Group), the largest owner and operator of pubs in the UK, today announces its results for the financial year ended 30 September 2019.

Financial highlights

- Underlying EBITDA# of £276 million (2018: £287 million), in line with expectations, reflecting the completion of the disposal of 354 commercial property assets for net proceeds of £340.6 million
- Adjusting for this portfolio disposal, underlying EBITDA from our retained business increased to £263 million (2018: £261 million)
- Underlying profit before tax# of £118 million (2018: £122 million)
- Statutory loss after tax of £209 million (2018: profit of £72 million), after non-underlying finance costs of £15 million (2018: £6 million), primarily in relation to early redemption charges, non-underlying property charges of £62 million (2018: £25 million) largely relating to the allocation of £35 million (2018: £8 million) of goodwill to property disposals and an impairment of goodwill of £232 million (2018: £nil)
- Basic loss per share of 46.2p (2018: earnings per share of 15.2p) which, adjusting for non-underlying items, delivers underlying earnings per share# of 21.6p (2018: 21.2p)
- Strong operating cash flows of £247 million (2018: £271 million) and disposal proceeds of £384 million (2018: £66 million) funded capital investment of £87 million (2018: £81 million) and debt reduction
- Net debt reduced to £1.7 billion (2018: £2.0 billion), equivalent to a loan-to-value ratio of 52%
- £59 million (2018: £20 million) returned to shareholders through a share buyback programme

Operational progress

- Publican Partnerships
    - Like-for-like net income# up 1.2% (2018: up 1.2%) with growth across all geographic regions
    - Average net income per pub# up 2.2% to £83,200 (2018: £81,400)
- Managed Pubs
    - Like-for-like sales growth of 5.0% (2018: 7.1% growth) across our managed businesses
    - Managed Operations - growth on track with 392 (2018: 308) pubs trading within our 100% owned division with 63 (2018: 54) trading within our Bermondsey estate and 329 (2018: 254) within our drinks-led Craft Union estate
    - Managed Investments – strong growth with 70 (2018: 47) pubs trading with 11 partners
- Commercial Properties
    - Total portfolio of 125 (2018: 412) commercial properties following completion of the portfolio disposal of 354 assets in the year
    - Average net income per property# remains strong at £75,300 (2018: £72,300)

Recommended cash acquisition by Stonegate

- Recommended cash acquisition of EIG by Stonegate Pub Company at 285 pence per share announced on 18 July 2019, and approved by shareholders on 12 September 2019
- The offer price represented a premium of approximately 38.5% to the closing share price on 17 July 2019 and implies an enterprise value of £2,969.5 million and a multiple of approximately 11.3 times EIG's underlying EBITDA for the financial year to 30 September 2019, adjusted for the disposal of commercial properties
- As expected, the Competition and Markets Authority (CMA) is undertaking its phase 1 review of the transaction. Subject to the outcome of the CMA review our expectation remains that the transaction will complete in the first quarter of 2020

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

“We are pleased to have maintained the strong trading performance for the year, particularly given the challenging trading comparatives from the summer last year. We continue to deliver sustained like-for-like net income growth within our core Publican Partnerships business and are generating strong returns as we expand our Managed Operations and Managed Investments businesses.

Since 2015 our strategy has been to develop optionality across our asset estate and to strengthen the balance sheet through deleveraging. The completion of the disposal of 354 commercial properties during the year demonstrated this strategy, growing value through the transfer of assets to their optimum use and then unlocking that value through monetisation. The disposal realised embedded value and provided us with the opportunity to accelerate our debt reduction plans as well as returning capital to our shareholders.

The approach by Stonegate to acquire the business is recognition of the strength of our strategy and the value of our high quality pub estate. Stonegate has indicated its intention to continue our strategy of improving the quality of the estate following completion of the acquisition, by ensuring the right consumer proposition is available in each of its pubs supported by the best people, utilising the optimum operating model.

Shareholders overwhelmingly approved the recommended acquisition and we are working with the Stonegate team to advance the CMA process to permit completion of the transaction, which we expect to take place in the first quarter of 2020.

As a board and management team, we remain focussed on leading the organisation through to the expected completion of the transaction. Our objectives are unchanged; it is business-as-usual. We continue to identify operational improvements to drive growth in like-for-like performance and to seek the optimum use for each of our properties.”

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 # 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.

RECOMMENDED CASH ACQUISITION BY STONEGATE

On 18 July 2019 we announced a recommended cash acquisition of EIG by Stonegate Pub Company for 285 pence per share. The offer price represented a premium of approximately 38.5% to the closing price on 17 July 2019 and implies an enterprise value of £2,969.5 million and a multiple of approximately 11.3 times EIG’s underlying EBITDA for the financial year to 30 September 2019, adjusted for the disposal of the portfolio of commercial properties during the financial year.

The recommendation to shareholders to accept the offer was made by the EIG directors as the acquisition provides an opportunity for EIG shareholders to realise a substantial premium to the share price prior to the date of the announcement, at a premium to the tangible net asset value as at 31 March 2019 and at a level which allows them to realise the future benefits of EIG's strategy in the near term. EIG shareholders approved the acquisition at shareholder meetings on 12 September 2019, with 99.98% of votes in favour of the resolutions proposed at the meetings.

The transaction is subject to CMA clearance and, as expected, the CMA announced on 11 October 2019 that it had commenced its investigation of the anticipated acquisition. It is currently undertaking its phase 1 review. Subject to the outcome of the CMA review our expectation remains that the acquisition will complete in the first quarter of 2020.

OPERATIONAL AND STRATEGIC REVIEW

Overview

We are pleased to report our preliminary results for the financial year ended 30 September 2019. We have delivered underlying EBITDA of £276 million, compared to £287 million in the prior year, reflecting the completion of the disposal of 354 commercial property assets during the year. These assets contributed approximately £13 million to underlying EBITDA in the current year and approximately £26 million in the prior year. Therefore, adjusting for this disposal, underlying EBITDA from our retained business grew from £261 million to £263 million.

The Group continues to make 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 includes Managed Operations that are 100% owned by the Group and Managed Investments that are joint ventures with experienced retail partners.

Our Publican Partnerships business remains our core operation, generating approximately two-thirds of Group revenue, and the business has continued to deliver growth in like-for-like net income across the estate during the financial year. This resilient trading performance has now been maintained for six consecutive financial years, driven by the deployment of capital into growth opportunities across the estate and the provision of a substantial range of services and support to our publicans. Our operations team has accommodated the ongoing requirements of the Pubs Code Regulations 2016 (the "Pubs Code") which came into effect in July 2016, whilst at the same time providing the source of assets to transition to our alternative operating models.

The fastest growing part of our Group is the managed businesses. As at 30 September 2019 we had 462 (2018: 355) managed pubs and expect this to grow further. Pubs are transferred to our managed businesses from Publican Partnerships, usually supported by significant investment in the pub, delivering increased diversity, predictability and scale of earnings to the Group. We have an established process of asset management that has effectively and efficiently been transferring in the region of 100-120 pubs a year to our managed businesses. As we have become more accomplished managed house operators we have grown our operational knowledge and capability and are able to bring more examples of best practice to our leased and tenanted pub business, as well as utilising our purchasing scale to greater effect to help our publicans increase their sales and reduce their costs.

We had substantially grown our commercial properties business over the last few years, primarily through the transfer of pubs from our tied Publican Partnerships business to pubs operating on free-of-tie agreements, including those which have elected to take up the Market Rent Only (MRO) option under the Pubs Code. This growth enabled us to monetise these assets through a disposal of many of them. The strategy for the commercial properties business continues as we transfer assets into it when we believe this will optimise value and then, as demonstrated by the recent transaction, we will look to monetise the portfolio through future disposal.

Publican Partnerships

Publican Partnerships, our tied leased and tenanted business remains the largest part of our Group, contributing £291 million (2018: £307 million) to the underlying EBITDA of the Group reported in the year.

As at 30 September 2019, we had 3,424 (2018: 3,718) pubs trading within the leased and tenanted estate with average net income per pub growing by 2.2% to £83,200 (2018: £81,400). We delivered like-for-like net income growth of 1.2% (2018: 1.2%) through the financial year with growth being achieved across all geographic regions. This performance is particularly pleasing given the very strong trading results last summer due to favourable weather and the FIFA World Cup.

Location	No. of trading pubs at 30 September 2019	Like-for-like net income FY19 £m	% of total net income FY19	Like-for-like net income FY18 £m	Net income change FY19 %
North	949	74.1	26	73.1	1.4
Midlands	691	51.9	18	51.4	1.0
South	1,784	158.9	56	157.0	1.2
Total	**3,424**	**284.9**	**100**	**281.5**	**1.2**

Like-for-like net income growth in the leased and tenanted business has been maintained through the hard work of our publicans supplemented by our business enhancing support and our desire to invest capital alongside the best publicans to improve trading performance by improving the retail offer. In the year to 30 September 2019 we invested £14 million (2018: £19 million) in growth-orientated schemes across 330 (2018: 322) tied agreements and have delivered an average pre-tax return on investment (ROI) of 20% (2018: 19%).

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 32 Pub Principle Guides, including such business areas as product range, pricing, social media and GDPR-compliance, and our highly successful “eilive” roadshows saw an increase in the number of publicans attending year on year. In the prior year we launched a new online ordering platform, and almost two-thirds of our publicans now order a 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 face increased inflationary pressures. Despite external pressures such as rising input costs and the disproportionate burden of business rates, there has been no material change in the number of unexpected business failures with 82, or 2.0% of the estate, (2018: 83, or 1.8% of the estate) suffering such failure in the period. Where appropriate we continue to provide direct financial assistance to tied publicans and this cost has remained stable at £4 million in the year (2018: £4 million).

We continue to embrace the requirements of the Pubs Code, navigating a regulatory landscape which we believe continues to suffer from a lack of clarity, evolving interpretations and inconsistent arbitration outcomes. Notwithstanding this, we have not seen a material impact on our financial results from its implementation. From the date of its introduction to 30 September 2019, there were 1,662 rent review or agreement renewal events which could potentially have triggered an MRO request. As required under the Pubs Code, we issued 385 MRO offers in response to requests by publicans of which 213 have been concluded by way of mutually agreed tied deals and 52 have resulted in new mutually agreed free-of-tie terms. In addition, 3 pubs have been sold, 29 leases have been repurchased from the occupational tenant with the balance of 88 not yet concluded. Of these, 36 have been referred to the Pubs Code Adjudicator (PCA) for determination.

We have positively participated in the review of the Pubs Code which was announced on 30 April 2019. We continue to believe that, despite the inevitable teething problems associated with the introduction of new legislation, there is clear evidence that the Pubs Code is having the effect that was intended by legislators. It provides tied publicans with a genuine opportunity to consider transferring their agreements to free-of-tie terms at specified trigger events during the life of their contractual agreements. Submissions to the review were invited between 30 April 2019 and 22 July 2019 and a response from the Department for Business, Energy and Industrial Strategy was expected within 12 weeks of the closing date. Once the response is published we will consider the findings and work with the PCA and industry colleagues to adopt any recommendations as appropriate.

Managed Pubs

Our rapidly expanding and largely drinks-led managed pub businesses contributed £42 million (2018: £28 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 5.0% (2018: 7.1%).

The current level of managed house conversions reflects the profile of opportunities that have arisen and represents an efficient transition pipeline.

Profile of pubs under management:	**Actual as at 30 September 2019**	Actual as at 30 September 2018
Managed Operations	**392**	308
Managed Investments	**70**	47
Total Managed Pubs	**462**	**355**

Managed Operations:

Our Managed Operations business represents our 100% owned managed pubs which are traded in two unbranded formats. The Craft Union format 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 2019, we had 346 (2018: 232) 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 £112,000 (2018: £102,000), from an average capital investment of £164,000 (2018: £154,000), which delivered an ROI of 23% (2018: 23%).

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. 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 2019, we had 50 (2018: 27) pubs operating within our Managed Investments business that had been invested in and traded for more than six months and these pubs generated average annualised site EBITDA of £187,000 (2018: £214,000), from an average site capital investment of £414,000 (2018: £392,000), which delivered an ROI, after the relevant partner’s minority interest, of 23% (2018: 21%).

Commercial Properties
Our Commercial Properties division contributed £19 million (2018: £27 million) to the underlying EBITDA of the Group reported in the year, with the average net income per property growing by 4.1% to £75,300 (2018: £72,300). Only 41 properties traded as commercial properties throughout both the current year and the prior year and these properties reported like-for-like net income decline of 5.0% (2018: 5.1% growth). This performance has been impacted by six sites that were closed for periods during the year and one site where we received a significant backdated rent payment. Excluding these seven sites the like-for-like net income grew by 3.7%.

In 2018, reflecting our value-led approach, we appointed Rothschild & Co to assist us to explore various possible routes to optimise value from our commercial property portfolio. This process led to the announcement on 11 January 2019 that we had entered into sale agreements, subject to shareholder approval, with a subsidiary of Davidson Kempner Capital Management LP in relation to 370 commercial properties for an expected gross aggregate consideration of £348 million. On 14 March 2019 we completed the sale of the first tranche of this disposal, comprising 348 of the 370 commercial properties to be sold, for net proceeds of £332.7 million. As at 30 September 2019 we had completed the sale of six of the remaining 22 commercial properties, for proceeds of £7.9 million, which leaves 16 properties, with aggregate gross proceeds amounting to £3.5 million, subject to superior landlord consent and each sale will only complete should the relevant consent be obtained.

A significant proportion of the proceeds from the transaction have been used to reduce the level of the Group's outstanding debt, accelerating the delivery of the Group's medium-term target leverage ratio of 6.0 times net debt to EBITDA. In addition, the transaction enabled the Board to consider more immediate returns to shareholders through additional share buybacks.

The 354 commercial properties that have been sold to 30 September 2019 within the monetisation transaction contributed £13 million to Group EBITDA in the financial year to 30 September 2019 (2018: £26 million).

As at 30 September 2019 we had 125 properties within our Commercial Properties division, representing 36 sites which we held at 30 September 2018 that were not included in the disposal, 16 leasehold sites that may be sold as part of the disposal, subject to superior landlord consent being obtained, and 73 additional sites that have been added to the portfolio during the course of the year.

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.

We remain focussed on leading the Group through to the expected completion of the acquisition by Stonegate. Our objectives are unchanged; it is business-as-usual. We continue to identify operational improvements to drive growth in like-for-like performance and to seek the optimum use for each of our properties.

FINANCIAL REVIEW

Income statement

	Underlying 30 September 2019 £m	Underlying 30 September 2018 £m
Revenue	**724**	695
Operating costs before depreciation and amortisation	**(448)**	(408)
EBITDA	**276**	287
Profit before tax	**118**	122
Earnings per share	**21.6p**	21.2p

We delivered underlying EBITDA of £276 million in the year compared to £287 million in the prior year. The reduction arises as a result of the completion of the disposal of 354 commercial property assets during the year. These assets contributed £13 million to underlying EBITDA in the current year and £26 million in the prior year. Therefore adjusting for this portfolio disposal, underlying EBITDA from our retained business grew from £261 million to £263 million.

Within Publican Partnerships, 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 £285 million (2018: £282 million). Our like-for-like net income from rent was in line with the prior year, whilst our net income from drink supply grew by £3 million driven by broadly stable volumes, pricing and mix benefits.

The growth in scale of our managed operations is increasingly evident in the financial performance of the Group as our managed businesses contributed £42 million in the year (2018: £28 million).

Underlying net finance costs of £137 million were £9 million lower than the prior year as a result of debt reduction.

Total pre-tax non-underlying charges were £317 million (2018: £35 million) comprising £15 million (2018: £6 million) in respect of debt redemption costs, £62 million (2018: £25 million) in respect of property net charges, a goodwill impairment of £232 million (2018: £nil) and £8 million (2018: £4 million) of other charges. The property charges were made up of £15 million (2018: £8 million) arising from the annual revaluation exercise, a charge of £5 million (2018: £11 million) on the revaluation of assets on transfer to non-current assets held for sale, a loss on the disposal of property (before goodwill allocation) of £7 million (2018: profit of £2 million) and a £35 million (2018: £8 million) charge relating to goodwill allocated to those disposals. The other charges in the period related to £5 million (2018: £nil) in respect of costs associated with the proposed acquisition of EIG by Stonegate and £3 million (2018: £4 million) of surrender premiums paid to publicans to recover control of our pub assets. In the prior year an additional £1 million of organisational restructuring costs were incurred and a £1 million profit was recognised on the sale of our interest in Hunky Dory Pubs Limited.

Total tax in the period was a charge of £10 million (2018: £15 million), representing a charge of £21 million (2018: £22 million) on the underlying trading profit and a credit of £11 million (2018: £7 million) relating to tax on non-underlying items. The effective tax rate on the underlying trading profits arising in the period was 17.8% (2018: 18.0%).

Statutory loss after taxation was £209 million (2018: profit of £72 million) which reflects the higher non-underlying items detailed above.

Underlying earnings per share of 21.6p, were up 0.4p on the prior year. Basic loss per share was 46.2p compared to a basic earnings per share of 15.2p in the prior year, primarily due to higher non-underlying charges incurred in the year in respect of property disposals, charges related to early debt repayment and goodwill impairment.

Cash flow
Net cash flow from operating activities of £247 million (2018: £271 million), was lower than the prior year primarily due to the effect of the commercial property disposal and an increase in tax payments in the current year of £9 million due to the repayments received from HMRC in the prior year.

We reinvested our net proceeds from ordinary course disposals of £43 million (2018: £66 million) into capital investment in the estate, partially funding the £87 million (2018: £81 million) invested in the year.

On 14 March 2019 we received £332.7 million from the disposal of 348 commercial properties, of which £175.8 million related to the sale of commercial properties within the Unique securitisation. These proceeds have been used in the full prepayment of the Class A3 Notes, part prepayment of the Class A4 Notes and in meeting associated costs, which were approximately £14 million, arising on the prepayment of the Class A3 and Class A4 Notes. As at 30 September 2019 we had completed the sale of a further six commercial properties, for proceeds of £7.9 million.

The proceeds from the sale of commercial properties not held within the securitisation have been used to repay the outstanding balance of £35 million on the bank term loan facility and repay £115 million drawn under the Group's revolving credit facility agreement such that as at 30 September 2019 the facility was undrawn.

Total capital investment in the year was £87 million (2018: £81 million), of which 58% (2018: 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 21% (2018: 22%) on all such schemes delivered over the last twelve months.

Financing cash flows of £546 million (2018: £249 million), primarily reflect net interest paid of £137 million (2018: £143 million), net loan repayments of £330 million (2018: £66 million), net share repurchases of £63 million, largely relating to the share buyback programme (2018: £21 million), bond purchases of £nil (2018: £5 million) and refinancing and redemption costs of £16 million (2018 £14 million).

Capital allocation
We generate significant cash flows from trading activities supplemented by the proceeds of ordinary course disposals, predominantly of under-performing assets. In the ordinary course of business we would aim 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 desire to return value to shareholders has been demonstrated by our share buyback programme in the financial year. In November 2018 we determined that the best use of £20 million of cash flow expected to be generated in the financial year to 30 September 2019 was to fund a share buyback programme. This programme commenced on 20 November 2018 and was completed on 22 January 2019 having purchased 10.6 million shares for cancellation at an average price of 189p per share.

Following the announcement of the completion of the first tranche of the commercial property portfolio disposal on 14 March 2019, the Board approved the return of up to an additional £65 million to shareholders via further share buyback programmes, representing approximately 20% of the net proceeds from the commercial property portfolio disposal. By 17 July 2019 we had used £39 million of this additional buyback programme through the purchase of a further 18.3 million shares for cancellation at an average price of 209p per share. On 18 July 2019 the recommended cash acquisition of EIG by Stonegate was announced and, since that date, no further share buybacks have been completed.

Balance sheet
Our balance sheet remains strong with a total net asset value of £1.30 billion (2018: £1.55 billion), primarily represented by £3.29 billion (2018: £3.62 billion) of property assets offset by net debt of £1.7 billion (2018: £2.0 billion). The property asset valuation reflects the valuation undertaken as at 30 September 2019. The

Unique property estate is valued by Colliers International and the assets that secure the EIG corporate bonds are valued by Avison Young with the balance of the estate valued internally. The basis of the valuation is consistent with the prior year with 95% (2018: 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 (2018: no net movement).

The share price at 30 September 2019 of £2.81 (2018: £1.66), which equates to an equity value of £1,227 million (2018: £771 million), compares to a tangible net asset value per share of £2.88 (2018: £2.68). The offer price from Stonegate of £2.85 represented a 38.5 per cent premium to the closing share price per EIG share on 17 July 2019 and is broadly in line with the tangible net asset value as at 30 September 2019.

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 £1.7 billion (2018: £2.0 billion).

Corporate bonds

As at 30 September 2019 we had £1,025 million (2018: £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% (2018: 6.4%). On 6 December 2018 we repaid £100.5 million of corporate bonds at par at maturity from available resources including our bank facilities and bank term loan.

In addition to the secured corporate bonds, we have £150 million bonds that were issued on 25 September 2018. These bonds are not secured over properties, have an interest rate payable of 7.5% and a maturity date of 15 March 2024. The bonds contain a covenant package restricting certain aspects of our business that is customary for bonds of this 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.

Bank borrowings

As at 30 September 2019 we had no drawn bank borrowings (2018: £15 million) and we held £27 million of company cash (2018: £27 million). We have bank revolving credit facilities of £150 million available to August 2022 bearing interest at a rate per annum of LIBOR plus 3% on any drawn amounts.

In addition to the bank revolving credit facilities, a £50 million term loan facility was available to us, of which we drew £35 million on 6 December 2018 to partially fund the repayment of the £100.5 million corporate bond. Following the receipt of the disposal proceeds from the commercial property portfolio transaction this term loan was repaid and cancelled on 18 March 2019.

Securitised notes

During the year we used operational cash generated from the business to repay, in accordance with scheduled amortisation, £51 million (2018: £81 million) of the Unique A3 and A4 securitised notes, and purchased and cancelled £nil (2018: £5 million) securitised notes.

In accordance with amendments to the permitted disposal clause within the Unique securitisation, agreed with noteholders on 6 July 2018, the proceeds of the disposal from non-tied pubs out of the Unique estate were used to repay Unique securitised notes in class order with the applicable redemption premiums. The total proceeds, net of costs, from the sale of the 348 commercial properties on 14 March 2019 was £332.7 million, of which £175.8 million related to the sale of properties in the Unique estate. The £175.8 million of proceeds were used in the full prepayment of the Class A3 Notes, part prepayment of the Class A4 Notes and in meeting associated early redemption premiums which were approximately £14 million. Prepayment took place on the earliest possible date following completion of the disposal, which was the note interest payment date falling on 28 June 2019.

Since 28 June 2019 additional non-tied pubs have been sold out of the Unique estate for proceeds of £4.1 million and these proceeds will be used to prepay Class A4 notes in December 2019. As at 30 September 2019 the value of notes outstanding within the securitisation was £691 million (2018: £904 million). The notes are scheduled to amortise over a period to 2032 and attract interest rates of between 5.7% and 7.4%.

W S Townsend
18 November 2019

Group income statement
for the year ended 30 September 2019

	Notes	2019 £m	2018 £m
Revenue		**724**	695
Operating costs before depreciation and amortisation		**(456)**	(413)
EBITDA *		**268**	282
Depreciation and amortisation		**(21)**	(19)
Operating profit		**247**	263
Profit on sale of controlling interest in subsidiary undertaking	4	**-**	1
(Loss)/profit on sale of property		**(7)**	2
Goodwill allocated to disposals		**(35)**	(8)
Net loss on sale of property	4	**(42)**	(6)
Movements in valuation of the estate and related assets	4	**(20)**	(19)
Goodwill impairment	4	**(232)**	-
Finance costs		**(152)**	(152)
(Loss)/profit before tax		**(199)**	87
Taxation	5	**(10)**	(15)
(Loss)/profit after tax attributable to members of the Parent Company		**(209)**	72
(Loss)/earnings per share	6		
Basic		**(46.2)p**	15.2p
Diluted		**(46.2)p**	14.7p

* Earnings before taxation, finance costs, goodwill impairment, movements in valuation of the estate and related assets, net loss on sale of property, profit on sale of controlling interest in subsidiary undertaking and depreciation and amortisation

Statement of comprehensive income
for the year ended 30 September 2019

	2019	2018
	£m	£m
(Loss)/profit for the year	**(209)**	72
Items that will not be reclassified to the income statement:		
Unrealised surplus on revaluation of pub estate	**16**	8
Revaluation of assets on transfer to investment property	**(5)**	-
Movement in deferred tax liability related to revaluation of the estate	**(3)**	-
Other comprehensive income for the year net of tax	**8**	8
Total comprehensive (loss)/income for the year attributable to members of the Parent Company	**(201)**	80

Group balance sheet
as at 30 September 2019

	Notes	**2019 £m**	2018 £m
Non-current assets			
Goodwill		**37**	304
Intangible assets: operating lease premiums		**8**	9
Property, plant and equipment	7	**3,185**	3,228
Investment property	8	**81**	368
Financial assets		**1**	-
Trade receivables		**3**	3
		3,315	3,912
Current assets			
Inventories		**5**	3
Trade and other receivables		**48**	55
Financial assets		**1**	3
Cash		**156**	158
		210	219
Non-current assets held for sale	9	**15**	13
Total assets		**3,540**	4,144
Current liabilities			
Trade and other payables		**(196)**	(207)
Current tax payable		**(5)**	(10)
Financial liabilities		**(19)**	(186)
Pension		**(1)**	(1)
Provisions		**(1)**	(1)
		(222)	(405)
Non-current liabilities			
Financial liabilities		**(1,845)**	(2,006)
Provisions		**(5)**	(5)
Deferred tax		**(172)**	(174)
		(2,022)	(2,185)
Total liabilities		**(2,244)**	(2,590)
Net assets		**1,296**	1,554
Equity			
Called up share capital		**12**	13
Share premium account		**486**	486
Revaluation reserve		**675**	751
Capital redemption reserve		**13**	12
Merger reserve		**77**	77
Treasury share reserve		**(227)**	(227)
Other reserve		**(3)**	(2)
Profit and loss account		**262**	443
Equity attributable to members of the Parent Company		**1,295**	1,553
Non-controlling interests		**1**	1
Total equity		**1,296**	1,554

Group statement of changes in equity
at 30 September 2019

	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 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
Loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(209)**	**(209)**	**-**	**(209)**
Other comprehensive income	**-**	**-**	**8**	**-**	**-**	**-**	**-**	**-**	**8**	**-**	**8**
Total comprehensive income/(loss)	**-**	**-**	**8**	**-**	**-**	**-**	**-**	**(209)**	**(201)**	**-**	**(201)**
Transfer of realised revaluation surplus	**-**	**-**	**(101)**	**-**	**-**	**-**	**-**	**101**	**-**	**-**	**-**
Transfer of deferred tax	**-**	**-**	**17**	**-**	**-**	**-**	**-**	**(17)**	**-**	**-**	**-**
Share-based expense recognised in operating profit	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**3**	**-**	**3**
Share option entitlements exercised in the year	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**(2)**	**-**	**-**	**-**
Tax related to share schemes recognised directly in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**2**	**-**	**2**
Purchase of own shares into EBT	**-**	**-**	**-**	**-**	**-**	**-**	**(3)**	**-**	**(3)**	**-**	**(3)**
Share buybacks	**(1)**	**-**	**-**	**1**	**-**	**-**	**-**	**(59)**	**(59)**	**-**	**(59)**
At 30 September 2019	**12**	**486**	**675**	**13**	**77**	**(227)**	**(3)**	**262**	**1,295**	**1**	**1,296**

Group cash flow statement
for the year ended 30 September 2019

	2019 **£m**	2018 £m
Cash flow from operating activities		
Operating profit	**247**	263
Depreciation and amortisation	**21**	19
Share-based expense recognised in the income statement	**3**	2
Decrease/(increase) in receivables	**6**	(7)
(Decrease)/increase in payables	**(10)**	3
Increase in inventories	**(2)**	(1)
Increase in provisions	**-**	1
	265	280
Tax paid	**(18)**	(9)
Net cash flows from operating activities	**247**	271
Cash flows from investing activities		
Payments made on improvements to public houses	**(81)**	(75)
Payments to acquire other property, plant and equipment	**(6)**	(6)
Receipts from sale of property	**384**	66
Net cash flows from investing activities	**297**	(15)
Cash flows from financing activities		
Interest paid	**(139)**	(143)
Interest received	**2**	-
Debt extinguishment costs	**-**	(7)
Debt restructuring costs	**(2)**	(7)
Debt redemption costs	**(14)**	-
Payments to acquire own debt	**-**	(5)
Payments to acquire own shares	**(63)**	(21)
New loans	**320**	340
Repayment of loans	**(650)**	(406)
Net cash flows from financing activities	**(546)**	(249)
Net (decrease)/increase in cash	**(2)**	7
Cash at start of year	**158**	151
Cash at end of year	**156**	158

Notes

1. Status of information

The financial information for the years ended 30 September 2019 and 2018 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 2018 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 30 September 2019 have not yet been delivered to the Registrar of Companies. The information contained in this announcement was approved by the Board on 18 November 2019.

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 2018 other than those new standards that have been adopted during the year as explained below.

New standards adopted and interpretations adopted during the year:

IFRS 9 – Financial instruments
This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The Group adopted IFRS 9 on 1 October 2018 prospectively and therefore the information presented for comparative periods has not been restated and is presented, as previously reported, under IAS 39. There has been no material impact to the Group results from the adoption of this standard.

IFRS 15 – Revenue from Contracts with Customers
The Group adopted IFRS 15 on 1 October 2018 using the modified retrospective approach without practical expedients. Following an assessment of the terms of contracts it enters into with customers the Group has concluded that the adoption of the new standard does not have a material impact on its consolidated results and financial position but has resulted in additional disclosure requirements.

New standards not yet adopted:

IFRS 16 - Leases
IFRS 16 replaces IAS 17 and establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that appropriately represents those transactions. It requires lessees to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less. The standard is effective for periods beginning on or after 1 January 2019 which is the year ended 30 September 2020 for the Group.

On transition the Group has the option to apply the new standard retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the standard recognised in the profit and loss reserve at the date of initial application being 1 October 2019. The Group expects to apply IFRS 16 following the modified retrospective approach.

On adoption the Group is expected to recognise a right of use asset of £215 million and a financial asset of £9 million (including the existing intangible operating lease premium asset of £8 million) with a corresponding lease liability of £281 million. The right of use asset is net of an impairment provision based on an impairment test carried out on adoption.

A balance of £5 million in prepayments in relation to lease payments made immediately prior to adoption is expected to be released along with the existing onerous lease provision of £6 million and an overdue rent review provision of £5 million.

2. Accounting policies and basis of preparation (continued)

The net balance of £59 million is expected be recognised in the opening profit and loss reserve. The deferred tax effect of the above balance recognised in the opening profit and loss reserve is estimated to be £10 million.

EBITDA in the financial year ending 30 September 2020 is expected to increase by approximately £21 million being the operating lease payments previously recognised as an expense within EBITDA net of a reduction in rental income for those properties that have been identified as sub-let on finance leases. Depreciation and amortisation is expected to increase by £10 million reflecting the deprecation of the right of use asset resulting in a net increase to operating profit of £11 million. Finance costs will increase by a net £15 million resulting in an overall net decrease to profit before tax of £4 million.

There is no net cash impact of the adoption of IFRS 16 however the standard prescribes that where operating lease payments were previously categorised as operating cash flows the payments will be split between the principal portion and the interest element with both to be presented within cash flows from financing activities. The change in presentation is expected to result in an improvement to operating cash flows of £21 million, the corresponding decrease being in financing cash flows.

2. Accounting policies and basis of preparation (continued)

The expected impact of the adoption of IFRS 16 on the consolidated balance sheet as at 1 October 2019 is estimated to be as follows:

	As at 30 September 2019 £m	IFRS 16 adoption £m	As at 1 October 2019 £m
Non-current assets			
Goodwill	37	-	37
Intangible assets: operating lease premiums	8	(8)	-
Property, plant and equipment	3,185	197	3,382
Investment property	81	18	99
Financial assets	1	-	1
Trade receivables	3	-	3
	3,315	207	3,522
Current assets			
Inventories	5	-	5
Trade and other receivables	48	(5)	43
Financial assets	1	9	10
Cash	156	-	156
	210	4	214
Non-current assets held for sale	15	-	15
Total assets	3,540	211	3,751
Current liabilities			
Trade and other payables	(196)	5	(191)
Current tax payable	(5)	-	(5)
Financial liabilities	(19)	(4)	(23)
Pension	(1)	-	(1)
Provisions	(1)	1	-
	(222)	2	(220)
Non-current liabilities			
Financial liabilities	(1,845)	(277)	(2,122)
Provisions	(5)	5	-
Deferred tax	(172)	10	(162)
	(2,022)	(262)	(2,284)
Total liabilities	(2,244)	(260)	(2,504)
Net assets	1,296	(49)	1,247
Equity			
Called up share capital	12	-	12
Share premium account	486	-	486
Revaluation reserve	675	-	675
Capital redemption reserve	13	-	13
Merger reserve	77	-	77
Treasury share reserve	(227)	-	(227)
Other reserve	(3)	-	(3)
Profit and loss account	262	(49)	213
Equity attributable to members of the Parent Company	1,295	(49)	1,246
Non-controlling interests	1	-	1
Total equity	1,296	(49)	1,247

2. Accounting policies and basis of preparation (continued)

Going concern

The directors have given due consideration to the proposed offer for the Group that has been accepted by shareholders but at the time of approving these financial statements remains conditional on approval by the Competition and Markets Authority (CMA). The CMA approval, if granted, could result in the acquisition of the Group completing during the going concern review period. Accordingly, the directors have considered going concern under two scenarios, on a standalone basis and on the assumption that the possible acquisition completes within the going concern review period.

For the Group on a standalone basis, 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 along with the principal risks and uncertainties.

On the assumption that the possible acquisition by Stonegate completes within the going concern review period, the directors have further considered that:

- There is sufficient financing available to Stonegate to purchase the Company's shares and repay the obligations arising on the Group's existing debt facilities due to the change of control clauses triggered as a result of the acquisition;
- Stonegate will continue to operate the business in a manner that would not give rise to a material adverse impact to the Group's existing forecasts; and
- The forecast cash flows modelled by management and the Group's advisers for the enlarged Group support the ability to satisfy the debt service costs and comply with covenants of the facilities throughout the going concern period including stress testing under plausible scenarios.

The directors will resign from the Board should the transaction complete and have had no access to Stonegate's forecast cash flows of the combined group. However the directors, as well as assessing the existing Group's ability to continue as a going concern, have also done so assuming that operation of the Group, its distributions to shareholders and its financing arrangements under new ownership would be no less favourable than is currently envisaged on a standalone basis. Any such material changes arising from a new board's actions could impact the ability of the Group to maintain adequate funding. Nevertheless, in the context of these assumptions, the directors have a reasonable expectation that both for the Group on a standalone basis and when considering the possible acquisition, the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis 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 2019	**Publican Partnerships £m**	**Commercial Properties £m**	**Managed £m**	**Central £m**	**Total £m**
Drink revenue	**363**	**-**	**186**	**-**	**549**
Rent revenue	**116**	**19**	**-**	**-**	**135**
Food revenue	**-**	**-**	**20**	**-**	**20**
Revenue from amusement and other machines	**8**	**-**	**8**	**-**	**16**
Other revenue	**-**	**-**	**4**	**-**	**4**
Revenue	**487**	**19**	**218**	**-**	**724**
Operating costs before depreciation and amortisation	**(196)**	**-**	**(176)**	**(76)**	**(448)**
Underlying EBITDA	**291**	**19**	**42**	**(76)**	**276**
Non-underlying operating costs before depreciation and amortisation					**(8)**
Depreciation and amortisation					**(21)**
Net loss on sale of property					**(42)**
Movements in valuation of the estate and related assets					**(20)**
Goodwill impairment					**(232)**
Net finance costs					**(152)**
Loss before tax					**(199)**
Taxation					**(10)**
Loss after tax					**(209)**

Year ended 30 September 2018	Publican Partnerships £m	Commercial Properties £m	Managed £m	Central £m	Total £m
Drink revenue	383	1	130	-	514
Rent revenue	125	26	-	-	151
Food revenue	-	-	15	-	15
Revenue from amusement and other machines	8	-	5	-	13
Other revenue	-	-	2	-	2
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

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, professional fees paid in relation to the proposed acquisition of the Group, the profit on sale of controlling interest in subsidiary undertaking, the profit/loss on sale of property, the movements in valuation of the estate and related assets, goodwill impairment, costs incurred repaying debt ahead of maturity and refinancing.

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

	2019			2018		
	Underlying items £m	**Non-underlying items £m**	**Total £m**	Underlying items £m	Non-underlying items £m	Total £m
Revenue	**724**	**-**	**724**	695	-	695
Operating costs before depreciation and amortisation	**(448)**	**(8)**	**(456)**	(408)	(5)	(413)
EBITDA	**276**	**(8)**	**268**	287	(5)	282
Depreciation and amortisation	**(21)**	**-**	**(21)**	(19)	-	(19)
Operating profit/(loss)	**255**	**(8)**	**247**	268	(5)	263
Profit on sale of controlling interest in subsidiary undertaking	**-**	**-**	**-**	-	1	1
(Loss)/profit on sale of property	**-**	**(7)**	**(7)**	-	2	2
Goodwill allocated to disposals	**-**	**(35)**	**(35)**	-	(8)	(8)
Net loss on sale of property	**-**	**(42)**	**(42)**	-	(6)	(6)
Movements in valuation of the estate and related assets	**-**	**(20)**	**(20)**	-	(19)	(19)
Goodwill impairment	**-**	**(232)**	**(232)**	-	-	-
Finance costs	**(137)**	**(15)**	**(152)**	(146)	(6)	(152)
Profit/(loss) before tax	**118**	**(317)**	**(199)**	122	(35)	87
Taxation	**(21)**	**11**	**(10)**	(22)	7	(15)
Profit/(loss) after tax attributable to members of the Parent Company	**97**	**(306)**	**(209)**	100	(28)	72
Earnings per share						
Underlying	21.6p			21.2p		
Underlying diluted	21.6p			20.0p		

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 £8 million (2018: £5 million) has been incurred in respect of assignment premiums paid, professional fees incurred in respect of the proposed acquisition of the Group by Stonegate and reorganisation costs.

During the period of our strategic evolution, the £3 million (2018: £4 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 the year to 30 September 2019, £5 million (2018: £nil) of costs have been committed and incurred in relation to the proposed acquisition of the Group. These primarily relate to adviser, legal and professional fees and have been allocated to non-underlying as they were one-off in nature.

In the prior year to 30 September 2018 restructuring costs of £1 million were incurred as we concluded the reorganisation of a number of support teams to meet our future needs and these charges were allocated to non-underlying as they are one-off in nature.

b) Profit on sale of controlling interest in subsidiary undertaking

In the prior year 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.

c) Net loss on sale of property

	2019 £m	2018 £m
Profit on sale of property, plant and equipment	**4**	11
Loss on sale of property, plant and equipment	**(5)**	(8)
Net (loss)/profit on sale of property, plant and equipment	**(1)**	3
Profit on sale of investment property	**24**	-
Loss on sale of investment property	**(30)**	(1)
Net loss on sale of investment property	**(6)**	(1)
Net (loss)/profit on sale of property before goodwill allocation	**(7)**	2
Goodwill allocated to disposals	**(35)**	(8)
Net loss on sale of property	**(42)**	(6)

4. Non-underlying items (continued)

On 14 March 2019 the Group completed on the disposal of a portfolio of 348 properties and their associated non-licensed premises in a transaction to a subsidiary of Davidson Kempner Capital Management LP. Following this, and as part of the original agreement, a further six leasehold properties were also disposed to this purchaser during August and September 2019. All properties were trading within the commercial properties segment. The total net cash proceeds from the sale of £341 million were predominantly used to reduce debt. The loss on disposal of the transaction of £6 million includes fees of £4 million and a provision for future capital payments of £2 million. In accordance with IAS 36 £28 million of goodwill was allocated to these disposals.

Further to this transaction 129 properties (2018: 174 properties) and various other plots of land with a book value of £44 million (2018: £64 million) were disposed of generating gross proceeds of £50 million (2018: £71 million) which, after taking account of disposal costs resulted in an overall loss of £1 million (2018: profit of £2 million). In accordance with IAS 36 £7 million (2018: £8 million) of goodwill was allocated to these disposals.

Included within the total profits on sale of property, plant and equipment of £4 million, £1 million related to three properties and various plots of land with a 'special interest' value to particular buyers. The remaining profits of £3 million arose on 59 properties sold at an average profit of £49,000. The total losses on sale of property above of £5 million related to 67 properties sold at an average loss of £72,000.

d) Movements in valuation of the estate and related assets

	2019 £m	2018 £m
Movement in property, plant and equipment from revaluation of the estate (see note 7)	**(14)**	(23)
Movement in investment property from revaluation of the estate (see note 8)	**(1)**	15
Revaluation movement from retained estate	**(15)**	(8)
Revaluation of property, plant and equipment on transfer to investment property (see note 7)	**(1)**	-
Revaluation of operating leases on transfer to non-current assets held for sale	**1**	-
Revaluation of non-current assets held for sale (see note 7)	**(5)**	(11)
	(20)	(19)

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 £1 million (2018: £nil). Of this, £16 million (2018: £8 million) has been credited to other comprehensive income and £15 million (2018: £8 million) has been charged to the income statement as a non-underlying item. The £15 million charge reflects a charge of £14 million (2018: £23 million) for property value movements below historic cost for properties held in property, plant and equipment and a charge of £1 million (2018: £15 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 £4 million (2018: £11 million) has been recorded. Of this net write-down, £nil (2018: £nil) has been debited to other comprehensive income and £4 million (2018: £11 million) has been charged to the income statement as a non-underlying item. At the year end, there are 50 properties (2018: 47 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.

4. Non-underlying items (continued)

e) Goodwill impairment

The goodwill balance is allocated to the operating segments and tested annually for impairment by comparing the recoverable amount of each segment to the carrying amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. The value in use is calculated using budgeted EBITDA and forecasts of cash flows, applying an appropriate long-term growth rate and discounting using a pre-tax risk adjusted discount rate. In the current year, based on external market trends, the long-term growth rate has been reduced. Furthermore the discount rate has been increased to reflect market indicators identified following the proposed acquisition of the Group by Stonegate. An impairment of £232 million (2018: £nil) has been recognised.

f) Finance costs

During the year ended 30 September 2019, £1 million (2018: £nil) of unamortised fees relating to the term loan have been recognised in non-underlying finance costs following the extinguishment of this financial liability. There is no cash impact in the year from this write off.

Furthermore, following the disposal of a portfolio of commercial properties the proceeds that related to the sale of commercial properties within the Unique securitisation were used in full prepayment of the Class A3 Notes and part prepayment of the Class A4 Notes together with the associated costs. These costs of £14 million (2018: £nil) have been recognised as a non-underlying finance costs and have been fully paid.

In the prior year, Unique securitised bonds with a nominal and book value of £4 million were purchased and cancelled for the equivalent price of £1.14 for each £1 of outstanding nominal value, generating a loss of £1 million.

Also in the prior year 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 were 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 was accounted for as a non-substantial modification and the total costs and cash outflow of £1 million were 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 prior year and £2 million cash outflow in the current year) were included in the carrying value of the debt.

In the prior year a tender offer for the convertible bonds was issued resulting 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 was charged to the income statement in non-underlying finance costs in the year ended 30 September 2018, whilst £2 million was 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 during the year ended 30 September 2019.

5. Taxation

The total tax charge of £10 million (2018: £15 million) represents an underlying charge of £21 million (2018: £22 million) and a non-underlying credit of £11 million (2018: £7 million).

5. Taxation (continued)

a) Underlying tax

The underlying tax charge of £21 million (2018: £22 million) equates to an effective tax rate of 17.8% (2018: 18.0%). 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.

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 £nil (2018: £1 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 a prior year. Deferred taxation has been calculated based on the current enacted rate of 17% (2018: 17%).

A deferred tax credit of £3 million (2018: £5 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 £8 million (2018: £1 million) has been recognised in relation to all other non-underlying items in the income statement. The total non-underlying tax credit is therefore £11 million (2018: £7 million).

c) Tax recognised in other comprehensive income

A charge of £3 million (2018: £nil) has been recognised in other comprehensive income related to the tax on the revalued estate.

6. (Loss)/earnings per share

The calculation of basic (loss)/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.

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.

6. (Loss)/earnings per share (continued)

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

Following redemption of 98% of the nominal value of convertible bonds during the prior year with the remaining balance being redeemed during the current year, a pro-rated number of shares has been taken into account in the assessment of dilution.

For the year ended 30 September 2019, the adjustment for share options is assessed as being anti-dilutive (2018: dilutive) which has resulted in an adjustment to the weighted average number of equity shares in issue during the year of nil shares (2018: 5.4 million shares).

For the year ended 30 September 2019, the adjustment for the convertible bonds is assessed as being anti-dilutive (2018: dilutive) which has resulted in an adjustment to (loss)/profit in the calculation of diluted earnings per share of £nil (2018: £5.7 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 nil shares (2018: 50.1 million shares).

	2019		2018	
	(Loss)/ earnings £m	**Per share amount p**	Earnings £m	Per share amount p
Basic (loss)/earnings per share	**(208.3)**	**(46.2)**	71.7	15.2
Diluted (loss)/earnings per share	**(208.3)**	**(46.2)**	77.4	14.7
Underlying earnings per share	**97.5**	**21.6**	99.7	21.2
Underlying diluted earnings per share	**97.5**	**21.6**	105.4	20.0

	No. of shares m	No. of shares m
Weighted average number of shares	**450.6**	470.9
Dilutive share options	**-**	5.4
Dilutive convertible bonds shares	**-**	50.1
Diluted weighted average number of shares	**450.6**	526.4

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 2018	2,984	297	47	3,328
Additions	45	44	8	97
Revaluation:				
- Recognised in the statement of comprehensive income	16	-	-	16
- Recognised in the income statement	(14)	-	-	(14)
Revaluation of assets on transfer to investment property:				
- Recognised in the statement of comprehensive income	(5)	-	-	(5)
- Recognised in the income statement	(1)	-	-	(1)
Net transfer to investment property	(56)	(5)		(61)
Revaluation of assets on transfer to non-current assets held for sale:				
- Recognised in the income statement	(5)	-	-	(5)
Net transfer to non-current assets held for sale	(38)	(8)	-	(46)
Disposals	-	(13)	(6)	(19)
At 30 September 2019	**2,926**	**315**	**49**	**3,290**
Depreciation				
At 1 October 2018	17	65	18	100
Charge for the year	1	16	4	21
Revaluation on transfer to investment property	-	(1)	-	(1)
Net transfer to non-current assets held for sale	-	(2)	-	(2)
Disposals	-	(8)	(5)	(13)
At 30 September 2019	**18**	**70**	**17**	**105**
Net book value				
At 30 September 2019	**2,908**	**245**	**32**	**3,185**
At 30 September 2018	2,967	232	29	3,228

8. Investment property

	2019 **£m**	2018 £m
At 1 October	**368**	270
Net transfer from property, plant and equipment	**60**	87
Revaluation	**(1)**	15
Net transfers to non-current assets held for sale	**(346)**	(4)
At 30 September	**81**	368

9. Non-current assets held for sale

	2019 **£m**	2018 £m
At 1 October	**13**	25
Net transfer from property, plant and equipment	**44**	44
Net transfer from investment property	**346**	4
Net transfer from intangible asset: operating lease premiums	**2**	-
Write-down to fair value less costs to dispose	**(1)**	(1)
Disposals	**(389)**	(59)
At 30 September	**15**	13
Representing:		
Property, plant and equipment	**13**	13
Investment property	**2**	-
	15	13

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 50 properties (2018: 47 properties) which are expected to be sold within the next year.

10. Property valuation and net asset value

The Group's total property valuation of £3,289 million as at 30 September 2019 includes other property assets in addition to the properties valued subject to Rule 29 of the Takeover Code including the value of assets held for sale, operating leasehold sites and other fixed assets. These items have not been independently valued and do not require an independent valuation for the purposes of Rule 29 of the Code.

	2019 £m	2019 No.
Properties valued by GVA Grimley Limited (t/a Avison Young)	**1,544**	1,771
Properties valued by Colliers International Property Advisors UK LLP	**1,538**	1,860
Properties valued by internal Estates Director	**120**	152
Property subtotal*	**3,202**	3,783
Non-current assets held for sale	**15**	
Operating leasehold sites	**28**	
Other fixed assets	**44**	
Total property asset value	**3,289**	

* Properties subject to Rule 29 of the Code

The net asset value of £1,296 million recorded in the Group balance sheet is arrived at by taking the total property asset value of £3,289 million (as detailed in the table above), adding to this goodwill of £37 million, financial assets of £1 million, trade receivables of £3 million, total current assets of £210 million and net of total liabilities of £2,244 million.

11. Additional cash flow information

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

	2019	2018
	£m	£m
(Decrease)/increase in cash in the year	**(2)**	7
Cash outflow from change in debt	**330**	71
Debt restructuring costs paid	**2**	7
Change in net debt resulting from cash flows	**330**	85
Debt restructuring paid in the current year relating to prior year change in net debt	**(2)**	2
Amortisation of issue costs and discounts/premiums on long-term loans	**(6)**	(4)
Loss on purchase of own debt	**-**	(1)
Amortisation of the fair value adjustments of securitised bonds	**4**	4
Convertible loan note effective interest	**-**	(3)
Movement in other reserve on convertible bond redemption	**-**	(7)
Movement in net debt in the year	**326**	76
Net debt at start of year	**(2,034)**	(2,110)
Net debt at end of year	**(1,708)**	(2,034)

b) Analysis of net debt

	2019	2018
	£m	£m
Bank borrowings	**-**	(15)
Corporate bonds	**(1,175)**	(1,277)
Securitised bonds	**(691)**	(904)
Gross debt	**(1,866)**	(2,196)
Cash	**156**	158
Underlying net debt	**(1,710)**	(2,038)
Capitalised debt issue costs	**14**	20
Fair value adjustments on acquisition of bonds	**(9)**	(13)
Finance lease payables	**(3)**	(3)
Net debt	**(1,708)**	(2,034)
Balance sheet:		
Current financial liabilities	**(19)**	(186)
Non-current financial liabilities	**(1,845)**	(2,006)
Cash	**156**	158
Net debt	**(1,708)**	(2,034)

Underlying net debt represents amounts repayable to banks and other lenders net of cash retained in the business. Cash includes £111 million (2018: £121 million) held in the securitised Unique sub-group, of which £65 million (2018: £65 million) is held in a securitised reserve account.

12. Alternative Performance Measures (APMs)

Like-for-like Publican Partnerships net income

Publican Partnerships like-for-like net income of £285 million (2018: £282 million) represents underlying EBITDA for the Publican Partnerships business of £291 million (2018: £307 million) excluding £1 million (2018: £7 million) of income in respect of disposals and £5 million of net income (2018: £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 £3 million (2018: £3 million) represents underlying EBITDA for the Commercial Properties business of £19 million (2018: £27 million) excluding £13 million (2018: £26 million) of income in respect of disposals and £3 million of net income relating to other non-like-for-like net income (2018: includes a net £2 million of income representing income from before the properties moved into the segment net of non-like-for-like net income).

Managed like-for-like sales

Managed like-for-like sales represents revenue from the Managed estate of £218 million (2018: £152 million) excluding underlying revenue from those pubs that have not traded for two full years post investment in their managed format of £113 million (2018: £52 million).

Average net income per pub

Average net income per pub represents the annual net income for Publican Partnerships assets trading at 30 September 2019 of £285 million (2018: £303 million) divided by the total Publican Partnerships assets trading at 30 September 2019 of 3,424 properties (2018: 3,718 properties).

Publican Partnerships net income of £285 million (2018: £303 million) represents underlying EBITDA for the Publican Partnerships business of £291 million (2018: £307 million) excluding £1 million (2018: £2 million) of income in respect of disposals and £5 million of net income (2018: £2 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 2019 of £9 million (2018: £30 million) divided by the total Commercial Properties assets trading at 30 September 2019 of 125 properties (2018: 412 properties).

Commercial Properties net income of £9 million (2018: £30 million) represents underlying EBITDA for the Commercial Properties business of £19 million (2018: £27 million) excluding £13 million (2018: £nil) of income in respect of disposals and including £3 million of net income (2018: £3 million) relating to the pubs before they were transferred to the Commercial Property segment offset by unlicensed property income.

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 £39 million (2018: £24 million) divided by the total number of sites that have traded post investment for more than six months being 346 sites (2018: 232 sites).

Managed investments annualised average site EBITDA represents annualised EBITDA of sites that have traded post investment for more than six months of £9 million (2018: £6 million) divided by the total number of sites that have traded post investment for more than six months being 50 sites (2018: 27 sites).

12. Alternative Performance Measures (APMs) (continued)

The total annualised EBITDA for sites that have traded for more than six months referred to above of £48 million (2018: £30 million) represents underlying EBITDA for the Managed business of £42 million (2018: £28 million) excluding costs not allocated at site level of £5 million (2018: £4 million), excluding EBITDA of pubs that have not traded for more than six months post investment of £1 million (2018: £4 million) and including an adjustment of £2 million (2018: £2 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, goodwill impairment 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.

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 sufficiently 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 Risk Committee, composed of a broad representation of the Group's senior managers and functional specialists, provides additional oversight regarding the effectiveness of these risk management processes. 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 £3.3 billion at 30 September 2019. 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 no net movement in the total value of the estate 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 stable.

We invested £87 million on developing and improving our assets during the year.

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.

The securitised bonds have quarterly interest payments across all three outstanding bonds, one of which also currently has scheduled amortisation, while the corporate bonds have semi-annual interest payments and are non-amortising. The next scheduled maturity of the Group's corporate bonds at 30 September 2019 is £125 million of bonds due in February 2021.

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.

In December 2018, the Group repaid at maturity its £100.5 million corporate bonds using £35 million drawn on its term loan facility and its revolving credit facility. Following the commercial properties portfolio disposal in March 2019, the term loan was repaid in full and all amounts drawn on the RCF were repaid. The RCF remains undrawn at 30 September 2019.

In addition, £176 million of proceeds from the same disposal were used to repay all of the outstanding Class A3 securitised notes and a portion of the Class A4 securitised notes, together with the associated redemption premium.

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 currently undergoing a consultation and statutory review, being three years since 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.

Following introduction of legislation in 2018, the requirements of the General Data Protection Regulation (GDPR), regarding the collection, storage and destruction of personal data, have now been embedded into our business-as-usual activities.

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 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 an active member of the BBPA ensuring that we are aware of and can contribute to discussions that impact the industry. We are also 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 further 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.

We annually review the carrying value of goodwill and have written down the value through impairment as necessary. Any goodwill that is allocated to pubs that are sold, is written off during the year.