Unaudited Interim Results of Enterprise Inns plc
for the six months ended 31 March 2011

Enterprise Inns plc (ETI), the leading specialist operator of leased and tenanted pubs in the UK, today announces its interim results for the six months ended 31 March 2011.

Highlights

- EBITDA (pre-exceptional items) £179m (H1 2010: £204m)
- Average net income per pub stable at £31.2k (H1 2010: £31.2k)
- Like for like net income in substantive estate down 2% (H1 2010: down 2%)
- Strong cash generation has reduced net debt by £175m in six months
- New forward start facility of £625m in place

Statutory results

- Profit before tax and exceptional items £74m (H1 2010: £86m)
- Profit before tax £61m (H1 2010: £91m)
- Adjusted earnings per share 10.8p (H1 2010: 12.6p)

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

"We have achieved a solid set of results, in line with our expectations. Headline numbers are impacted by a 9% reduction in the average number of pubs in our portfolio and higher leasehold costs, reflecting our successful sale and leaseback programme. I am pleased that average net income per pub has remained stable despite very challenging conditions across the pub sector during the first half of our financial year.

The second half of the year has started well, with fine weather over Easter and the Bank Holiday weekend providing our publicans with a welcome boost to trade. Whilst we expect trading conditions to remain challenging, we are confident in our strategy and expect that the quality of our pub estate and the resilience of our publicans will ensure that we deliver results for the full year in line with our expectations.

We have a robust balance sheet, a secure, flexible and tax efficient financing structure and we continue to generate strong cash flows. Our bank debt of £545 million at the end of H1 is already well below the new forward start facility of £625 million which came into force on 16 May 2011 and we expect to see further substantial reductions in bank debt by the end of this financial year.

As we continue to return the business towards growth, we remain confident that in the medium term the business will be in a good position to deliver positive returns to shareholders".

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The Interim Results presentation will be available on the company website at www.enterpriseinns.com. A live video webcast of the presentation will be available on the investor zone section on the above website from 9.30am. Alternatively, a live conference call of the presentation can be accessed at 9.30am BST by dialling +44 (0) 20 3140 0820 or 1 855 716 1594 (USA callers). A replay of the conference call will be available for 7 days on +44 (0)20 3140 0698, 1877 846 3918 (USA) Replay Passcode: 377326#.

CHIEF EXECUTIVE'S REVIEW

I am pleased to report on our interim results for the six months to 31 March 2011, during which we delivered EBITDA of £179 million, 12% down on the same period last year but reflecting in part a 9% reduction in the number of pubs in our estate together with the impact of leasehold costs incurred as a result of our successful sale and leaseback programme. Average net income per pub remained stable during the period, compared to a 3% decline in the first half of 2010 and an 8% decline in the same period in 2009.

The current level of bank debt is substantially less than the forward start facility negotiated last year and implemented on 16 May 2011. We shall continue to focus on our debt reduction programme through the second half of this year and as such will not be paying an interim dividend. However, the return of cash to shareholders, through dividends or other means, remains a key objective and the Board will review the position on a regular basis.

TRADING REVIEW

These are solid trading results against a difficult economic background. The first half of this year has seen poor weather over Christmas, consumers nervous about the economy and our publicans challenged by a VAT increase to 20%, beer duty up by 7% (beer duty has now increased by 35% over the past three years), plus inflationary increases in food, beer and utilities.

These results reflect the quality of our pub estate, the assistance that we have been able to give to our publicans and their skills and determination in winning market share and maintaining profitability.

Net income per pub stable despite poor Christmas weather

Average net income per pub across the whole estate remained stable for the first half of the year, with growth of over 1% during February and March offsetting a similar decline in the first quarter, predominantly caused by adverse weather conditions over the important Christmas trading period, reported at the time of our AGM statement on 20 January 2011. There continue to be significant regional variations with average net income per pub down by 2% in the north, stable in the midlands and growing by 2% in the south.

Substantive estate performance resilient; support costs up marginally

87% of our pubs, representing 94% of net income, are let on substantive agreements and like for like income in these pubs remains steady at around 2% down compared to the same period last year. We continue to support good quality publicans who are prepared to work with us to achieve long term success and this support, most commonly in the form of special discounts, has cost some £8 million in the first half of the year (up from £7 million in H1 2010), this small year-on-year increase reflecting the difficulties experienced by some publicans as a result of difficult trading over the Christmas period. As we continue to achieve stability across the estate, it is encouraging that the level of bad debts has once again reduced, to just 0.2% of turnover, whilst overdue balances are some 30% down on this time last year at just £6.4 million.

Strong demand for new tenancies driven by improved flexibility of agreements

The additional pre-entry training and business planning requirements imposed by our new Code of Practice have lengthened the time it takes for a publican formally to sign up a substantive agreement for a pub, resulting in a reduction in the number of pubs let on substantive agreements from 89% at 30 September 2010 to 87% at 31 March 2011. However, we continue to enjoy a strong pipeline of applicants, attracted by the improved flexibility offered by our suite of lease and tenancy agreements. Most importantly, we are confident that the stricter pre-entry requirements, particularly in respect of assignments by existing publicans, are having a positive impact on the quality and qualification of our publicans.

SUPPORTING GROWTH ACROSS THE ESTATE

Estate profile and quality has protected publicans' profitability

Despite testing trading conditions, the ETI business is showing signs of stabilisation. With the accelerated disposal programme nearing completion and investment levels maintained across the estate, the key challenge for the balance of 2011 and beyond is to drive real like for like income growth across the business.

Thanks to the quality of our pub estate, the fairness of our agreements and, where appropriate the direct financial support that we have given to our publicans, we believe that their profitability has remained robust. Based upon our most recent assessment, we estimate that, on average, our publicans have the potential to earn in the region of £45,000 per annum, including a notional £10,000 for the provision of private accommodation and related benefits.

The tied model is built on mutual success

Sustainable income growth for ETI will not be achieved by taking an increasing proportion of overall pub profitability and it is essential that we work with publicans to grow sales and profitability in every pub, through the flexibility of agreements, innovative investment, training and business support and cost and efficiency savings. We strive to provide the best possible support to all our publicans and we are pleased that our recent survey of publicans' attitudes showed that more than 82% were satisfied both with their relationship with ETI and with the performance of their regional manager.

- **Flexibility of agreements including selective free of tie terms**
  We are keen to negotiate the most appropriate agreement for every new publican, with tie release options available in respect of bottled beers, ciders and FAB's, wines, sprits and minerals, gaming machines and guest ales. Where the business case has been compelling, we have agreed completely free-of-tie terms and, in the case of some SIBA brewers, total freedom from tie for all own-brewed cask conditioned ales has been appropriate.

- **Innovative investment; full year capex expected to be £60 million**
  With the right publican in place, even a simple facelift of the pub can have a dramatic effect on performance. We expect capital expenditure of £60 million this financial year on a wide range of improvement schemes, some totally repositioning a pub to reflect market changes, others quite simple low cost schemes to revitalise a pub in its local market place.

- **Training and business support attracting wide take-up across estate**
  Our Winning in Local Markets and Food Retailing courses have been attended by more than 1000 publicans and have been roundly praised, including Best Training course in the 2010 NITA awards. A recent survey confirmed that more than 75% of our publicans take advantage of the fortnightly special offers published in our publican magazine.

- **Cost and efficiency savings enjoyed by the majority of our publicans**
  The ETI buying club celebrates its 10th anniversary this year, with publicans spending more than £13 million in the past year, generating savings estimated to be around £4 million. Our Health and Safety package has now been taken up by 3000 publicans, providing the comfort of a full health and safety compliance package through a central third party operator at around half the cost of a one off scheme.

Our revised Code of Practice formalises our commitments to publicans and has been signed by all new publicans since its release in October last year and in total acknowledged by 97% of all substantive agreement holders.

PUB ESTATE

£30 million spend on continuing investment in estate quality

The quality of our pub estate is critical to the success of our business, attracting the most discerning and professional publicans and giving them the best foundations on which to develop a profitable business. During the period we invested £30 million, working alongside our publicans to deliver a wide range of schemes, large and small across more than 800 pubs.

£47 million raised from disposal of unsustainable pubs

We have continued our disposal programme during the first half of this year, selling poorer quality and potentially unviable pubs which do not fit the future profile of the business. During the period we sold 212 pubs, together with other property assets for a net consideration of £47 million. We expect to sell in the region of 500 pubs in the full year, by the end of which our accelerated disposal programme will be substantially complete and we will return to a lower rate of estate churn.

£247 million raised to date from sale and leaseback programme; now largely complete

During the first half of the year, we continued to take advantage of the robust property investment market in central London, selling a total of 71 high value pubs both at auction and in small batches to investment companies. During April and May we sold a further 34 pubs bringing the total for the current year to 105 pubs. The sale and leaseback programme has now largely served its purpose, raising £247 million from the sale of 176 high value properties at an average rental yield of 6.5%.

SECURE FINANCING AND ROBUST CASH FLOW

ETI has a secure, flexible and tax efficient financing structure comprising securitised bonds, corporate bonds and bank borrowings. At 31 March 2011, net debt was £3,130 million compared to £3,505 million at the same time last year.

Securitisation and corporate bonds represent fixed rate, manageable and tax efficient debt

The £1,466 million of securitised bonds amortise over 20 years, attract a fixed interest rate of 6.3% and are secured on pub assets with a net book value of £2,246 million. The Group is currently £77 million ahead of the amortisation schedule and we expect to make advance repayments of the floating rate securitised bonds until they are fully repaid by 2012. There will then be a one year repayment holiday until repayment of fixed rate securitised debt commences in 2013.

The £1,185 million corporate bonds are non-amortising, are secured on ring fenced portfolios of freehold pubs and attract an interest rate averaging 6.5%, with the next scheduled maturities being £60 million in February 2014 and £600 million in December 2018. We will repay the £60 million 2014 bond from cash flow and expect to refinance the £600 million 2018 bond on maturity, bearing in mind that it will always be secured on a portfolio of pubs with an up-to-date valuation of £1 billion and interest cover of two times.

Continuing reduction in level of bank borrowings

Strong cash generation during the first half of the year has resulted in bank borrowings of £545 million at 31 March 2011, well below the forward start facility of £625 million negotiated last year and implemented on 16 May 2011. The new facility comprises tranche A, £419 million which expires in December 2013 and tranche B, £206 million which expires in December 2012. On 16 May 2011, after allowing for appropriate headroom, £48 million of tranche B was not required and was therefore immediately cancelled. There are certain restrictions on returning cash to shareholders whilst tranche B is in place, for which reason we will apply all cash available for repayment of bank borrowings to tranche B until it is fully repaid and cancelled, which we expect to be well in advance of its expiry date.

CURRENT TRADING AND OUTLOOK

The second half of the year has started well, with fine weather over Easter and the Bank Holiday weekend providing our publicans with a welcome boost to trade. Whilst we expect trading conditions to remain challenging, we are confident in our strategy and expect the quality of our pub estate and the resilience of our publicans will ensure that we deliver results for the full year in line with our expectations. As we continue to return the business towards growth, we remain confident that in the medium term the business will be in a good position to deliver positive returns to shareholders.

We intend to issue an Interim Management Statement on 4 August 2011.

G E Tuppen CBE
17 May 2011

Group Income Statement

	Notes	**Unaudited Six months ended 31 March 2011**			Unaudited Six months ended 31 March 2010			Audited Year ended 30 September 2010		
		Pre-exceptional items	**Exceptional items**	**Total**	Pre-exceptional items	Exceptional items	Total	Pre-exceptional items	Exceptional items	Total
	Notes	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Revenue		**346**	**-**	**346**	371	3	374	753	5	758
Cost of sales		**(149)**	**-**	**(149)**	(149)	(2)	(151)	(311)	(3)	(314)
Gross profit		**197**	**-**	**197**	222	1	223	442	2	444
Administrative expenses		**(18)**	**-**	**(18)**	(18)	(5)	(23)	(37)	(7)	(44)
EBITDA *		**179**	**-**	**179**	204	(4)	200	405	(5)	400
Depreciation and amortisation		**(7)**	**-**	**(7)**	(7)	-	(7)	(13)	-	(13)
Operating profit		**172**	**-**	**172**	197	(4)	193	392	(5)	387
Profit on sale of property, plant and equipment	4	**-**	**28**	**28**	-	32	32	-	52	52
Goodwill allocated to disposals	5	**-**	**(9)**	**(9)**	-	(7)	(7)	-	(17)	(17)
Net profit on sale of property, plant and equipment		**-**	**19**	**19**	-	25	25	-	35	35
Movements in valuation of pub estate and related assets	6	**-**	**(32)**	**(32)**	-	(19)	(19)	-	(225)	(225)
Interest receivable		**1**	**-**	**1**	1	-	1	1	-	1
Interest payable		**(99)**	**-**	**(99)**	(112)	-	(112)	(218)	-	(218)
Movement in financial instruments	7	**-**	**-**	**-**	-	3	3	-	(11)	(11)
Total finance costs		**(99)**	**-**	**(99)**	(112)	3	(109)	(218)	(11)	(229)
Profit before tax		**74**	**(13)**	**61**	86	5	91	175	(206)	(31)
Taxation	8,9	**(20)**	**30**	**10**	(23)	14	(9)	(46)	103	57
Profit after tax attributable to members of the Parent Company		**54**	**17**	**71**	63	19	82	129	(103)	26
Earnings per share										
Basic	10			**14.2p**			16.5p			5.2p
Diluted	10			**14.2p**			16.4p			5.2p
Adjusted basic^	10	**10.8p**			12.6p			25.9p		
Adjusted diluted^	10	**10.8p**			12.6p			25.8p		

* Earnings before interest, tax, depreciation and amortisation

^ Excludes exceptional items

Group Statement of Comprehensive Income

	Unaudited Six months ended 31 March 2011 £m	Unaudited Six months ended 31 March 2010 £m	Audited Year ended 30 September 2010 £m
Profit for the period	**71**	82	26
Other comprehensive income:			
Unrealised surplus on revaluation of pub estate	**-**	-	38
Movement in deferred tax liability relating to revaluation of pub estate	**(4)**	(3)	(41)
Write down of assets held for sale	**(13)**	(7)	(22)
Movement in cash flow hedge reserve	**2**	2	21
Deferred tax relating to movement on cash flow hedges	**-**	(1)	(7)
Restatement of deferred tax liability related to revaluation of pub estate for change in UK tax rate	**13**	-	15
Other comprehensive income for the period net of tax	**(2)**	(9)	4
Total comprehensive income for the period attributable to members of the Parent Company	**69**	73	30

Group Balance Sheet

	Unaudited 31 March 2011 £m	Unaudited 31 March 2010 £m	Audited 30 September 2010 £m
Non-current assets			
Goodwill	**383**	402	392
Intangible assets: operating lease premiums	**13**	14	13
Property, plant and equipment	**4,832**	5,221	4,972
	5,228	5,637	5,377
Current assets			
Assets held for sale	**5**	5	4
Trade and other receivables	**67**	71	67
Cash	**101**	114	108
	173	190	179
Non-current assets held for sale	**36**	54	30
Total assets	**5,437**	5,881	5,586
Current liabilities			
Trade and other payables	**(198)**	(201)	(205)
Current tax payable	**(16)**	(23)	(14)
Financial liabilities	**(4)**	(36)	(67)
Provisions	**(6)**	-	(6)
	(224)	(260)	(292)
Non-current liabilities			
Financial liabilities	**(3,227)**	(3,583)	(3,346)
Accruals and deferred income	**-**	(2)	(2)
Provisions	**(4)**	(2)	(2)
Deferred tax	**(505)**	(584)	(537)
Pension scheme	**-**	(1)	-
	(3,736)	(4,172)	(3,887)
Total liabilities	**(3,960)**	(4,432)	(4,179)
Net assets	**1,477**	1,449	1,407
Equity			
Called up share capital	**14**	14	14
Share premium account	**486**	486	486
Revaluation reserve	**899**	936	922
Capital redemption reserve	**11**	11	11
Merger reserve	**77**	77	77
Treasury share reserve	**(227)**	(227)	(227)
Other reserve	**(23)**	(23)	(23)
Cash flow hedge reserve	**(1)**	(16)	(3)
Profit and loss account	**241**	191	150
Enterprise Inns shareholders' equity	**1,477**	1,449	1,407

Group Statement of Changes in Equity (unaudited)

	Share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Merger reserve £m	Treasury share reserve £m	Other reserve £m	Cash flow hedge reserve £m	Profit and loss account £m	Total £m
At 1 October 2010	**14**	**486**	**922**	**11**	**77**	**(227)**	**(23)**	**(3)**	**150**	**1,407**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**71**	**71**
Other comprehensive income	**-**	**-**	**(4)**	**-**	**-**	**-**	**-**	**2**	**-**	**(2)**
Total comprehensive income	**-**	**-**	**(4)**	**-**	**-**	**-**	**-**	**2**	**71**	**69**
Transfer of realised revaluation surplus	**-**	**-**	**(19)**	**-**	**-**	**-**	**-**	**-**	**19**	**-**
Share based expense recognised in operating profit	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**
At 31 March 2011	**14**	**486**	**899**	**11**	**77**	**(227)**	**(23)**	**(1)**	**241**	**1,477**
At 1 October 2009	14	486	960	11	77	(227)	(26)	(16)	96	1,375
Profit for the period	-	-	-	-	-	-	-	-	82	82
Other comprehensive income	-	-	(10)	-	-	-	-	1	-	(9)
Total comprehensive income	-	-	(10)	-	-	-	-	1	82	73
Transfer of realised revaluation surplus	-	-	(14)	-	-	-	-	-	14	-
Directors' share option entitlements exercised in the period	-	-	-	-	-	-	3	-	(3)	-
Reclassification of movement in financial instruments	-	-	-	-	-	-	-	(1)	1	-
Share based expense recognised in operating profit	-	-	-	-	-	-	-	-	1	1
At 31 March 2010	14	486	936	11	77	(227)	(23)	(16)	191	1,449

Group Cash Flow Statement

	Unaudited Six months ended 31 March 2011 £m	Unaudited Six months ended 31 March 2010 £m	Audited Year ended 30 September 2010 £m
Cash flow from operating activities			
Operating profit	**172**	193	387
Depreciation and amortisation	**7**	7	13
Share-based expense recognised in profit	**1**	1	2
Increase in receivables and other	**-**	(2)	(1)
(Decrease)/increase in payables	**(8)**	-	2
Increase in provisions	**2**	-	6
(Increase)/decrease in current assets held for sale	**(1)**	(1)	1
	173	198	410
Tax paid	**(11)**	(26)	(43)
Net cash flows from operating activities	**162**	172	367
Cash flows from investing activities			
Payments made on improvements to public houses	**(30)**	(27)	(54)
Payments to acquire other property, plant and equipment	**-**	-	(1)
Receipts from sale of property, plant and equipment	**138**	131	270
Net cash flows from investing activities	**108**	104	215
Cash flows from financing activities			
Interest paid	**(97)**	(109)	(220)
Interest received	**1**	1	1
Issue costs of long-term loans	**(1)**	-	(12)
Cancellation and restructuring of interest rate swaps	**(4)**	(5)	(53)
Debt due in less than one year			
– new short term loans	**432**	-	-
– repayment of short term loans	**(573)**	(100)	(100)
Debt due beyond one year			
– new long term loans	**-**	216	367
– repayment of long term loans	**(35)**	(266)	(558)
Net cash flows from financing activities	**(277)**	(263)	(575)
Net (decrease)/increase in cash	**(7)**	13	7
Cash at start of period	**108**	101	101
Cash at end of period	**101**	114	108

Reconciliation of net cash flow to movement in net debt

	Unaudited Six months ended 31 March 2011 £m	Unaudited Six months ended 31 March 2010 £m	Audited Year ended 30 September 2010 £m
(Decrease)/increase in cash in the period	**(7)**	13	7
Cash outflow from change in debt	**176**	150	291
Issue costs of new long-term loans	**1**	-	12
Change in net debt resulting from cash flows	**170**	163	310
Amortisation of issue costs and discounts/premiums on long-term loans	**(3)**	(1)	(4)
Amortisation of securitised bonds	**2**	2	5
Change in fair value of interest rate swaps	**6**	10	63
Movement in net debt in the period	**175**	174	374
Net debt at start of period	**(3,305)**	(3,679)	(3,679)
Net debt at end of period	**(3,130)**	(3,505)	(3,305)

Analysis of net debt

	Unaudited Six months ended 31 March 2011 £m	Unaudited Six months ended 31 March 2010 £m	Audited Year ended 30 September 2010 £m
Corporate bonds	**(1,185)**	(1,185)	(1,185)
Bank borrowings	**(545)**	(792)	(686)
Securitised bonds	**(1,466)**	(1,536)	(1,501)
Gross debt	**(3,196)**	(3,513)	(3,372)
Cash	**101**	114	108
Underlying net debt	**(3,095)**	(3,399)	(3,264)
Capitalised debt issue costs	**22**	14	24
Fair value adjustments on acquisition of bonds	**(47)**	(51)	(49)
Fair value of interest rate swaps	**(6)**	(65)	(12)
Finance lease payables	**(4)**	(4)	(4)
Net debt	**(3,130)**	(3,505)	(3,305)
Balance sheet:			
Current financial liabilities	**(4)**	(36)	(67)
Non-current financial liabilities	**(3,227)**	(3,583)	(3,346)
Cash	**101**	114	108
Net debt	**(3,130)**	(3,505)	(3,305)

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

Notes

1. Publication of non-statutory accounts

The financial information contained in this interim statement, which is unaudited, does not constitute statutory accounts as defined in the Companies Act 2006. The figures for the year ended 30 September 2010 are based on the statutory accounts for that year. These accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

2. Accounting policies

This interim report has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 'Interim Financial Reporting' and reflects the accounting policies set out in the 30 September 2010 Annual Report and Accounts which have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Group operates in one segment, that of leased and tenanted pub operator in the UK.

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

The Group has elected to classify certain items as exceptional and present them separately on the face of the Income Statement. Exceptional items are classified as those which are separately identified by virtue of their size or nature to allow a full understanding of the underlying performance of the Group and are explained further in notes 3 to 8 below.

3. Exceptional items recognised in operating profit

	Unaudited Six months ended 31 March 2011 £m	Unaudited Six months ended 31 March 2010 £m	Audited Year ended 30 September 2010 £m
Impact of operating Temporary Management Agreements (TMAs):			
Revenue	**-**	3	**5**
Cost of sales	**-**	(2)	**(3)**
Administrative costs	**-**	(3)	**(4)**
Net cost of operating TMAs	**-**	(2)	**(2)**
Reorganisation and regulatory costs	**-**	(2)	**(3)**
	-	(4)	**(5)**

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

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

There were no other exceptional costs recognised in operating profit in the six months to 31 March 2011.

4. Profit on sale of property, plant and equipment

	Unaudited Six months ended 31 March 2011 £m	Unaudited Six months ended 31 March 2010 £m	Audited Year ended 30 September 2010 £m
Normal disposals			
Profits on sale of property, plant and equipment	**12**	20	30
Losses on sale of property, plant and equipment	**(3)**	(4)	(9)
	9	16	21
Sale and leaseback disposals			
Profits on sale of property, plant and equipment	**19**	16	31
Total profit on sale of property, plant and equipment	**28**	32	52

During the period 212 pubs (31 March 2010: 261 pubs, 30 September 2010: 579 pubs) and various other plots of land were sold generating gross proceeds of £54 million (31 March 2010: £86 million, 30 September 2010: £166 million) which, after taking account of disposal costs, resulted in an overall profit of £9 million (31 March 2010: £16 million, 30 September 2010: £21 million).

In addition to the above, 71 pubs (31 March 2010: 26 pubs, 30 September 2010: 71 pubs) were sold as part of the Group's sale and leaseback programme. These pubs generated gross proceeds of £92 million (31 March 2010: £49 million, 30 September 2010: £114 million) and resulted in a profit over book value, after fees, of £19 million (31 March 2010: £16 million, 30 September 2010: £31 million). These pubs were immediately leased back by the Group and are now classified as pubs held under operating leases.

5. Goodwill allocated to disposals

In accordance with IAS 36 'Impairment of Assets' purchased goodwill has been allocated to pubs disposed of, based on the relative value of the disposal to pubs retained. Accordingly goodwill of £9 million (31 March 2010: £7 million, 30 September 2010: £17 million) has been allocated to the 283 pubs disposed of during the period.

6. Movements in valuation of pub estate and related assets

	Unaudited Six months ended 31 March 2011 £m	Unaudited Six months ended 31 March 2010 £m	Audited Year ended 30 September 2010 £m
Movements from revaluation of pub estate	**-**	-	(141)
Write down of non-current assets held for sale to fair value less costs to sell:			
- Property, plant and equipment	**(32)**	(18)	(83)
- Operating lease premiums	**-**	(1)	(1)
	(32)	(19)	(225)

When assets are identified for disposal they are reclassified from property, plant and equipment to non-current assets held for sale and they are valued at the lower of book value and fair value less costs to sell. The £32 million charge in the period to 31 March 2011 reflects this write down where the fair value falls below historic cost.

The revaluation of the pub estate occurs only at the end of the full financial year and therefore there is no exceptional item on this line for the period to 31 March 2011.

7. Movement in fair value of financial instruments

Under IFRS, interest rate swaps are revalued to fair value at each Balance Sheet date and the movement is recognised in the Income Statement unless hedge accounting is adopted. The movement in the fair value of the swaps where hedge accounting is not applied is shown as an exceptional item.

As at 30 September 2010, £3m remained in the hedge reserve in relation to the £350 million swap which was cancelled during the prior year. The amount unwinding to the income statement in the six months to 31 March 2011 is £2 million (six months to 31 March 2010: £nil, year to 30 September 2010: £19 million).

At 31 March 2011 the Group has three interest rate swaps which expire between 2012 and 2013. The fair value of these interest rate swaps is a liability of £6 million at 31 March 2011 and was a liability of £12 million at 30 September 2010. The movement in the fair value of the interest rate swaps has been accounted for as follows:

	Unaudited Six months ended 31 March 2011 £m	Unaudited Six months ended 31 March 2010 £m	Audited Year ended 30 September 2010 £m
Opening fair value	**12**	75	75
Cancellation and restructuring of interest rate swap	**(4)**	(5)	(53)
Fair value movements:			
- Income Statement	**(2)**	(3)	(8)
- Cash flow hedge reserve	**-**	(2)	(2)
Closing fair value	**6**	65	12

The movement in financial instruments in the Income Statement comprises the following:

	Unaudited Six months ended 31 March 2011 £m	Unaudited Six months ended 31 March 2010 £m	Audited Year ended 30 September 2010 £m
Movement in fair value of interest rate swaps	**2**	3	8
Reclassification from cash flow hedge reserve	**(2)**	-	(19)
	-	3	(11)

8. Exceptional Taxation

Under IFRS, a deferred tax liability has been recognised on the Balance Sheet relating to the pub estate. On transition to IFRS, the Group elected to apply IFRS 3 retrospectively to acquisitions from 1 January 1999 which led to an increase in goodwill in respect of this deferred tax of £330 million. As this pre-acquisition liability changes due to capital gains indexation relief and disposals, the movement is recognised in the Income Statement. This exceptional tax credit is calculated based on the movement in the Retail Price Index (RPI).

This credit of £14 million has been classified as an exceptional item due to its size and because it does not relate to any income or expense recognised in the Income Statement in the same period. All other movements in respect of this deferred tax liability are accounted for in equity and recognised in the Statement of Comprehensive Income.

An exceptional tax credit of £9 million has been recognised in relation to all other exceptional items in the Income Statement.

In March 2011, the UK government announced its intention to accelerate the planned phased decrease in the rate of corporation tax with a reduction to 26% on 1 April 2011 and further reducing by 1% per annum until it reaches 23% on 1 April 2014. At 31 March 2011 the change in corporation tax rate from the planned 27% to 26% on 1 April 2011 had been substantively enacted and therefore the deferred tax assets and liabilities included within these results have been calculated based on the reduced current UK corporation tax rate of 26%. An exceptional tax credit of £7 million has been recognised in relation to this restatement of deferred tax balances to 26% at 31 March 2011.

The total exceptional tax credit is therefore £30 million.

The forecast effect of the proposed reductions in the corporation tax rate by 2014 would be to decrease the net deferred tax liability by £63 million. £23 million is expected to be recognised in the Income Statement and £40 million in equity.

9. Taxation

The pre-exceptional tax charge of £20 million for the six months equates to an effective tax rate of 27% which is estimated to be the tax rate for the year ended 30 September 2011. The effective tax rate does not include the effect of exceptional items.

10. Earnings per Ordinary Share

The basic earnings per ordinary share is based on earnings after exceptional items of £71 million (2010 six months: £82 million, full year: earnings of £26 million) and on 499.0 million (2010 six months: 498.3 million, full year: 498.6 million) ordinary shares being the weighted average number of equity shares in issue during the period excluding shares held by trusts relating to employee share options.

Adjusted earnings per share, which the directors believe reflects the underlying performance of the Group, is based on earnings adjusted for the effects of exceptional items, net of tax, of £54 million (2010 six months: earnings of £63 million, full year: earnings of £129 million) and on 499.0 million (2010 six months: 498.3 million, full year: 498.6 million) shares being the weighted average number of equity shares in issue during the period excluding shares held by trusts relating to employee share options.

The diluted earnings per share is based on earnings after exceptional items of £71 million (2010 six months: £82 million earnings, full year: earnings of £26 million) and adjusted earnings of £54 million (2010 six months: earnings of £63 million, full year: earnings of £129 million) and on 500.7 million (2010 six months: 500.3 million, full year: 500.5 million) shares being the weighted average number of equity shares in issue during the period adjusted for the dilutive ordinary shares relating to employee share options.

11. Related party transactions

There have been no related party transactions requiring disclosure during the period.

12. Commitments for the purchase of property, plant and equipment

At 31 March 2011, the Group had entered into contractual commitments to purchase £13 million (31 March 2009: £7 million, 30 September 2010: £4 million) of property, plant and equipment.

13. Seasonality of operations

The business is subject to minor seasonal fluctuations dependant on public holidays and the weather.

14. Principal risks and uncertainties

The Group is exposed to a variety of financial, operational, economic and regulatory risks and uncertainties as summarised below:

Financial:
Liquidity risk
Interest rate risk
Financial covenant risk
Variability in leasehold rents payable
Pension risk

Operational:
Information technology
Supply chain management
People

Regulatory:
Regulation of the Tied Pub Model
Health and safety
Litigation
Licensing and other regulatory factors

Economic:
General economic conditions
Property valuations

These have not changed from those reported in the 30 September 2010 Annual Report and Accounts and they are expected to continue to remain unchanged for the second half of the financial year to 30 September 2011.

A detailed explanation of the above mentioned risks can be found on page 17 of the 30 September 2010 Annual Report and Accounts.

Statement of directors' responsibilities

The directors confirm to the best of their knowledge that this condensed set of financial statements has been prepared in accordance with IAS 34, as adopted by the European Union, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8.

By order of the board

G E Tuppen
Chief Executive
16 May 2011

N R Smith
Chief Financial Officer
16 May 2011

Independent Review Report to Enterprise Inns plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2011 which comprises Group Income Statement, Group Statement of Comprehensive Income, Group Statement of Changes in Equity, Group Balance Sheet, Group Cash Flow Statement, Reconciliation of Net Cash Flow to Movement in Net Debt, Analysis of Net Debt, and the related notes 1 to 14. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in the International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Ernst & Young LLP
Birmingham
16 May 2011