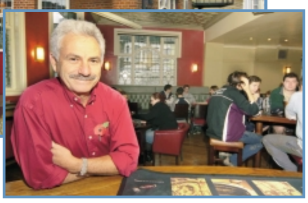
Enterprise Inns plc

Annual Report And Accounts 2005

Contents

During the year there were many examples of Enterprise licensees who were recognised for the exceptional skills they demonstrate and the quality of the businesses they operate. Here is just a sample of them:

Fulham Mitre



FULHAM MITRE, LONDON
Morning Advertiser Best Tenanted or Leased Pub – WINNER

Louis Amato's pub was named as the best Tenanted or Leased Pub in the UK in the Morning Advertiser's Best Pub Awards 2005. The judges praised Louis for 'having the foresight to realise the potential of The Fulham Mitre and for turning his ideas into reality . . . a gem of a pub'.

Front cover pictures (left to right)

King's Head, Redditch
Navigation, Lapworth
Livesey Arms, Ludborough

The Enterprise Inns Team

Left to right: David George, Finance Director;
Gordon Harrison, Operations Director;
Ted Tuppen, Chief Executive;
Simon Townsend, Customer Services Director;
Andrew Clifford, Strategic Planning and Investment Manager.

The White Hart

WHITE HART, WINCHCOMBE
Morning Advertiser Best Pub – WINNER

The 16th century White Hart, run by Nicole and David Burr, was named as the Morning Advertiser's Pub of the Year for 2005 due to the high quality offering and sheer originality demonstrated at the Gloucestershire pub. Also winners of the Innovation of the Year Award, the Burrs specialise in traditional Scandinavian food and sell a range of Swedish goods, including antique furniture and textiles.

Alford Arms

ALFORD ARMS, HEMEL HEMPSTEAD
Publican Catering Pub of the Year – WINNER

Becky and David Salisbury, licensees at the Alford Arms for the last six years, have developed a consistently high quality food offer, whilst maintaining the values of a traditional pub. They received The Publican Catering Pub of the Year Award 2005, as well as being named Hertfordshire Dining Pub of the Year for the last three years in the Good Pub Guide.

Financial Highlights

	2005	2004	Increase
Operating profit before exceptional items	**£520.2m**	£402.7m	29%
Profit before tax and exceptional items	**£305.6m**	£231.2m	32%
Adjusted earnings per share*	**63.2p**	47.5p	33%
Dividends	**18.0p**	12.0p	50%

* excludes exceptional items and goodwill amortisation.

- Average operating profit per pub increased by 8% in the year over the pro-forma average for the prior year.
- The quality of the pub estate has been improved through the acquisition of 21 individual pubs and the disposal of 158 pubs. In addition, the Group has invested over £50 million of capital and revenue expenditure into the pub estate.
- At 30 September 2005 the estate comprised 8,590 pubs valued at £5.2 billion.
- Cash generated after interest, tax, dividends and capital expenditure amounted to £137 million.
- At 30 September 2005 pro-forma net debt was £3,121 million, a reduction of £157 million in the year.

Directors and Advisers

H V REID

Chairman

Appointed to the Board 21/01/97

Hubert Reid, 64, is Chairman of the Royal London Mutual Insurance Society Limited and Midas Income and Growth Trust PLC, Deputy Chairman of Majedie Investments PLC and a non-executive director of Michael Page International plc. He was previously Managing Director and then Chairman of the Boddington Group plc and Chairman of Ibstock Plc and Bryant Group plc.

G E TUPPEN

Chief Executive

Appointed to the Board 22/02/91

Ted Tuppen, 53, led the management buy-in which resulted in the formation of the Company in 1991. He is a chartered accountant and was in practice until 1980 with KPMG in London, North America and Europe. He then qualified with an MBA from the Cranfield School of Management before becoming managing director of a privately owned international engineering company where he worked until 1989. He has also worked in, and acted as a consultant to, a variety of businesses. He is Chairman of the British Beer and Pub Association.

A J STEWART*#

Senior Independent Non-Executive Director

Appointed to the Board 29/05/01

Jo Stewart, 56, is a fellow of the Institute of Grocery Distribution. He has over 30 years of experience in the food industry, was Managing Director of Pizzaland International and Chief Executive of Northern Foods plc until September 2003.

D A HARDING*#

Independent Non-Executive Director

Appointed to the Board 06/11/03

David Harding, 58, is Chairman of PD Ports plc and Coventry Building Society. He was previously Finance Director of Railtrack Group plc and Group Chief Executive of the parent company RTG plc until 2002. He was also Group Finance Director of Rugby Group plc and T&N plc. He is a fellow of the Institute of Chartered Management Accountants and a local magistrate.

S E MURRAY *#

Independent Non-Executive Director

Appointed to the Board 03/11/04

Susan Murray, 48 is a non-executive director of Imperial Tobacco plc, SSL International plc and Wm Morrison Supermarkets PLC and also a director and council member of the Advertising Standards Authority. She was previously Chief Executive of Littlewoods Stores Limited. She has also been Director of International Marketing for Diageo Plc, President and Chief Executive Officer of The Pierre Smirnoff Company and was a member of the Independent Complaints Panel of the Portman Group from 1998–2004.

Directors and Advisers

D C GEORGE

Finance Director

Appointed to the Board 08/07/91

David George, 54, joined the Company on its formation as part of the management buy-in team. A qualified accountant, he spent ten years in industry including six years at Massey Ferguson Manufacturing Limited. He then spent ten years with Grand Metropolitan Brewing Limited in various finance roles, including Finance Director of The Manns and Norwich Brewery Company Limited and subsequently as Finance Director of the production division of Grand Metropolitan Brewing.

G W HARRISON

Operations Director

Appointed to the Board 23/10/94

Gordon Harrison, 48, joined the Company on its formation and was appointed to the Board in October 1994. He has 26 years' licensed trade experience specialising in tenanted operations and retail management with Watney Mann Truman Brewers Ltd, the Greenalls Group plc and the Vaux Group plc. He is responsible for the operation of the pub estate.

W S TOWNSEND

Customer Services Director

Appointed to the Board 01/10/00

Simon Townsend, 43, joined the Company in February 1999, and was appointed to the Board in October 2000. He has worked for 17 years in the pub and leisure industry, previously with Whitbread plc, Allied Domecq, Rank Group and Marston, Thompson & Eversheds. He is responsible for the provision of all support services to the Enterprise estate.

* Member of the Audit and Remuneration Committees

Member of the Nominations Committee

Secretary

D C George

Auditors

Ernst & Young LLP, No. 1 Colmore Square, Birmingham, B4 6HQ

Bankers

Bank of Scotland, 124 Colmore Row, Birmingham, B3 4AU

Financial Adviser

HSBC Investment Bank plc, Vintners Place,
68 Upper Thames Street, London, EC4V 3BJ

Stockbrokers

Deutsche Bank AG London, Winchester House,
1 Great Winchester Street, London, EC2N 2DB

UBS Limited, 1 Finsbury Avenue,
London, EC2M 2PP

Registrar

Computershare Investor Services PLC, PO Box 859,
The Pavilions, Bridgwater Road, Bristol, BS99 1XZ

Solicitors

CMS Cameron McKenna LLP, Mitre House,
160 Aldersgate Street, London, EC1A 4DD

Registered Office

3 Monkspath Hall Road, Solihull, West Midlands, B90 4SJ

Company number

2562808

Chairman's Statement

I am delighted to report on our results for the year to 30 September 2005, which proved to be another year of strong growth in our financial performance stemming from continuing improvements in the profitability of our high quality pub estate and a full-year contribution from the Unique estate, acquired in March 2004.

Total operating profit before exceptional items increased by 29% over the prior year to £520.2 million and profit before tax and exceptional items rose by 32% to £305.6 million. Adjusted earnings per share increased by 33% to 63.2 pence.

The directors are recommending a final dividend of 12.4 pence per share, making a total for the year of 18.0 pence, an increase of 50% over the prior year with an adjusted EPS cover of 3.5 times. The final dividend will be payable on 23 January 2006, to members on the register on 30 December 2005.

The Board has reviewed the Company's dividend policy for 2005/6 and future years and believes that, taking account of the level of Group borrowings, it is appropriate to maintain future dividend cover of between 2.5 and 3.0 times earnings. Consequently it envisages increasing dividend payments in 2005/6 to move within these parameters and thereafter intends to increase dividends broadly in line with the growth in earnings per share.

Free cash inflow after interest, tax, dividend payments and capital expenditure amounted to £137 million in the year. Along with proceeds from pub disposals this facilitated a reduction in gross borrowings, net of cash, of £157 million in the year. At the year-end pro-forma net debt was £3.1 billion, with interest costs 100% fixed at an average rate of 6.9% for an average life of 14 years.

The Group's strategy remains focused on building shareholder value through investment in the development of its licensed estate and the optimum use of the strong and predictable cash flows which are generated from the predominantly freehold pub estate. The Board's policy is to maintain efficient leverage of the balance sheet in the context of the level of profit generated and the valuation of the pub estate. It is intended to commence a rolling share buy-back programme to return surplus cash to shareholders and to ensure that the balance sheet remains efficient. There is authority to purchase up to 14.99% of the issued share capital and the Board anticipates purchasing shares to the value of at least £200 million during the current financial year.

As required by EC regulations and in common with all other listed companies, Enterprise will adopt International Financial Reporting Standards (IFRS) as the basis of preparing its Group accounts from the financial year beginning in 2005. As such, this will be the last set of results that are reported using UK accounting standards. In April 2006 we plan to publish the opening transitional IFRS balance sheet as at 1 October 2004 and the 2005 interim and full year results re-stated under IFRS. This will include a reconciliation from the published UK GAAP results and a full explanation of all the changes that have been made. The first set of results to be reported using IFRS will be the interim results published in May 2006. There will be no impact on cash flows in the business or on our debt covenants.

The Board is confident that the Enterprise estate continues to provide many opportunities for profitable growth and strong cash generation and we look forward to another year of solid progress.

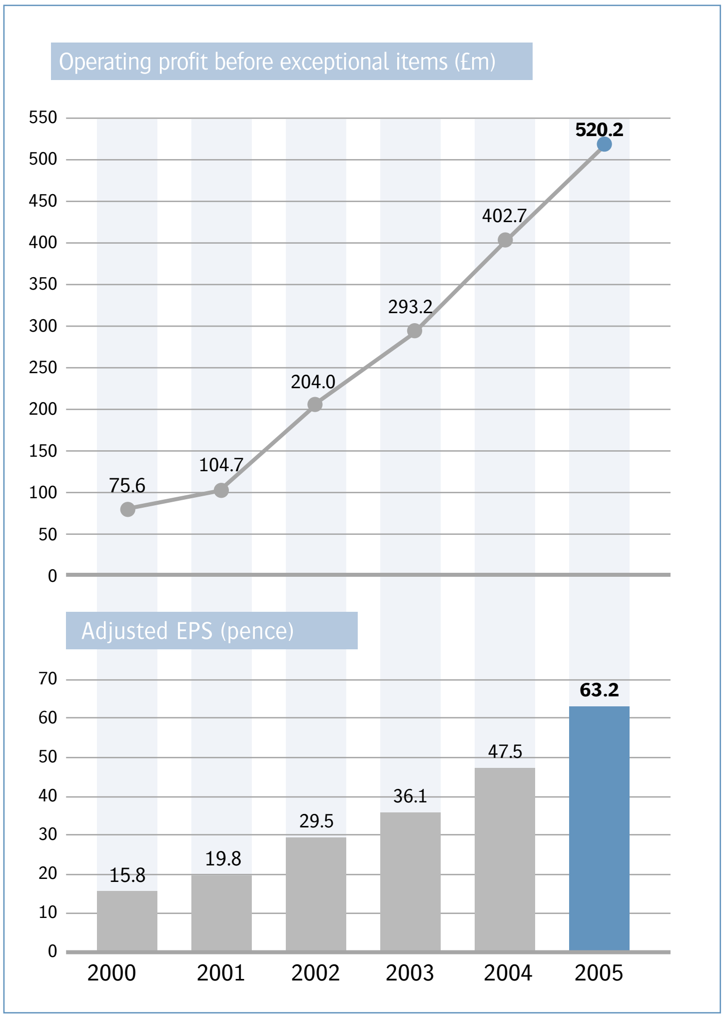
Hubert Reid
Chairman

Chief Executive's Review

Results

2005 has been another good year of consolidation and progress for Enterprise Inns. Operating profit before exceptional items increased by 29% to £520.2 million, driven by growth in average operating profit per pub of 8% and the successful integration of the Unique business which was acquired in March 2004.

Adjusted earnings per share increased by 33% to 63.2p, rounding off a ten year run since Enterprise floated on the London Stock Exchange in 1995 which has delivered compound annual growth in earnings per share of more than 30%.



The Future is all about Quality

In a market where the pub goer is ever more discerning, where consumer discretionary spend is under pressure and where cheap alcohol is readily available in supermarkets, it is quality and service that count as the deciding factors in the long term success of any pub.

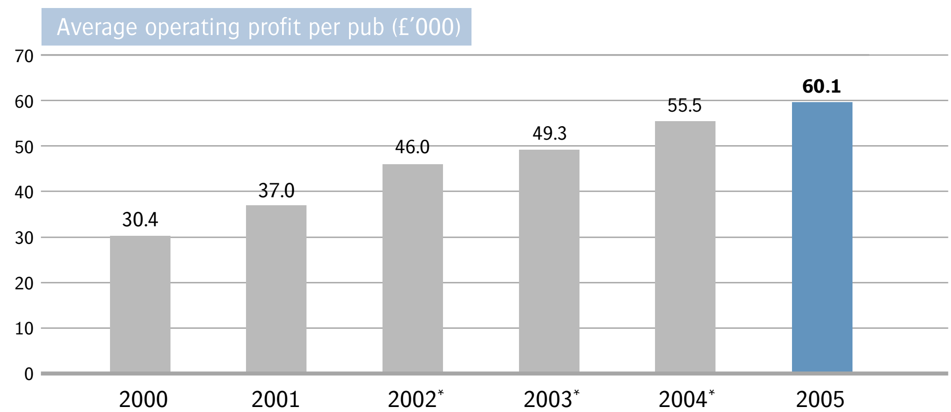
Chief Executive's Review

At Enterprise, we are committed to improving the quality of our pubs, investing alongside our licensees to develop their businesses, gain market share and unlock additional profits. During the year we invested £55 million of capital and revenue expenditure into the estate and, together with a similar level of expenditure by our licensees, have improved over 1,100 pubs, either through major schemes or minor refurbishments.

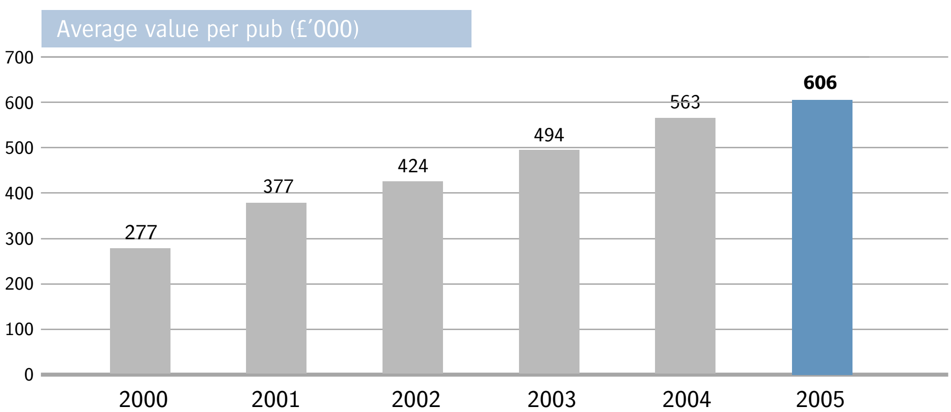
We continued to improve the quality of the estate through churn, buying 21 top quality pubs for a total consideration of £14 million and selling 158 underperforming sites for £47 million, recording a profit on disposal of £3 million. At 30 September 2005 our estate of 8,590 pubs was valued at £5.2 billion, reflecting a 5% increase in underlying pub values.

Since the beginning of the new financial year, we have purchased a further 34 pubs for £36 million and sold 14 for £7 million. We continue to review all acquisition opportunities as they arise, judging them against our strict quality, risk and return criteria and their ability to deliver long term enhancement in shareholder value.

Over the past year we have continued to see improvements in the quality, value and earnings potential of our pubs, with average operating profit per pub up by 8% to £60,100.



*2002, 2003 and 2004 restated to include amortisation of goodwill



Chief Executive's Review

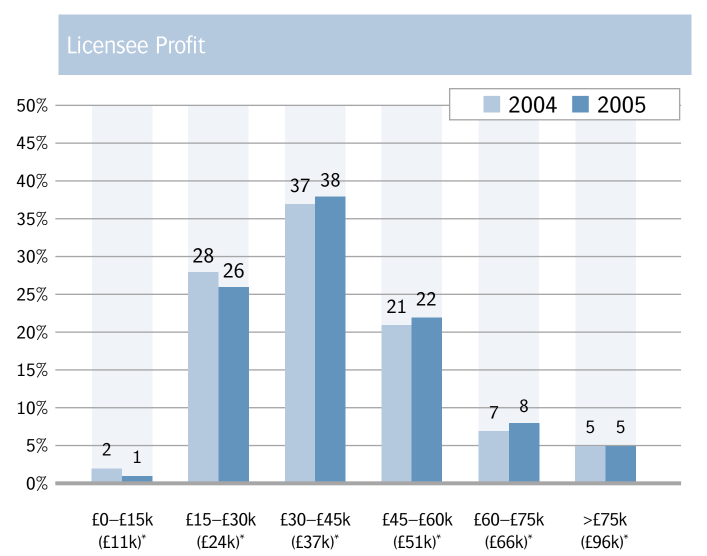
Quality leads to Profitability

A top quality estate generating sustainable profits for the benefit of our licensees and shareholders is clearly a long-term aim of Enterprise and we continue to make steady progress along that route.

It is the link between the quality of our pubs, our operating profit and our licensees' profitability which is the key to our long-term success. Running a pub is one of the most demanding jobs around, requiring great professional and people skills, boundless energy and enthusiasm and a willingness to work long hours. Against a backdrop of increasing underlying costs and the endless ability of government to impose yet more regulation and bureaucracy, the best licensees look for quality outlets that give them a chance to make a good return for their effort and investment. It is not just the quality of the pub itself which is important to the licensee, but the essential fairness of the overall package offered, especially the level of rent, the help and support given to licensees and the range of products offered.

In this latter regard, our licensees enjoy an unrivalled choice across the vast majority of beer brands available in the UK and we were delighted this year to extend our Society of Independent Brewer's cask ale scheme across the whole estate. Against a national decline in the availability and consumption of cask ales, we have worked with local and regional brewers to grow cask ale sales year on year, to a level where they now represent more than 13% of our beer volumes, against a national average estimated to be around 8%. These brands may not deliver the highest level of unit margin to Enterprise but they offer our licensees the chance to develop their businesses and give their customers the range of products that they seek.

As a result of our continuing commitment to ensuring that rental levels are fair, we are pleased that, once again, our estate leads the field in providing worthwhile returns for our hard-working licensees. We estimate that the level of licensee profitability has increased by 5% during the year to an industry leading average of £42,000.



* average profit per pub for 2005 within each band

Chief Executive's Review

With input costs rising and consumer discretionary spend currently under some pressure, it is comforting to see that licensees recognise that the higher quality and profitability of our estate, together with the overall fairness of the package we offer, gives them the best possible chance to continue to be successful. As a result we are never short of good quality, fully funded applicants to take over pubs which become available for lease or tenancy. Once again, this is supported by improvements in certain key performance indicators:

- Our database has more than 900 fully funded applicants, four times the number of pubs available to let.
- An active lease assignment market has seen more than 600 businesses change hands during the year at an average lease premium of almost £70,000.
- Rent concessions at 30 September 2005 amounted to just 0.4% of rent roll.
- Over 1,100 rent reviews were completed during the year, with only two going through any form of arbitration, both of which were found in our favour.
- Bad debt costs for the year reduced once again, and remain under 0.2% of turnover.

We remain convinced that the leased and tenanted format offers an excellent low-cost opportunity for entrepreneurial licensees to run their own businesses. The Trade and Industry Select Committee looked at working practices within the tied-pub sector and concluded that, on the whole, they are fair and work well in the interest of all parties. In particular, we are pleased that the industry standard Code of Practice, recently issued by the British Beer and Pub Association, reflects practices and recommendations that have been the norm at Enterprise for a long time.

Legislative background

Licensing reform

The past year has seen the industry get to grips with the substantial costs and workload arising from implementation of the Licensing Act 2003. The Enterprise team worked hard throughout the year to help licensees to develop their business operating plans and submit their applications. In the end, some 7,500 of our pubs applied to extend their existing opening hours and the majority have been approved without difficulty. We do not anticipate a material increase in turnover and profitability arising from the additional hours, simply a greater flexibility to allow responsible licensees better to serve the needs of their customers.

Flexible opening hours have, however, become part of the debate surrounding binge drinking and anti-social behaviour. Whilst it is convenient for government to point the finger of blame at pubs, in a few cases with justification, this is a debate which has far wider implications including education and personal responsibility, sensible advertising and promotions, the pricing and control of the sale of alcohol in supermarkets and effective policing and control of rogue outlets and individual drinkers. The vast majority of pubs are responsibly run by well trained and professional licensees. It is essential that the government and the police recognise that the problems are associated with a small minority of the population and continue to target those outlets and individuals who encourage or engage in anti-social behaviour.

Smoking in public places

The government's approach to the control of smoking in pubs is causing uncertainty and concern across the industry. Whilst most would agree that smoking is unacceptable where food is being consumed, the key issue in this debate should be maintaining choice for consumers, whilst giving due consideration to health and safety and the protection of staff.

Chief Executive's Review

The reforms as currently proposed will force many pubs to choose between selling food in a smoke free environment or abandoning food and simply supplying drink to customers who would then be allowed to smoke. Furthermore, some 20,000 clubs, many of which operate in direct competition to pubs, are to be exempt from the legislation under proposals that appear to take little account of the health and welfare of bar staff and club stewards.

The legislation as currently proposed will undoubtedly change and potentially damage the traditional British pub, often in rural or community surroundings, which survives by providing an all round service to its customers, a social meeting place to have a drink with friends and at the same time an excellent location for a good meal out, complementary activities vital both to the community and to the financial viability of the pub.

The industry had been working towards the same rules applying to all, with the objective being the cessation of smoking at the bar and the steady reduction in the space available for smokers in pubs, culminating in separately defined smoking rooms or outside spaces designated for customers who wish to smoke. We hope that through the consultation process we will return to a solution which is sensible for employees and consumers and which will not put many small community and rural pubs under pressure, with the resulting loss of jobs, tax revenues and amenity.

Conclusion

This has been another great year for Enterprise. Working alongside our licensees, we have seen growth in market share and profitability in a market which remains highly competitive and where rising costs and weakness in consumer confidence have presented special challenges.

The Enterprise team has successfully managed the integration of the Unique estate while coping with the additional workload imposed as a result of licensing reform. We have once again delivered substantial growth in earnings and dividends and we are now in a position to return surplus cash to shareholders through a rolling share buy back programme.

The new financial year has started well but we expect to see the opportunities arising from flexible opening hours tempered by continuing pressure on consumer discretionary spend. However, great pubs will always do well, whatever the economic backdrop and the team looks forward to another challenging year of continued success and growth in shareholder value.

Ted Tuppen
Chief Executive

Finance Director's Report

Profit for the year

The results for the year included a full contribution from the acquisition of the Unique Pub Company Limited (Unique), which was completed on 31 March 2004.

Total Group operating profit before exceptional items increased by 29% to £520.2 million and profit before tax and exceptional items increased by 32% to £305.6 million. A summary of the Group Profit and Loss Account compared to prior year is as follows:

	Year to 30 September		
	2005	2004	Increase
	£m	£m	%
Turnover	**919.9**	712.7	29
Total operating profit *	**520.2**	402.7	29
Net interest payable *	**(214.6)**	(171.5)	
Profit before tax *	**305.6**	231.2	32
Exceptional items	**(1.7)**	(18.0)	
Taxation	**(92.1)**	(65.7)	
Profit after tax	**211.8**	147.5	43
Adjust earnings per share (pence)	**63.2**	47.5	33
Dividend per share (pence)	**18.0**	12.0	50

* Stated before exceptional items

Cash Inflow

Cash inflow from operating activities of £522.9 million represents an increase of 30% on prior year. Free cash inflow increased by 11% to £137.5 million:

	Year to 30 September		
	2005	2004	Increase
	£m	£m	%
Operating cash inflow	**522.9**	403.2	30
Net interest payable	**(235.1)**	(158.3)	
Tax	**(52.8)**	(36.3)	
	235.0	208.6	13
Dividends	**(47.9)**	(31.8)	
Capital expenditure on the pub estate	**(48.8)**	(50.9)	
Other capital expenditure	**(0.8)**	(1.8)	
Free cash inflow	**137.5**	124.1	11

Finance Director's Report

In addition, net receipts from the purchase and sale of pubs amounted to £32.7 million:

	Year to 30 September	
	2005	2004
	£m	£m
Disposal proceeds	**47.0**	110.5
Acquisition costs	**(14.3)**	(12.9)
Pub churn	**32.7**	97.6

Debt Facilities

During the year, the level of pro-forma net debt was reduced by £157 million to £3,121 million:

	Year to 30 September	
	2005	2004
	£m	£m
Corporate bonds	**(1,185)**	(1,185)
Syndicated bank borrowings	**(260)**	(435)
Securitised bonds	**(1,772)**	(1,650)
Bridge facility	**—**	(155)
	(3,217)	(3,425)
Cash:		
Securitised	**98**	108
Non-securitised	**(2)**	39
Pro-forma net debt	**(3,121)**	(3,278)

The figures stated above are gross of issue costs, discounts and premiums and exclude interest rate swaps and fair value adjustments.

At the year-end there were £937 million of interest rate swap arrangements in place which end in 2012 and 2013.

Balance Sheet

The net assets of the Group at year-end were £1,741 million which compares with £1,354 million as at 30 September 2004.

The book value of the pub estate at year-end was £5,217 million, which included a revaluation surplus of £268 million, following completion of the annual valuation exercise. Pubs within the estate are valued on an existing use basis.

Interest

Net interest payable in the year was £214.6 million, which was covered 2.4 times. All of the debt within the Group is at either fixed interest rates or is fixed through interest rate swaps.

Finance Director's Report

Tax Charge

The tax charge of £92 million represents an effective tax rate of 30.3%, which is in line with the rate reported at the half-year. The tax charge comprises corporation tax of £67 million and deferred tax of £25 million. The current year corporation tax represents 22% of profit before tax.

The cash outflow in respect of tax during the year was £53 million and this represents 17% of profit before tax.

Dividend payment

The directors are recommending the payment of a final dividend of 12.4 pence per ordinary share. The dividend, subject to approval at the Annual General Meeting, will be paid on 23 January 2006. This will result in a full year dividend of 18.0 pence per share, an increase of 50% on prior year. This represents dividend cover of 3.5 times based on adjusted earnings per share of 63.2 pence.

International Financial Reporting Standards

The Group will adopt International Financial Reporting Standards (IFRS) as the basis on which it will report its financial statements for the year ending 30 September 2006. Therefore, the first financial statements to be published under IFRS will be our interim results for the period ended 31 March 2006. The Group continues to prepare for this and has carried out a detailed review of the impact of each standard on the financial statements.

In our annual accounts for the year ended 30 September 2004 we outlined three main areas where we expected differences to arise. These were fixed assets, hedge accounting and deferred tax. Having carried out more detailed analysis, we still expect these to be the key areas of difference. There will also be a relatively small impact from recognising the fair value of share-based incentives over their vesting period and from ceasing to amortise goodwill. The revised accounting does not impact on the cash flows of the business.

We propose publishing full details of the transition to IFRS in April 2006, prior to the announcement of our Interim Results for the six months ended 31 March 2006, which we expect to announce in May 2006. Details to be published will include a full reconciliation of the balance sheet under UK standards as published at 30 September 2004 to the opening balance sheet under IFRS and the restated results for the periods to 31 March 2005 and 30 September 2005.

D C George
Finance Director

Directors' Report

The directors present their report and accounts for the year ended 30 September 2005.

Accounts and dividends

The Group profit for the year, after taxation, amounted to £211.8m (2004 — £147.5m) and is dealt with as shown in the Group Profit and Loss Account.

The directors recommend the payment of a final dividend of 12.4 pence (2004 — 8.4 pence) per ordinary share to be approved at the Annual General Meeting on 19 January 2006. The final dividend will be paid on 23 January 2006 to members on the register on 30 December 2005. When added to the interim dividend of 5.6 pence (2004 — 3.6 pence), this produces a total dividend for the year of 18.0 pence (2004 — 12.0 pence) per ordinary share.

Principal activities and review of the business

The principal activity of the Group continues to be the sale of beers and cider and the collection of rents from its estate of licensed premises.

A review of the year's activities is given in the Chairman's Statement, Chief Executive's Review and the Finance Director's Report on pages 4 to 12. Taken together these are intended to constitute an Operating and Financial Review.

Directors and their interests

The names of the current directors together with related biographical information are set out on pages 2 to 3. All directors except:

- Mrs S E Murray, who was appointed to the Board on 3 November 2004, and
- Mr M F Garner, who retired from the Board on 20 January 2005

served throughout the year and on the date of signing of these financial statements.

In accordance with the Articles of Association of the Company, Mr H V Reid and Mr G W Harrison retire from the Board at the Annual General Meeting by rotation and offer themselves for reappointment. The Board believes that the performance of Messrs Reid and Harrison continues to be effective, that they demonstrate commitment to their roles and have a range of skills and experience relevant to the direction and control of the Company. In addition, Mr Reid considers that he has sufficient time to commit to the Company's affairs notwithstanding his other business commitments and has no conflicting interests.

At no time during the year did any of the directors have an interest in any contract with the Group other than as described in note 16.

The interests of the directors in the share capital of the Company, other than with respect to options to acquire ordinary shares (which are detailed in the Directors' Remuneration Report) were as follows:

Directors' Report

Ordinary Shares of 5 pence each		30 September 2005	30 September 2004
H V Reid	Beneficial	**122,500**	122,500
G E Tuppen	Beneficial	**1,002,412**	886,744
	as Trustee	**177,980**	197,300
D C George	Beneficial	**964,854**	911,182
	as Trustee	**–**	114,000
G W Harrison	Beneficial	**575,622**	452,000
W S Townsend	Beneficial	**125,822**	82,684
A J Stewart	Beneficial	**14,000**	14,000
D A Harding	Beneficial	**500**	–
S E Murray	Beneficial	**500**	–

The executive directors, along with other employees, have been granted options over the shares of the Company. Details of these interests are disclosed in the Directors' Remuneration Report. There have been no changes in the interests of directors between the balance sheet date and the date of approval of the accounts.

Notifiable interests in shares

As at 22 November 2005 the Company had been notified of the following material holdings of 3% or more of the Company's issued share capital:

	Number of ordinary shares	Percentage of issues share capital
Prudential plc	21,497,656	6.2
FMR Corp/Fidelity International Limited	21,294,357	6.1
Barclays PLC	17,548,955	5.0
Lansdowne Partners Limited Partnership	14,475,009	4.1
Deutsche Bank AG	14,046,291	4.0
Legal and General Group plc	13,380,481	3.8

Share Capital

Details of the share capital of the Company are set out in note 25 to the accounts on page 66. The Company did not issue any shares during the period under review.

Shares acquired by Employee Share Trusts

The Company has established an employee benefit trust, the trustee of which is Mourant & Co Trustees Limited. As at 30 September 2005 the trustee held, 8,813,905 shares which are used to satisfy awards made under the Enterprise Inns Incentive Plans and other share option schemes. The Company has also established a Quest trust to hold shares to satisfy awards made under the Save as you Earn share option scheme, the trustee of which is Enterprise Inns Quest Trustees Limited. As at 30 September 2005 the trustee held 434,540 shares. The executive directors as employees of the Company are potential beneficiaries of shares held by these trusts (the 'trusts').

The total number of shares held by the trusts at 30 September 2005 was 9,248,445, representing 2.6% of the total called up share capital at that date. During the year, the trusts purchased 4,829,673 of the Company's shares. These shares were purchased for a consideration of £37.6m (net of expenses) and had a nominal value of £0.2m. The maximum number of shares held during the year ended 30 September 2005 was 9,248,445 on 30 September 2005 for a period of 1 day, representing 2.6% of total called up share capital at that time.

Directors' Report

During the year, 1,914,074 shares with a nominal value of £95,704 were disposed of by the trust by way of the exercise of share options under the share schemes. A total of 450,278 shares were disposed of through the short-term and long-term incentive schemes for consideration of £17. A total of 102,135 shares were disposed of through the Quest Trust for consideration of £0.2m.

Authority for the Company to purchase its own shares was in force at 30 September 2005.

Employment policies

The Group is dependent on the skills and commitment of its employees. Employees at all levels of the business are encouraged to make the fullest possible contribution. To attract and retain these skills the Group is committed to equal opportunities and the creation of an entirely non-discriminatory working environment. The aim of the policy is to ensure that no job applicant or employee receives less favourable treatment because of, amongst other matters, gender, marital status, race, age, sexual preference, religion, belief or disability. All decisions are based on merit of the individual concerned. The Group is dedicated to undertaking its business operations in a way which respects individual human rights and treats individuals with dignity.

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

The Group's employment policies and procedures are described in detail in a Staff Handbook which is provided to all employees upon joining the Group. The Staff Handbook is regularly reviewed and updated to take account of relevant employment legislation and best practice, and new policies and procedures are developed if required. These include specific policies on equal opportunities, flexible working, training and development, acceptance of gifts and hospitality and whistleblowing.

The Group has systems in place to comply with the Data Protection Act 1998 to ensure the privacy of personal information.

Employee involvement and reward

The Group believes that effective training is essential to the maintenance and improvement of the Group's success and individual performance. The Group is committed to providing all employees with relevant training to meet the business needs of the Group and to improve individual employee skills. In providing this training and support we expect high standards and commitment in return. All employees are provided with initial induction training and are set challenging personal objectives and participate in discretionary bonus schemes.

During the year, the Group substantially reviewed and enhanced its comprehensive employee appraisal process which ensures that personal objectives are monitored, key competencies are assessed and any performance concerns addressed through appropriate training and focus. Every employee has the opportunity to discuss work-related aspirations and participate in appropriate training and development programmes.

During the year continued emphasis has been placed on effective communication regarding matters which may affect employees and the overall performance and development of the Group. The policy of providing employees with information about the Group has continued. Regular meetings are held between local management and employees to allow a free flow of information and ideas. In addition, an annual conference is held to which all employees are invited and provides an opportunity for employees to be made aware of key objectives and strategy. The use of email and the intranet supplement effective communication to all employees as well as face to face briefings.

Directors' Report

Employees are encouraged to invest in the Group through participation in two share ownership schemes administered by Halifax plc:

- The Save as You Earn Scheme — employees enter into a savings contract for either five or seven years at the end of which they are entitled to purchase shares at a discount of 20% to the market price of the shares at the time of the issue of the options; and
- The Share Incentive Plan — from November 2005 employees will be able to purchase shares out of pre-tax income up to statutory limits which are held in a trust.

Charitable and Political Donations

At pub level, the Group supports local community initiatives and charitable causes through the appropriate use of marketing investment. The Company does not make any corporate charitable donations. The Company has not made any political donations during the year and intends to continue its policy of not doing so for the foreseeable future.

Creditors payment policy and practice

The Group agrees terms and conditions for its business transactions with suppliers. Payment is then made in accordance with these terms, subject to the terms and conditions being met by the supplier.

At the year-end the Group had an average of 24 days' purchases outstanding in trade creditors (2004 — 31 days).

Statement of directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that the accounts comply with the above requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Annual General Meeting

The AGM will be held on 19 January 2006 at 11.00 a.m. The notice convening the AGM and an explanation of the resolutions sought are set out on pages 74 to 80. At the meeting, resolutions will be proposed to authorise the company to make market purchases of its own shares and to extend directors indemnities in accordance with best practice. The directors consider the resolutions proposed are in the best interests of the Company and it is our recommendation that you support these proposals as they intend to do so in respect of their own holdings.

Auditors

A resolution to re-appoint Ernst & Young LLP as the Group's auditors will be put to the members at the forthcoming Annual General Meeting.

By order of the Board

D C George
Secretary
22 November 2005

Corporate Responsibility

The Group's approach to the management of corporate responsibility is to balance the long-term interests of stakeholders by focusing on those matters which are relevant to long-term success and the environment in which the business operates.

The Board is committed to act in a responsible manner. This report sets out the key areas we have focused on during the period under review. Our approach to corporate responsibility includes:

- analysing and managing risk
- maintaining a continuing dialogue with stakeholders
- managing the environmental and social impact of the business on employees and the community.

Social, Ethical and Environmental Risk Management

The identification, management and monitoring of key risks is undertaken as part of the Group's system of internal control as described on page 26. In addition, we work with employees, licensees and suppliers as appropriate to ensure we understand any issues which may impact on the workplace, the community or the environment. The Chief Executive is responsible for the development and implementation of the approach to social responsibility matters. All executive directors are responsible for the promotion of good practice in environmental matters and report to the Board as necessary on significant risks.

The most significant corporate responsibility issues for the Group are considered below and the Group has put in place policies to ensure:

- compliance with relevant laws, regulations and codes of practice
- employees are provided with a safe working environment
- ongoing training needs of employees are met.

The Workplace

The Directors' Report sets out employment policies and explains the way we communicate with employees. The key risk area in our working environment is the health, safety and well being of employees. Employees work in a low risk environment. There has been no material health and safety issue, incident or fine for non-compliance during the period under review.

The Group's Health & Safety Policy (the 'H&S Policy') clearly states its intention to provide and maintain a healthy and safe working environment.

In order to deliver this policy, the Group has established an internal Health & Safety Management Group (the 'H&S Group') with responsibility for advising, reviewing and delivering the agreed management systems employed by the business to satisfy its health and safety responsibilities. The H&S Group reports to the Company Secretary who is responsible for regular reporting to the Board. The H&S Group's remit is carried out in accordance with the Health and Safety at Work Act 1974 and all other relevant health & safety statutory provisions and approved codes of practice.

The H&S Group has adopted the principles contained in the Health and Safety Executive guidance (HSG65) "Managing Health and Safety", which includes the following specific requirements:

- the establishment of a formal written policy

Corporate Responsibility

- the establishment of a communication system with staff
- the ongoing identification of risks and required responses
- the ongoing measurement of performance and the continual improvement of process and procedure to address changing risks.

The H&S Group monitors accidents affecting staff, licensees and contractors, audits the understanding and application of the H&S policy and procedure by staff and contractors and provides an annual report and risk assessment to the Board.

The Environment

The Group recognises its responsibility to achieve good environmental practice and to continue to strive for improvement in areas of environmental impact. Our approach is to work towards continuous improvement through education, communication and direct action where applicable.

The direct environmental impact in areas such as CO_2 emissions, waste and energy consumption is negligible. The primary direct impact of the Group arises as a result of its head office working environment and as such policies and procedures are largely focused on:

- compliance with environmental laws and regulations
- minimising waste and the use of recycling facilities wherever possible
- the efficient use and monitoring of energy consumption.

At head office, efficient facilities management aims to reduce the costs of energy consumption. In addition, materials are recycled where possible. Upon acquiring the building in 2002, the Group complied with the local planning authority's environmental policy relating to the construction, occupation and utilisation of office facilities. This included the provision of a transport policy aimed at reducing the demand for car parking and promoting employee behaviour consistent with local planning, environment and social policy.

In respect of building projects undertaken across the pubs estate, the Group has established a series of objectives that aim, over time, to:

i) ensure that the installation of all new mechanical plant carries the green flag efficiency mark to reduce wasted energy use

ii) ensure that the majority of construction materials used are from sustainable/renewable sources

iii) reduce the energy consumption of buildings through improved thermal insulation.

The Group has promoted a utilities management service to licensees and provides advice in the efficient usage of energy. Through its membership of the British Beer and Pub Association, the Group has participated in the Government's consultation period seeking to clarify and implement glass recycling targets under the EU Waste Directive.

The Community and Social Issues

The Group believes that the interests of responsible, entrepreneurial pub businesses are substantially aligned with the interests of local communities and consumers. In this regard, the Group seeks to ensure that its pubs

Corporate Responsibility

provide a friendly, safe and controlled environment, and promote the positive contributions that pubs make to their local communities.

The Group has prepared for the implementation of the Licensing Act 2003 and has worked with licensees over the last year to ensure that appropriate opportunities for licensees and consumers are realised whilst meeting the four principal licensing objectives:

i) the prevention of crime and disorder

ii) public safety

iii) the prevention of public nuisance

iv) the protection of children from harm.

Since the recent publication of the Government's White Paper on Health, the Group has played a leading role in the development, publication and implementation of industry proposals to reduce the incidence of smoking in pubs so that:

- By the end of 2005, smoking is not permitted at the bar or back-of-house areas and a minimum of 50% of restaurant/dining area floor space is to be designated as non-smoking.
- There is a reduction of trading floor space area for customers who smoke from a maximum of 65% by December 2005 to a maximum of 20% by December 2009.

The Group is committed to continue to promote and implement these proposals with licensees and, through its membership of the British Beer and Pub Association, the Group will continue to play an active part during the continuing period of consultation with the Department of Health.

The Group is also committed to high standards of customer service to its licensees and gives serious consideration to complaints from the local community. Procedures are in place to ensure disputes are monitored and dealt with quickly.

Finally, the Group has communicated details of the Disability Discrimination Act 2004 to all licensees and seeks to ensure that appropriate and reasonable actions have been implemented across the pub estate.

Responsible Drinking

The irresponsible consumption of alcohol can have detrimental effects on the social structures of local communities. The Group recognises that pub licensees, retailers, the Government and the consumer all have responsibilities as regards the promotion of a responsible drinking environment. We seek to be responsible by the following means:

- The Company is an associate member of the Portman Group, the industry-funded body established to encourage sensible drinking, help prevent misuse of alcohol, encourage responsible marketing and foster a balanced understanding of alcohol-related issues. The Portman Group has launched the responsible drinking website www.drinkaware.co.uk to promote and communicate the key messages relating to alcohol consumption.

Corporate Responsibility

- The Company is a signatory to the Portman Group's Code of Practice, and works proactively with drinks suppliers to ensure that they adhere to a responsible advertising, pricing and packaging regime.
- The Group actively promotes the Portman Group's 'Proof of Age Card Scheme' to all licensees and provides materials to all new licensees to enable them to operate the scheme in their premises.
- Through its membership of the British Beer and Pub Association, the Company has actively participated in discussions with Government in the preparation of its National Alcohol Harm Reduction Strategy.
- The Group also participates in a number of partnerships with local authorities to develop and implement local policies and strategies which are designed to address the potential consequences of alcohol misuse whilst not penalising the majority of responsible licensees and their customers.
- A number of the Group's suppliers have introduced sensible drinking messages on their products.

Future Corporate Responsibility Requirements

The Board is committed to continuous improvement in its corporate responsibility practices where relevant to its operations and to build appropriate measures and procedures into its existing risk management and governance systems.

Corporate Governance

Introduction

The Board continues to recognise that good governance helps deliver strategy, minimise risk and safeguard the interests of shareholders in the long term. For the year under review the appropriate governance provisions are as set out in the Combined Code published by the UK Listing Authority in July 2003 (the "Combined Code") following reports by Sir Derek Higgs and Sir Robert Smith.

The Company is committed to high standards of corporate governance set out in the Combined Code provisions as adopted by the UK Listing Authority, the Turnbull Report on Internal Control and appropriate best practice guidance issued by investor bodies. This report sets out the governance structures the Company has put in place to ensure it complies with the Combined Code and best practice.

Statement by the directors on compliance with the Combined Code

The Board is responsible for the policies and controls put in place to discharge the Company's responsibilities under the Combined Code. These include for example a sound system of internal controls and risk management procedures designed to ensure the Company's policies ensure compliance.

Throughout the year ended 30 September 2005 the Company has been in full compliance with the provisions set out in Section 1 of the Combined Code with the exception of provision A.3.2 which provides that at least half the Board, excluding the Chairman, should comprise non-executive directors determined by the Board to be independent. During the year the Board has continued to review its composition having regard to its own circumstances, its size and complexity and the risks and challenges it faces. The Board has again concluded that a strong executive presence was important to its effectiveness and that three independent non-executive directors, in addition to the Chairman, would complete its composition, fully match the requirements of the business and ensure proper governance of the Group.

The Company has also complied with the Smith guidance on Audit Committees in all material respects.

The Workings of the Board and its Committees
The Board

Composition

The Chairman, Mr H V Reid, has primary responsibility for running the Board and devotes such time to his role as is necessary to properly discharge his duties. The Chief Executive, Mr G E Tuppen, has executive responsibilities for operations, results and for executing the Company's strategy and development. Clear divisions of accountability and responsibility between the Chairman and Chief Executive have been agreed by the Board, are set out in writing and operate effectively for these positions. The written responsibilities of the Chairman and Chief Executive are available on the Company's website.

The Board requires that all non-executive directors are free from any relationship with the executive management that could result in any conflict or affect their independent judgement. The Board considers that all of its non-executive directors and the Chairman meet this requirement. Changes to the membership of the Board during the year reflected the ongoing needs of the business. Mrs S E Murray joined the Board on 3 November 2004 and Mr M F Garner retired from the Board on 20 January 2005. The Board membership and that of its Committees is designed to ensure that no one individual or group dominates proceedings and that the wide variety of skills allows effective leadership across the Company's business activities.

Biographical details of the Board members are set out on pages 2 and 3.

Corporate Governance

Operation of the Board

The Company has an effective Board which leads and controls the Company and is responsible to the shareholders for its proper management. It reviews trading performance, sets and monitors strategy and examines major capital expenditure and acquisition opportunities.

The Board has established guidelines requiring that specific matters are reserved for a decision by the full Board. This ensures that the Board maintains control over strategic, major financial and key operational issues. Such matters include, for example the approval of financial statements, material acquisitions and disposals of assets, risk management and governance policies. All meetings of the Board are structured to allow open discussion by all directors and ensure full participation in the decision making process. The schedule of matters reserved for the Board is set out and agreed in writing and is reviewed annually.

Meetings and Attendance

The Board meets at least six times per annum and convenes additional meetings to consider matters that are time critical. In addition there is a separate meeting held annually to discuss and review strategy and future opportunities. All of the current directors attended all Board Meetings and the Strategic Review during the year.

Non-executive directors and the Senior Independent Director

The non-executive directors complement the skills and experience of the executive directors and bring an independent judgment to the decision making process at Board and Committee level. Their role requires a time commitment in the order of 15 days per annum plus additional time as necessary to properly discharge their duties.

The Company has appointed a Senior Independent Director whose role and responsibilities are clearly defined, set out in writing and agreed by the Board. The written responsibilities of the Senior Independent Director are available on the Company's website.

In compliance with the Combined Code the Senior Independent Director met with the other non-executives during the year to discuss matters in a forum that did not include executive directors or the Chairman. In addition all the non-executives including the Chairman met without the executive directors being present to discuss amongst other matters the performance of the Chief Executive.

Information and Training

The Board and its Committees are supplied with full and timely information which enables the proper discharge of their responsibilities.

All directors have access to the services of the Company Secretary and may take independent professional advice at the Company's expense. There is a formal written procedure concerning independent professional advice setting out clear guidelines which have been agreed by the Board. The Company Secretary acts as secretary to the Board and its Committees and is responsible for advising the Chairman on matters of corporate governance, ensuring the good flow of information to the Board and its Committees and that all applicable regulations are followed. The written responsibilities of the Company Secretary are available on the Company's website.

All new directors receive an appropriately tailored induction programme arranged to develop their knowledge and understanding of the Group and the key business issues. The training needs of each Director are regularly reviewed and assessed by the Board. Existing directors undertake such professional development as is necessary for them to carry out their duties as directors.

Corporate Governance

Retirement of Directors

The Company's Articles of Association provide that all directors are subject to re-election at least every three years. In addition, all directors are subject to election by shareholders after their initial appointment. The Board has determined that re-election of the Chairman and non-executive directors is not automatic and is subject to formal review and recommendation by the Nominations Committee.

Board Committees

In order to ensure effective leadership and governance the Board governs through clearly identified Committees which have delegated powers to deal with specific aspects of the Company's affairs. A summary of the operation of these Committees is set out below. The names and biographical details of all Board Committee members is set out on pages 2 and 3.

The Audit Committee

The Audit Committee is chaired by Mr D A Harding who has current and relevant financial experience. The Committee's other members are Mr A J Stewart and Mrs S E Murray. During the year Mr M F Garner resigned from the Committee on retiring from the Board. All members are independent. The Committee met three times during the year. Two of these meetings were held immediately prior to the submission of the interim and year end financial statements. All current Committee members attended each meeting during the year. Representatives from the external auditors, the Chairman, Chief Executive and Finance Director were in attendance at part or all of each meeting by invitation.

The Committee has terms of reference which are set out in writing and agreed by the Board and are in accordance with the recommendations set out in the Combined Code. These are available on the Company's website.

The Committee is responsible for reviewing a wide range of financial matters including the interim and annual accounts prior to their submission to the Board, and monitoring the controls which are in force to ensure the integrity of the financial information reported to shareholders. The Committee advises the Board on the appointment of external auditors and on their remuneration and discusses the nature and scope of their work. The Committee has also been concerned to ensure that the appropriate standards of governance, reporting and compliance are being met. To ensure full compliance the Committee has an approved whistleblowing policy under which employees may, in confidence, raise concerns about possible improprieties in such matters as financial reporting. During the year and in accordance with the Combined Code, internal audit staff met with the Committee to review internal audit procedures.

The Committee reviews and monitors annually the independence and objectivity of external auditors and in particular takes into consideration relevant guidance on the use of external auditors for non-audit services.

During the year the Committee has received updates on the progress of the IFRS conversion project from both management and the external auditors. The Committee has been involved in all key decisions taken during the transition to IFRS and these decisions have been based on comprehensive briefing papers produced by management.

The Nominations Committee

The Committee is chaired by Mr H V Reid and its members are the Chief Executive and the three non-executive directors Mr A J Stewart, Mr D A Harding and Mrs S E Murray, who joined the Committee in November 2004. During the year Mr M F Garner resigned from the Committee on retiring from the Board.

Corporate Governance

The Committee is responsible for nominating, for approval by the Board, candidates for appointment to the Board, having regard to its balance and structure. The Committee is also responsible for succession planning and takes into account the knowledge and skills mix required by the Board in the future. The Committee meets as required and met twice during the year when all the then current members attended. The Committee seeks the advice of external recruitment consultants as necessary and follows a formal and transparent procedure to ensure that new appointments, including that of Mrs S E Murray, comply with the principles set out in the Combined Code.

The Committee has terms of reference which are set out in writing and agreed by the Board and are in accordance with the recommendations set out in the Combined Code to ensure that no director is involved in discussions regarding his or her own succession. These terms of reference are available on the Company's website.

The Remuneration Committee

The Committee is chaired by Mr A J Stewart and its members are the two other non-executive directors Mr D A Harding and Mrs S E Murray, who joined the Committee in November 2004. During the year Mr M F Garner resigned from the Committee on retiring from the Board. The Committee is responsible for determining the contract terms, remuneration and other benefits of the executive directors and senior management, including performance related bonus schemes and the Chairman's fee. The remuneration of the non-executive directors is set by the Board.

The Committee appoints external remuneration consultants and advisers as necessary to provide remuneration services and advice to the Remuneration Committee and the Company. The Committee met three times during the year during which all current members were in attendance.

The Committee has terms of reference which are set out in writing and agreed by the Board and are in accordance with the recommendations set out in the Combined Code. These are available on the Company's website.

The responsibilities of the Committee, together with an explanation of how it applies the principles set out in the Combined Code, are set out in the Directors' Remuneration Report which includes details of directors' remuneration and directors' interests in options, together with information on service contracts, and is set out on pages 27 to 35.

Finance Committee and Disclosure/Monitoring Committees

The Board has delegated, within agreed terms of reference, responsibility for certain matters of a routine nature which are not reserved for full board consideration to a Finance Committee. This Committee comprises two executive directors, one of which must be the Finance Director. In addition and to ensure full compliance with its obligations under the new Disclosure Rules published by the UK Listing Authority, effective from 1 July 2005, the company has established a Disclosure Committee comprising the Chairman, Chief Executive and Finance Director to maintain adequate procedures, systems and controls to enable it to make timely and accurate disclosure of information via a regulatory news service when it is impracticable to hold a full board meeting. A separate Monitoring Committee has been established to monitor compliance with UK Listing Principles.

Performance evaluation

Principle A.6 of the Combined Code provides that the Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. During the year the Company has internally undertaken a full performance evaluation programme in accordance with this principle and has effectively evaluated the Board, its Committees and its individual directors, including the Chairman.

Corporate Governance

Board performance evaluation

The process was led by the Chairman and all directors completed a questionnaire in which they were asked to score a number of performance criteria. The results of the questionnaires were compiled into a report by the Company Secretary and the Chairman presented the findings to the Board at a Board meeting when all the directors were present. The review found that the Board's performance continues to be highly effective.

Board Committee performance evaluation

For the Board Committee evaluation processes each Committee Chairman and Committee member completed a questionnaire in which they were asked to score a number of performance criteria. The results of the questionnaires were compiled into a report by the Company Secretary and the Chairman presented the findings to the Board. The review found that the Committees were highly effective and concluded that the membership and structure of the Committees complemented the workings of the Board.

Non-executive director performance evaluation

This process was led by the Chairman and all non-executive directors completed a self-appraisal questionnaire in which they were asked to score a number of performance criteria. Each non-executive director then met on a confidential basis with the Chairman to review the questionnaire and to discuss matters in detail. In addition, the Senior Independent Director met with the other non-executives without the Chairman being present to review the Chairman's performance.

Executive director performance evaluation

This process was led by the Chief Executive and all executive directors completed a self-appraisal questionnaire and were asked to score a number of performance criteria. Each executive director then met on a confidential basis with the Chief Executive to review the questionnaire and to discuss matters in detail. Each executive director is also set challenging performance objectives. The successful achievement of these objectives makes up part of the short-term incentive criteria.

Shareholder relations

The Company recognises the importance of understanding the views of its stakeholders and has a continuing dialogue with institutional investors to discuss the progress of the business and deal with a wide range of enquiries. This includes direct face to face contact, presentations after the preliminary announcement for the year and the results for the half year and specific analyst presentations with feedback from the Company's brokers as necessary. The Company uses the Annual General Meeting to encourage participation by private investors. The Annual General Meeting, held in January each year, provides the opportunity for a dialogue with private investors and procedures at such meetings are in accordance with the Combined Code.

The Chairmen of the Audit, Nominations and Remuneration Committees are available at the Annual General Meeting to answer questions. Details of the resolutions to be proposed at the Annual General Meeting on 19 January 2006 can be found in the Notice of the meeting on pages 74 to 77. The Notice is sent to shareholders at least 20 working days before the Annual General Meeting and details of proxy votes for and against are made available after the result of hand votes. In accordance with the New Combined Code the Company has proposed in the Notice separate resolutions on each substantial matter.

The Chairman is responsible for ensuring, via the Company Secretary, that views of major shareholders are fed back to the non-executive directors on a regular basis. The effectiveness of how shareholder views are communicated forms part of the annual Board performance evaluation process.

Corporate Governance

Information about the Company, including reports, announcements and presentations are made available on its website.

The Company offers all its shareholders the opportunity to register and receive shareholder communications, such as the report and accounts, the interim report and notices of meetings, electronically via the internet rather than in paper form through the post in accordance with good investor practice. Again this year the Company is, in accordance with the Myners Report, offering shareholders a facility for electronic proxy voting.

Finally the Company's registrars, Computershare Investor Services PLC, deal with a wide range of investor queries on behalf of shareholders.

Internal Control

The directors acknowledge that they are responsible for the Group's systems of internal control and for reviewing their effectiveness.

An ongoing process on internal control has been established for identifying, evaluating and managing risks faced by the Group. This process is reviewed regularly by the Board and meets the requirements of the guidance 'Internal Control: Guidance for Directors on the Combined Code' issued by the Institute of Chartered Accountants in England and Wales in 1999 and the Turnbull guidance. The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Group's strategic objectives. It should be recognised that such systems can only provide reasonable and not absolute assurance against material misstatement or loss. This process has been in place since the start of the financial year and up to the date of approval of the accounts.

Internal control procedures have not altered significantly following the acquisition of Unique. However, the internal audit function has been examining any changes and considering the integration processes as part of their ongoing work.

The key procedures which the directors have established with a view to providing effective internal control are as follows:

- Regular Board meetings to consider a schedule of matters reserved for directors' consideration.
- The Board carries out an annual review of corporate strategy which includes a review of risks facing the business, and how these risks are monitored and managed on an ongoing basis within the organisation. This process is regularly reviewed by the Board.
- An established organisational structure with clearly defined lines of responsibility and delegation of authority.
- Documented and enforced policies and procedures.
- Appointment of staff of the necessary calibre to fulfil their allotted responsibilities.
- Comprehensive budgets and forecasts, approved by the Board, reviewed and revised on a regular basis, with performance monitored against them and explanations obtained for material variances.
- A detailed investment approval process, requiring Board approval for major projects. Post-investment appraisals are conducted and are reviewed by the Board.
- The Audit Committee of the Board, comprising non-executive directors, considers significant financial control matters as appropriate.

Going Concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Directors' Remuneration Report

INFORMATION NOT SUBJECT TO AUDIT:

Remuneration Committee and advisers

The Company's Remuneration Committee (the 'Committee') is composed entirely of independent non-executive directors and is chaired by Mr A J Stewart, its other members being Mr D A Harding and Mrs S E Murray. During the year Mr M F Garner resigned from the Committee, prior to retiring from the Board. No member of the Committee has any personal financial interest in the matters being decided. Mr H V Reid and Mr G E Tuppen attend meetings at the invitation of the Committee if necessary except when their own remuneration is being discussed.

The Committee's key objectives are to:

- Determine and recommend to the Board, within agreed terms of reference, an overall remuneration package for executive directors.
- Monitor the level and structure of remuneration for senior management.

The Committee has been constituted and operated throughout the year in accordance with the provisions of Schedule A and B of the Combined Code. This report also complies with Schedule 7A of the Companies Act 1985 which incorporates the Directors' Remuneration Report Regulations 2002.

During the year the Committee and the Company has continued to use the services of Ernst & Young LLP (E&Y) and they have provided specific advice on remuneration matters relating to share schemes and the Enterprise Inns Incentive Plans. E&Y are the Group's auditors and also provide advisory services in respect of non-audit matters and taxation. In addition the Remuneration Committee has sought advice relating to directors remuneration and the Enterprise Inns Incentive Plan 2005 from New Bridge Street Consultants LLP (who provide no other services to the Company save in respect of advice in connection with the operation of the Company's incentive schemes).

The Committee, amongst other matters, determines the level of awards made under the Company's incentive plans, considers feedback from shareholders and undertakes an annual review of its effectiveness.

Remuneration Policy — Executive Directors

The Remuneration Committee's policy is designed to ensure that the level and structure of remuneration arrangements allows the Company to attract, retain and motivate the exceptional individuals required to continue to enhance shareholder value. Base salaries will be set accordingly, with a significant proportion of executives' remuneration performance-related so that appropriate levels of reward are available for outstanding performance. In addition, the Committee is, at all times, mindful of remuneration practices in other relevant companies.

To achieve this, the remuneration package comprises:

- Fixed Elements: comprising basic salary, benefits and pensions; and
- Performance Related Elements: comprising short-term performance related cash and deferred share bonuses and long-term performance arrangements satisfied by the award of shares.

The Committee believes that these arrangements provide rewards which reflect an appropriate balance between individual and Group performance and aligns the rewards to executive directors with the long-term interest of shareholders. These awards are satisfied by the use of existing shares held by an Employee Benefit Trust.

Directors' Remuneration Report

A significant proportion of the executive directors' remuneration is linked to performance. For all future awards of long-term incentives the Committee believes that it is appropriate for a mixture of average compound annual adjusted Earnings per Share (EPS) growth and Total Shareholder Return (TSR) targets to apply to awards for the following reasons:

- The adjusted EPS growth targets will encourage the executive team to deliver substantial annual adjusted EPS growth over the three year performance period.
- The TSR targets will require the Company to deliver returns to shareholders in excess of its FTSE 100 peers.

The Committee will seek independent advice to determine the extent to which the adjusted EPS growth and TSR targets are met. The details of individual components of the remuneration package and service contracts are as follows:

Basic salary and benefits
Basic salary is a fixed cash sum payable monthly. The basic salary and benefits are reviewed annually. Benefits principally comprise car allowances or the use of a motor car, fuel and private medical insurances.

Pensions
The pension contributions are amounts paid to the directors' individual defined contribution schemes.

Current Enterprise Inns Incentive Plans (the 'Plans')
For the year in review the Company had the following relevant Plans:

- At the Annual General Meeting held on 21 January 1997 an ordinary resolution was passed adopting the Enterprise Inns Incentive Plan ("the 1997 Plan"), which provides for participants to earn non-pensionable cash bonuses and short-term and long-term incentives.
- At the Annual General Meeting held on 24 January 2002 an ordinary resolution was passed adopting the Enterprise Inns Incentive Plan 2002 ("the 2002 Plan"). The 2002 Plan also provides for participants to earn non-pensionable cash bonuses and short-term and long-term share incentives.
- At the Annual General Meeting held on 20 January 2005 ordinary resolutions were passed adopting the Enterprise Inns 2005 Annual Bonus Plan and the Enterprise Inns 2005 Long Term Incentive Plan ("the 2005 Plans").

The 2005 Plans have replaced the 1997 Plan and the 2002 Plan and no further awards will be made except under the 2005 Plan.

Further details of the Plans are set out below:

Short-term share incentives under the 2002 Plan
Under the terms of the 2002 Plan the short-term incentive depends upon achievement of annual growth in adjusted EPS measured against RPI. There is a one year performance period for awards. No short-term award is made unless adjusted EPS growth exceeds RPI by at least 2.5% over the performance period. To achieve the maximum award of 20% of salary, adjusted EPS growth must exceed RPI by 15%. Awards between the minimum and maximum limits are calculated on a straight-line basis pro rata to the growth in adjusted EPS between the minimum and maximum targets. Short-term incentives may not ordinarily be exercised for 36 months after the end of the performance criteria period.

Performance related and short-term share incentives under the 2005 Plan
Under the terms of the 2005 Plan executive directors are eligible to participate in an annual cash bonus scheme as determined by the Committee. The maximum award level under the Bonus Plan for the Chief Executive is 100% of salary. For the other executive directors the maximum award level is 75% of salary. In addition awards under the Bonus Plan are subject to demanding Company performance targets such that no less than 75% of an executive's bonus will be subject to a sliding scale of challenging annual adjusted EPS growth targets, with no more than 25% subject to challenging personal targets. 60% of any bonus earned will be paid in cash, with the remaining 40% deferred into shares (a Deferred Share Award) which may not ordinarily be exercised for 36 months after the end of the performance criteria period. Awards between the minimum and maximum limits are calculated on a straight-line basis pro rata to the growth in adjusted EPS growth between the minimum and maximum targets.

The cash bonus awards for the year are shown in the remuneration table on page 32.

Directors' Remuneration Report

Long-term share incentives under the 1997 Plan

Under the 1997 Plan, the long-term incentive awards ordinary shares to participants upon achievement of compound growth in adjusted EPS measured against RPI over 3 years. To qualify for any award, adjusted EPS growth must exceed RPI over a three year period by 5% compound (15.8% simple), and to qualify for the maximum award of 50% of salary (averaged over a three year period), adjusted EPS growth must exceed RPI over a three year period by 15% compound (52.1% simple). Awards between the minimum and maximum limits are calculated on a straight-line basis pro rata to the growth in adjusted EPS between the minimum and maximum targets. Long-term incentives may not ordinarily be exercised until 24 months after the end of the performance criteria period.

Long-term share incentives under the 2002 Plan

Under the 2002 Plan, the long-term incentive awards ordinary shares to participants upon achievement of compound growth in adjusted EPS measured against RPI over 3 years. To qualify for any award adjusted EPS growth must exceed RPI over a three year period by 5% compound (15.8% simple), and to qualify for the maximum award of 100% of salary (averaged over a three year period), adjusted EPS growth must exceed RPI over a three year period by 20% compound (72.8% simple). Awards between the minimum and maximum limits are calculated on a straight-line basis pro rata to the growth in adjusted EPS between the minimum and maximum targets. Long-term incentives may not ordinarily be exercised until 24 months after the end of the performance criteria period.

Long-term share incentives under the 2005 Plans

Under the 2005 Plan, the long-term incentive has two elements:

- an award of Performance Shares (worth up to 150% of salary each year); and
- an award of Matching Shares linked to the co-investment of up to 25% of salary in Investment shares, which are then matched on a 2:1 basis.

Shares that can count as Investment Shares are:

- shares subject to the Deferred Share Award under the 2005 Bonus Plan
- shares acquired by participants using their cash bonus or other funds, up to the 25% of salary maximum.

Awards vest subject to the satisfaction of a sliding scale of average compound annual adjusted EPS growth targets and the Company's TSR performance against the FTSE 100. More specifically, awards only vest in full if the Company's average compound annual adjusted EPS growth over a three year performance period following grant is at least 15% and the Company's TSR ranking against the FTSE 100 is in the upper quintile. Awards vest in three equal tranches on the third, fourth and fifth anniversaries of grant. The Performance and Matching Share Awards are subject to the same performance conditions.

For awards made in 2004/05 one half of an award will be subject to a performance condition based on an average compound annual adjusted EPS growth. The EPS based condition will measure the Company's average compound annual adjusted EPS growth by comparing the Company's adjusted EPS for the year prior to the date of grant (the "base year") with the adjusted EPS for the third financial year following the base year, such that awards will vest as follows:

Average compound annual adjusted EPS growth	Percentage of relevant portion of Performance Award that vests	Level of match under the relevant portion of Matching Award (Matching Award Shares: Investment Shares)
Less than 7%	0%	0:1
7%	20%	0.4:1
15%	100%	2:1

Directors' Remuneration Report

Straight-line vesting will occur if average compound annual adjusted EPS growth is between 7% and 15%.

The remaining half of the award will be subject to a TSR condition which compares the Company's TSR performance over the three year period commencing on the date of grant with the TSR of the FTSE 100 (as at the date of grant) as follows:

Company's TSR ranking v the FTSE 100	Percentage of relevant portion of Performance Award that vests	Level of match under the relevant portion of Matching Award (Matching Award Shares: Investment Shares)
Below median	0%	0:1
Median	20%	0.4:1
Upper quintile	100%	2:1

Straight-line vesting will occur if the Company's TSR ranking is between median and upper quintile.

TSR will be calculated by averaging the Net Return Index of each company over the six month period prior to grant and vesting, unless the Committee determines that a shorter or longer period is a more appropriate way of ensuring that the condition constitutes a fair measure of the Company's TSR performance over the period.

In addition, irrespective of the Company's TSR performance, no part of this portion of the award will vest unless the Company's adjusted EPS grows by at least 10% over the performance period, unless the Committee believes that it is inappropriate to apply this underpin.

For the avoidance of doubt, if both the threshold TSR hurdle of median performance against the FTSE 100 and the threshold adjusted EPS growth hurdle of 7% average compound annual adjusted growth are met, at least 20% of the total award will vest.

Remuneration Policy — Non-executive directors

Fees:

The fees for non-executive directors are determined by the Board within the limits in the Articles of Association. The non-executive directors are not involved in any discussions or decision about their own remuneration.

The remuneration of the non-executive directors takes the form solely of fees, which are set by the Board having taken advice on appropriate levels.

Service contracts:

The Company's policy is for all executive directors to have a service contract of no fixed term under which they are entitled to receive twelve month's notice of termination. There are no special provisions in the executive directors' contracts for compensation in the event of loss of office. The Committee would consider the circumstances of any individual case of early termination and would determine compensation payments accordingly. A fair but robust principle of mitigation would be applied to the payment of compensation in the context of professional advice received as to contractual entitlement.

The service contracts of the executive directors include the following terms:

Executive directors	Date of Agreement	Effective Date	Notice Period
G E Tuppen	25 October 1995	1 October 1995	12 months
D C George	25 October 1995	1 October 1995	12 months
G W Harrison	25 October 1995	1 October 1995	12 months
W S Townsend	31 October 2000	1 October 2000	12 months

Directors' Remuneration Report

The terms of appointment for Mr H V Reid, Mr A J Stewart, Mr D A Harding and Mrs S E Murray reflect best practice. Their respective appointments shall continue on an annual basis from AGM to AGM, subject to re-election, when applicable.

In respect of the Chairman and non-executive directors, the dates on which their appointments took effect and the current expiry dates are as follows:

Chairman and non-executive directors	Date of Appointment	Expiry Date
H V Reid	21 January 1997	Terminable on 12 months' notice
A J Stewart	29 May 2001	Terminable on 6 months' notice
D A Harding	6 November 2003	Terminable on 6 months' notice
S E Murray	3 November 2004	Terminable on 6 months' notice

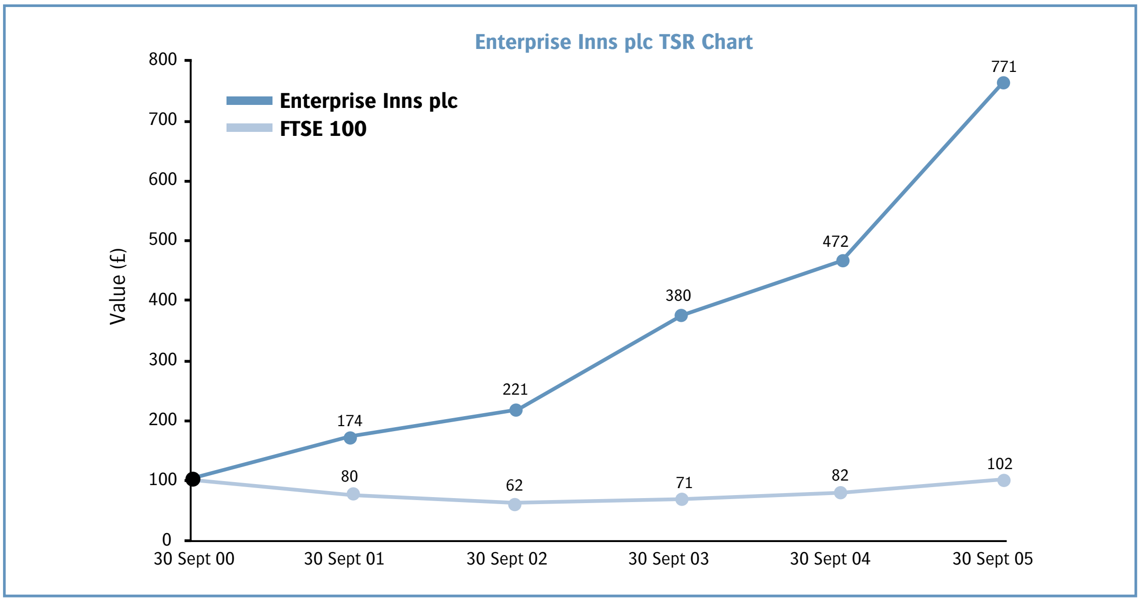
Biographical details of all directors can be found on pages 2 and 3.

Forward-looking statement

The Committee will keep the existing remuneration arrangements, as detailed in this report, under review during the next year to ensure that the Company's reward programmes remain competitive and provide appropriate incentives.

Performance graph

The graph below shows the TSR (with dividends re-invested) for each of the last five financial years in a holding of the Company's shares against the corresponding TSR in a hypothetical holding of shares in the FTSE 100 Index.



The graph above shows the TSR, in terms of the change in value (with dividends re-invested) of an initial investment of £100 on 30 September 2000 in a holding of the Company's shares against the corresponding TSR in a hypothetical holding of shares in the companies represented in the FTSE 100 Index.

The FTSE 100 Index was selected as it represents a broad equity market index in which the Company is a constituent member.

Directors' Remuneration Report

INFORMATION SUBJECT TO AUDIT:

Directors' remuneration

The remuneration of the Chairman, the executive directors and fees payable to the non-executive directors are as follows:

£000 Chairman and non-executive directors	Fees	Basic salary	Benefits (a)	Performance related bonus (b)	Deferred bonus (c)	Pension	Total 2005	Total 2004
H V Reid	160	–	–	–	–	–	**160**	149
M F Garner (retired 20/01/05)	13	–	–	–	–	–	**13**	37
A J Stewart	43	–	–	–	–	–	**43**	37
D A Harding	40	–	–	–	–	–	**40**	34
S E Murray (appointed 03/11/04)	32	–	–	–	–	–	**32**	–
Executive directors								
G E Tuppen	–	480	21	288	192	120	**1,101**	802
D C George	–	288	20	130	86	72	**596**	485
G W Harrison	–	252	17	107	72	63	**511**	436
W S Townsend	–	240	19	105	70	60	**494**	400
	288	1,260	77	630	420	315	**2,990**	2,380

(a) Benefits include car allowances or the use of a motor car, fuel and private medical insurances.
(b) The bonus disclosed relates to the cash bonus awarded under the 2005 Plan and earned in the year ended 30 September 2005.
(c) The deferred bonus disclosed relates to the value of shares awarded as short-term incentives for the year under the 2005 Plan and earned in the year ended 30 September 2005.

Awards of long-term share incentives made during the year under the 2005 Plan are disclosed on page 34.

The above pension contributions are amounts paid to the directors' individual defined contribution schemes.

Interests in options

The executive directors and other executives are able to acquire shares in the Company by participating in the Enterprise Inns Savings Related Share Option Scheme and options granted under this scheme are set out in the table below.

The interests of the directors were as follows:

	Exercise price £	At 1 October 2004 and 30 September 2005 Number	Exercise period
G E Tuppen	1.245	**13,484**	1 February 2006–1 August 2006
D C George	1.245	**13,484**	1 February 2006–1 August 2006
G W Harrison	1.245	**10,788**	1 February 2006–1 August 2006
	2.320	**1,414**	1 February 2008–1 August 2008
		12,202	
W S Townsend	1.245	**5,392**	1 February 2006–1 August 2006
	2.095	**4,732**	1 February 2007–1 August 2007
		10,124	

There are no performance criteria restricting the exercise of options held under the SAYE scheme.

Directors' Remuneration Report

Gains made on share options

The directors did not exercise any share options under the Savings Related Share Option Scheme during the year.

The market price of the Company's shares on 30 September 2005 was 842.5 pence per share and the high and low share prices during the year were 872.0 pence and 567.0 pence respectively.

Short-term share incentives

During the year short-term awards granted under the 1997 Plan on 18 December 2000 and 2002 Plan on 16 April 2002 were exercised by the directors as follows:

Short-term awards exercised	Date of exercise	Market price at date of exercise Pence	Number of shares exercised	Aggregate gain £000
G E Tuppen	22/09/05	823.5	24,908	205
D C George	22/09/05	823.5	14,848	122
G W Harrison	07/12/04	702.0	10,966	77
	22/09/05	823.5	13,650	112
W S Townsend	22/09/05	823.5	11,256	93
				609

During the year short-term incentives awarded under the 2005 Plan on a conditional basis were as follows:

Conditional short-term awards	Date granted	Market value of ordinary shares £000*	Exercise period
G E Tuppen	01/12/2004	192	01/12/2007–01/06/2008
D C George	01/12/2004	86	01/12/2007–01/06/2008
G W Harrison	01/12/2004	72	01/12/2007–01/06/2008
W S Townsend	01/12/2004	70	01/12/2007–01/06/2008

* Market value is based on a percentage of basic salary earned as a result of achievement of performance objectives for the year 2004/05. These awards have become unconditional since the end of the financial year. It is intended that these awards will be used towards the participant's co-investment in Investment shares for the purposes of calculating the Matching Share award for the financial year 2005/06 under the long-term incentive details of which are set out below.

These awards are included in the "deferred bonus" column in the table of Directors' Remuneration on page 32.

Short-term awards made under the 2002 Plan in the years 2002 and 2003 have become unconditional. The number of shares awarded to the directors, and still outstanding, and the market value of such shares at 30 September 2005 (842.5 pence per share) in respect of these awards are as follows:

Unconditional short-term awards	Date granted	Number of shares	Market value £000	Exercise period
G E Tuppen	20/12/02	16,902	142	1/10/2006–20/12/2012
	22/12/03*	12,049	102	1/10/2007–22/12/2013
D C George	20/12/02	10,142	85	1/10/2006–20/12/2012
	22/12/03*	7,229	61	1/10/2007–22/12/2013
G W Harrison	20/12/02	9,296	78	1/10/2006–20/12/2012
	22/12/03*	6,627	56	1/10/2007–22/12/2013
W S Townsend	20/12/02	8,028	68	1/10/2006–20/12/2012
	22/12/03*	5,849	49	1/10/2007–22/12/2013

* These shares have been used to count towards the participant's co-investment in Investment shares for the purposes of calculating the Matching Share award or the financial year 2004/05 under the long-term incentive, details of which are set out below.

Directors' Remuneration Report

Long-term share incentives

During the year long-term awards granted under the 1997 Plan on 18 December 1999 and 18 December 2000 were exercised by the directors as follows:

Long-term awards exercised	Date of exercise	Market price at date of exercise Pence	Number of shares exercised	Aggregate gain £000
G E Tuppen	22/09/05	823.5	124,990	1,029
D C George	22/09/05	823.5	76,708	632
G W Harrison	07/12/04	702.0	41,678	293
	22/09/05	823.5	69,602	573
W S Townsend	22/09/05	823.5	56,642	466
				2,993

During the year long-term incentives awarded under the 2005 Plan (which were granted subject to the performance conditions set out on pages 28 and 29) on a conditional basis were as follows:

Conditional long-term awards granted in the year

	Date granted	Maximum number of Performance Shares*	Maximum number of Matching Shares	Market Value £000	Vesting Period
G E Tuppen	04/02/05	105,278	35,092	960	04/02/2008–04/02/2010
D C George	04/02/05	63,167	21,054	576	04/02/2008–04/02/2010
G W Harrison	04/02/05	55,271	18,422	504	04/02/2008–04/02/2010
W S Townsend	04/02/05	52,639	17,546	480	04/02/2008–04/02/2010

* Based on 150% of salary at the start of the performance period (1 October 2004–30 September 2007). Market value is calculated on the average share price over the 5 dealing days following announcement of the results for the financial year 2003/04 (683.9 pence).

Details of long-term incentives awarded under the 2002 Plan on a conditional basis in previous years and outstanding and the market value of such shares as at 30 September 2005 (842.5 pence per share) are as follows:

Conditional long-term awards awarded in previous years

	Date granted	Number of shares	Market Value £000	Exercise period
G E Tuppen	20/12/02	157,211	1,325	1/10/2007–20/12/2016
D C George	20/12/02	94,327	795	1/10/2007–20/12/2016
G W Harrison	20/12/02	84,332	710	1/10/2007–20/12/2016
W S Townsend	20/12/02	77,064	649	1/10/2007–20/12/2016

* Salary is based on the average rate paid to participants between 1 October 2002 and 30 September 2005. As compound adjusted EPS growth over the performance criteria period has exceeded the target of 15% per annum which is the level for the achievement of the maximum award under the scheme, these awards will become unconditional and the number of shares to be awarded are shown above subject to approval by the Remuneration Committee.

Directors' Remuneration Report

	Date granted	Market value of ordinary shares	Exercise period
G E Tuppen	22/12/03	up to 100% of salary*	1/10/2008–22/12/2013
D C George	22/12/03	up to 100% of salary*	1/10/2008–22/12/2013
G W Harrison	22/12/03	up to 100% of salary*	1/10/2008–22/12/2013
W S Townsend	22/12/03	up to 100% of salary*	1/10/2008–22/12/2013

* Salary is based on the average rate paid to participants between 1 October 2003 and 30 September 2006. Market value is taken at the start of the incentive period (461.8 pence).

The performance criteria period for the 2001/02 long-term incentives awarded under the 2002 Plan have now ended and these awards have become unconditional. The number of shares awarded to the directors, and still outstanding, and the market value of such shares at 30 September 2005 (842.5 pence per share) in respect of these awards are as follows:

Unconditional long-term awards	Date granted	Number of shares	Market Value £000	Exercise period
G E Tuppen	16/04/02	173,152	1,459	1/10/2006–16/04/2012
D C George	16/04/02	103,697	873	1/10/2006–16/04/2012
G W Harrison	16/04/02	94,265	794	1/10/2006–16/04/2012
W S Townsend	16/04/02	82,269	693	1/10/2006–16/04/2012

The value of the long-term share incentives accrued during the period in respect of awards made relating to the current and previous years, and charged to the Profit and Loss Account, under the Enterprise Inns Incentive Plans are as follows:

	2005 £000	2004 £000
G E Tuppen	**640**	446
D C George	**384**	267
G W Harrison	**336**	239
W S Townsend	**320**	220
	1,680	1,172

On behalf of the Board

A J Stewart
Chairman of the Remuneration Committee
22 November 2005

Group Profit and Loss Account

for the year ended 30 September 2005

	Notes	2005 £m	2004 £m
Turnover	2	**919.9**	712.7
Cost of sales	3	**(387.3)**	(315.0)
Gross profit		**532.6**	397.7
Administrative expenses		**(44.6)**	(40.3)
Exceptional administrative expenses	4	**—**	(14.8)
Other operating income	5	**32.2**	26.3
Group operating profit	6	**520.2**	368.9
Share of operating profit of associate		**—**	19.0
Total operating profit		**520.2**	387.9
Net profit on disposal of tangible fixed assets	7	**2.7**	1.4
Profit on sale of associated undertaking	16	**0.2**	—
Profit on ordinary activities before interest and taxation		**523.1**	389.3
Bank interest receivable		**8.9**	9.5
Interest payable and similar charges	9	**(223.5)**	(181.0)
Exceptional interest payable and similar charges	9	**(4.6)**	(4.6)
		(219.2)	(176.1)
Profit on ordinary activities before taxation		**303.9**	213.2
Tax on profit on ordinary activities	10	**(92.1)**	(65.7)
Profit on ordinary activities after taxation and attributable to members of the parent company		**211.8**	147.5
Ordinary dividends on equity shares	12	**(61.4)**	(41.2)
Retained profit for the year	26	**150.4**	106.3
Earnings per share			
Basic	13	**61.9p**	43.0p
Adjusted†	13	**63.2p**	47.5p
Diluted	13	**61.1p**	42.3p

† Excludes exceptional items and goodwill amortisation.

Group Statement of Total Recognised Gains and Losses

for the year ended 30 September 2005

	2005 £m	2004 £m
Profit for the financial year excluding share of associated undertakings	**211.8**	143.7
Share of profit in associated undertakings for the financial period	—	3.8
Profit for the financial year attributable to members of the parent company	**211.8**	147.5
Unrealised surplus on revaluation of licensed estate	**268.0**	133.3
Share of unrealised surplus on revaluation of licensed estate in associate	—	4.7
Actuarial gain/(loss) recognised in the defined benefit pension scheme	**1.3**	(0.7)
Movement of deferred tax asset related to pension scheme deficit	**(0.4)**	0.1
Total recognised gains and losses relating to the year	**480.7**	284.9

Note of Historical Cost Profits and Losses

for the year ended 30 September 2005

	2005 £m	2004 £m
Reported profit on ordinary activities before taxation	**303.9**	213.2
Realised surpluses/(deficits) against historical costs on disposal of properties revalued in earlier years	**0.2**	(1.5)
Historical cost profit on ordinary activities before taxation	**304.1**	211.7
Historical cost profit for the year retained after taxation and dividends	**150.6**	104.8

Group Balance Sheet

at 30 September 2005

	Notes	2005 £m	2004 £m
Fixed assets			
Intangible assets	14	75.3	79.6
Tangible assets	15	5,217.2	4,931.8
Investments in associated undertakings	16	—	0.2
		5,292.5	5,011.6
Current assets			
Assets held for resale	17	7.1	4.6
Debtors	18	81.4	85.7
Cash at bank and in hand		95.5	146.7
		184.0	237.0
Creditors: amounts falling due within one year	19	(331.1)	(309.4)
Net current liabilities		(147.1)	(72.4)
Total assets less current liabilities		5,145.4	4,939.2
Creditors: amounts falling due after more than one year	20	(3,304.5)	(3,509.2)
Provision for liabilities and charges	21	(99.9)	(73.7)
Net assets excluding pension liability		1,741.0	1,356.3
Pension liability	22	(0.1)	(2.7)
		1,740.9	1,353.6
Capital and reserves			
Called up share capital	25	17.5	17.5
Share premium account	26	485.5	485.5
Revaluation reserve	26	810.0	541.8
Capital redemption reserve	26	7.6	7.6
Merger reserve	26	77.0	77.0
Other reserve	26	(55.6)	(28.1)
Profit and loss account	26	398.9	252.3
Equity shareholders' funds	27	1,740.9	1,353.6

Approved by the Board on 22 November 2005 and signed on its behalf by:

G E Tuppen
D C George } Directors

Balance Sheet

at 30 September 2005

	Notes	2005 £m	2004 £m
Fixed assets			
Tangible assets	15	**2,722.6**	2,569.6
Investments	16	**1,010.7**	695.7
		3,733.3	3,265.3
Current assets			
Assets held for resale	17	**4.9**	3.6
Debtors	18	**240.2**	483.2
Cash at bank and in hand		**—**	—
		245.1	486.8
Creditors: amounts falling due within one year	19	**(1,017.8)**	(845.5)
Net current liabilities		**(772.7)**	(358.7)
Total assets less current liabilities		**2,960.6**	2,906.6
Creditors: amounts falling due after more than one year	20	**(1,479.0)**	(1,652.6)
Provision for liabilities and charges	21	**(88.5)**	(79.8)
		1,393.1	1,174.2
Capital and reserves			
Called up share capital	25	**17.5**	17.5
Share premium account	26	**485.5**	485.5
Revaluation reserve	26	**621.3**	483.4
Capital redemption reserve	26	**7.6**	7.6
Other reserve	26	**(55.6)**	(28.1)
Profit and loss account	26	**316.8**	208.3
Equity shareholders' funds		**1,393.1**	1,174.2

Approved by the Board on 22 November 2005 and signed on its behalf by:

G E Tuppen
D C George } Directors

Group Statement of Cash Flows

for the year ended 30 September 2005

		Notes	2005 £m	2004 £m
Net cash inflow from operating activities		6	**522.9**	403.2
Return on investments and servicing of finance				
Interest received			**8.9**	13.1
Interest paid			**(244.0)**	(171.4)
Issue costs of long-term loans			**(1.9)**	(9.9)
			(237.0)	(168.2)
Taxation			**(52.8)**	(36.3)
Capital expenditure and financial investment				
Payments to acquire public houses			**(14.3)**	(12.9)
Payments made on improvements to public houses			**(48.8)**	(50.9)
Payments to acquire other fixed assets			**(0.8)**	(1.8)
Receipts from sales of tangible fixed assets			**47.0**	110.5
Payments to acquire shares held in employee benefit trusts			**(22.6)**	(24.3)
Receipts from exercise of employee options			**3.3**	—
			(36.2)	20.6
Acquisitions and disposals				
Purchase of subsidiaries			**—**	(247.4)
Net cash acquired with subsidiaries			**—**	191.3
Expenses of acquisitions paid			**—**	(2.6)
			—	(58.7)
Equity dividends paid			**(47.9)**	(31.8)
Cash inflow before financing			**149.0**	128.8
Financing				
Issue of ordinary share capital			**—**	51.5
Share issue costs			**—**	(0.3)
Debt due within 1 year	— new short-term loans		**—**	30.0
	— repayment of short-term loans		**—**	(160.0)
Debt due beyond 1 year	— new long-term loans		**770.9**	1,028.2
	— repayment of long-term loans		**(971.1)**	(573.9)
Repayment of Deep Discount Bonds			**—**	(361.5)
			(200.2)	14.0
(Decrease)/increase in cash		28	**(51.2)**	142.8

Reconciliation of net cash flow to movement in net debt

	Notes	2005 £m	2004 £m
(Decrease)/increase in cash in the year	28	**(51.2)**	142.8
Cash outflow from change in debt		**200.2**	37.1
Issue costs of new long-term loans		**1.9**	9.9
Change in net debt resulting from cash flows	28	**150.9**	189.8
Acquired with subsidiaries		**—**	(2,171.0)
Amortisation of issue costs and discounts/premiums on long-term loans		**(4.3)**	(4.0)
Amortisation of interest rate swaps		**17.7**	7.7
Provision against interest rate swaps		**—**	(2.5)
Write off of unamortised issue costs		**(4.6)**	(4.6)
Movement in net debt in the year		**159.7**	(1,984.6)
Net debt at 1 October	28	**(3,389.4)**	(1,404.8)
Net debt at 30 September	28	**(3,229.7)**	(3,389.4)

Notes to the Accounts

at 30 September 2005

1 Accounting Policies

Basis of preparation

The accounts are prepared under the historical cost convention as modified to include the revaluation of properties and have been prepared in accordance with applicable accounting standards.

Basis of consolidation

The Group accounts consolidate the accounts of Enterprise Inns plc and all its subsidiary undertakings drawn up to 30 September each year. No Profit and Loss Account is presented for Enterprise Inns plc as permitted by Section 230 of the Companies Act 1985.

Interest rate swaps

The Group's criteria for accounting for interest rate swaps as hedges are:

- The instrument must be related to an asset or a liability; and
- It must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa.

Interest rate swaps are fair valued at each year-end for disclosure in the accounts. Swaps are shown on the balance sheet at fair value at acquisition and are not adjusted to reflect the revised revaluation at each year end. Fair value is amortised during each year in relation to the remaining life of the instrument. If a swap is terminated early, the gain or loss is recognised immediately in the Profit and Loss Account. Where part or whole of a swap does not qualify as an effective hedge, the onerous element is held at market value. This market value may be wholly or partially offset by that amount of fair value already held on the balance sheet.

Goodwill

Goodwill represents the excess of consideration over the fair value of identifiable net assets acquired. Goodwill arising on acquisitions prior to 1 October 1998 was written off against reserves. Goodwill previously eliminated against reserves has not been reinstated on implementation of FRS 10.

Positive goodwill arising on acquisitions since 1 October 1998 is capitalised, classified as an asset on the Balance Sheet and amortised on a straight-line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

If a subsidiary is subsequently sold, any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the Profit and Loss Account is taken into account in determining the profit or loss on disposal.

Tangible fixed assets and depreciation

Expenditure on additions and improvements to tangible fixed assets is capitalised as the expenditure is incurred.

Substantially all of the Group's licensed estate is valued each year reflecting their trading potential on an existing use basis. Surpluses arising from the professional valuation of the licensed estate are taken direct to the revaluation reserve. Valuation surpluses realised on sale are transferred from the revaluation reserve to the Profit and Loss Account reserve. Any deficit arising from the professional valuation of properties is taken direct to the revaluation reserve until the carrying amount reaches historical cost and, thereafter, to the extent that the value in use can be demonstrated to be higher than valuation. Any other deficit arising is charged to the Profit and Loss Account.

Notes to the Accounts

at 30 September 2005

1 Accounting Policies (continued)

It is the Group's policy to maintain the properties comprising the licensed estate in such a condition that the residual values of the properties, based on prices prevailing at the time of acquisition or subsequent revaluation, are at least equal to their book values. Having regard to this, it is the opinion of the directors that depreciation of any such property as required by the Companies Act 1985 and generally accepted accounting practice would not be material. An annual impairment review is carried out on such properties.

Short leasehold properties, defined as properties with 50 years or less of the lease remaining unexpired, are depreciated on a straight-line basis over the unexpired lease term.

Depreciation is provided on other categories of tangible fixed assets over 3 to 50 years on a straight-line basis to residual value.

Leasing and hire purchase commitments

Rentals paid under operating leases are charged to the Profit and Loss Account on a straight-line basis over the lease term.

Assets held for resale

Assets held for resale are stated at the lower of cost incurred and net realisable value. Net realisable value is based on estimated selling price less further costs expected to be incurred on disposal.

Deferred taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exceptions:

- Provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a binding commitment to dispose of the replacement assets with no likely subsequent rollover or available capital losses.
- Provision is made for deferred tax on gains on revalued fixed assets only where there is a commitment to dispose of the revalued assets and the attributable gain can neither be rolled over or eliminated by capital losses.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Pensions

The Group makes contributions to certain employees' own pension plans in accordance with the terms of their contracts of employment. The cost of these contributions is charged to the Profit and Loss Account as they are made.

Notes to the Accounts

at 30 September 2005

1 Accounting Policies (continued)

A combined defined contribution and defined benefit scheme was acquired with Unique in 2004 which is now closed to new members. This scheme is valued every three years using the projected unit method by qualified independent actuaries. The cost of providing defined benefit pensions is charged to administrative expenses to reflect the current and past service cost, with the return on the pension scheme investments shown as other financial income or expenses. Actuarial gains and losses are shown in the Statement of Total Recognised Gains and Losses. This treatment represents full adoption of FRS 17.

Capital instruments

The finance cost recognised in the Profit and Loss Account in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

2 Turnover

Turnover represents the amounts derived from the provision of goods and services which fall within the Group's ordinary activity, stated net of value added tax and discounts. Beer and cider sales and wines, spirits and minerals sales are recognised when these goods are delivered to our customers. Rents receivable from the licensed estate are recognised in the accounting period to which the income relates.

The Group operates in one principal area of activity, that of a public house landlord. This operation takes place solely in the United Kingdom.

Turnover is derived as follows:

	2005 £m	2004 £m Re-analysed
Beer and cider sales	**616.9**	482.2
Wines, spirits and minerals sales	**36.1**	33.1
Rents receivable from licensed estate	**266.9**	196.8
Sales to customers by managed houses	—	0.6
	919.9	712.7

Notes to the Accounts

at 30 September 2005

3 Cost of Sales

	2005 £m	2004 £m Re-analysed
Beer and cider cost of sales	**342.8**	273.6
Wines, spirits and minerals cost of sales	**29.1**	27.5
Leasehold charges	**8.7**	6.5
Repairs and maintenance	**6.7**	6.8
Cost of sales by managed houses	**—**	0.6
	387.3	315.0

4 Exceptional administrative expenses

	2005 £m	2004 £m
Redundancy costs	**—**	7.4
Onerous lease costs	**—**	3.5
Other	**—**	3.9
	—	14.8

The exceptional administrative expenses incurred in 2004 relate to costs of integrating the operations acquired with Unique.

5 Other operating income

	2005 £m	2004 £m
Property income other than rent from the licensed estate	**1.9**	1.6
Income from amusement and other machines	**30.3**	24.7
	32.2	26.3

Notes to the Accounts

at 30 September 2005

6 Operating profit

(a) This is stated after charging:

	2005	2004
	£m	£m
Auditors' remuneration — audit fees	**0.3**	0.3
— non-audit fees	**0.3**	0.2
Amortisation of goodwill	**4.3**	3.4
Depreciation of owned fixed assets	**1.4**	1.6
Depreciation of short leasehold properties	**2.2**	1.1
Operating lease rentals — buildings	**5.8**	5.7
Operating lease rentals — plant and machinery	**0.2**	0.4

In addition to the above, £0.7m was paid to the auditors during 2004 for professional services in conjunction with the acquisition of Unique. This expenditure has been capitalised.

(b) Reconciliation of operating profit to net cash inflow from operating activities:

	2005	2004
	£m	£m
Operating profit	**520.2**	368.9
Depreciation and amortisation	**7.9**	6.1
Share based expense recognised in operating profit	**2.3**	1.6
Decrease/(increase) in debtors	**5.3**	(7.3)
(Decrease)/increase in creditors	**(12.0)**	25.5
Increase in provisions	**1.7**	6.0
(Increase)/decrease in assets held for resale	**(2.5)**	2.4
Net cash inflow from operating activities	**522.9**	403.2

Cash outflows in respect of exceptional administrative expenses were £8.9m (2004 — £2.4m).

7 Net profit on disposal of tangible fixed assets

	2005	2004
	£m	£m
Profits on disposal of tangible fixed assets	**20.0**	17.5
Losses on disposal of tangible fixed assets	**(5.6)**	(6.7)
Provision for loss on disposal of tangible fixed assets	**(11.7)**	(9.5)
Net profit on disposal of tangible fixed assets	**2.7**	1.3
Share of profit on disposal of tangible fixed assets in associate	**—**	0.1
	2.7	1.4

There is no taxation effect of the above exceptional items due to the application of capital gains rollover relief.

Notes to the Accounts

at 30 September 2005

8 Staff costs

	2005 £m	2004 £m
Wages and salaries	**25.5**	22.6
Social security costs	**3.0**	2.5
Other pension costs	**1.7**	1.8
	30.2	26.9

The average monthly number of employees comprised:

	2005 No.	2004 No.
Operations staff	**230**	224
Administration staff	**309**	283
	539	507

Details of directors' remuneration are set out on pages 27 to 35.

9 Interest payable and similar charges

	2005 £m	2004 £m
Bank loans and overdrafts	**34.6**	30.8
Debentures/secured bonds	**180.6**	123.0
Other interest payable and finance costs	**3.7**	4.2
Amortisation of issue costs and discounts on debt instruments	**4.6**	9.3
	223.5	167.3
Share of interest payable in associate	**—**	13.7
Interest payable and similar charges	**223.5**	181.0
Exceptional finance costs	**4.6**	4.6

The exceptional finance costs incurred during 2005 relate to the write-off of unamortised finance costs following a refinancing exercise. The tax effect of this is £1.4m.

Notes to the Accounts

at 30 September 2005

10 Taxation

a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2005 £m	2004 £m
Current tax		
UK corporation tax	69.6	50.7
Share of associate's current tax	—	0.4
Adjustments in respect of prior years	(2.6)	(3.3)
Total current tax (note 10b)	67.0	47.8
Deferred tax		
Origination and reversal of timing differences (note 21)	25.1	16.7
Share of associate's deferred tax	—	1.2
Total deferred tax	25.1	17.9
Tax on profit on ordinary activities	92.1	65.7

b) Factors affecting the current tax charge for the year

	2005 £m	2004 £m
Group profit on ordinary activities before tax	303.9	213.2
Profit on ordinary activities before tax at 30% (2004 — 30%)	91.2	64.0
Effects of:		
Expenses not deductible for tax purposes	1.3	0.2
Tax allowances in excess of depreciation	(12.2)	(7.6)
Short-term timing differences	(10.1)	(5.2)
Tax timing differences relating to pension liability	(0.6)	—
Adjustments in respect of prior years	(2.6)	(3.3)
Prior year associate adjustment	—	(0.3)
Total current tax charge (note 10a)	67.0	47.8

c) Factors that may affect future tax charges

Other factors that may affect future tax charges include the availability of accelerated tax depreciation and changes in legislation.

11 Profit attributable to members of the parent company

The profit after tax dealt with in the accounts of the parent company was £172.2m (2004 — £189.9m). Retained profit for the year amounted to £110.8m (2004 — £148.7m).

12 Dividends

	2005 £m	2004 £m
Ordinary dividends on equity shares:		
Interim paid 5.6 pence (2004 — 3.6 pence)	19.2	12.5
Final proposed 12.4 pence (2004 — 8.4 pence)	42.2	28.7
	61.4	41.2

The dividends relating to the shares held by the Employee Benefit Trust have been waived.

Notes to the Accounts

at 30 September 2005

13 Earnings per ordinary share

The calculation of basic earnings per ordinary share is based on earnings of £211.8m (2004 — £147.5m) and on 342,456,660 (2004 — 342,806,374) shares being the weighted average number of equity shares in issue during the year after excluding shares held by trusts relating to employee share options.

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 and goodwill amortisation of £216.4m (2004 — £163.0m) and on 342,456,660 (2004 — 342,806,374) shares being the weighted average number of equity shares in issue during the year after excluding shares held by trusts relating to employee share options.

Basic earnings are adjusted as follows:	2005 £m	2004 £m
Profit after tax	211.8	147.5
Exceptional administrative expenses	—	14.8
Goodwill amortisation	4.3	3.4
Exceptional finance costs	4.6	4.6
Net profit on disposal of tangible fixed assets	(2.7)	(1.4)
Profit on sale of associated undertaking	(0.2)	—
Taxation impact of exceptional items	(1.4)	(5.9)
Adjusted earnings	216.4	163.0

The diluted earnings per share is based on profit for the year of £211.8m (2004 — £147.5m), and on 346,838,542 (2004 — 348,935,535) ordinary shares, calculated as follows:

	2005 No.	2004 No.
Basic weighted average number of shares	342,456,660	342,806,374
Executive share option plan	1,617,410	1,840,357
Enterprise Inns Quest sharesave scheme	565,576	548,599
Long-term and short-term incentive plans	2,198,896	3,740,205
	346,838,542	348,935,535

14 Intangible fixed assets

Goodwill	Group £m
Cost:	
At 1 October 2004 and 30 September 2005	**86.4**
Amortisation:	
At 1 October 2004	6.8
Provided during the year	4.3
At 30 September 2005	**11.1**
Net book value:	
At 30 September 2005	**75.3**
At 30 September 2004	79.6

Goodwill arising on the acquisitions of both The Unique Pub Company Limited and The Laurel Pub Group Limited is being amortised evenly over the directors’ estimate of its useful economic life of 20 years.

Notes to the Accounts

at 30 September 2005

15 Tangible fixed assets

Group	Licensed premises Freehold properties £m	Long leasehold properties £m	Short leasehold properties £m	Other assets £m	Total £m
Cost or valuation:					
At 1 October 2004	4,616.3	271.8	33.4	17.3	4,938.8
Reclassification†	3.4	(5.8)	2.4	—	—
Additions	59.3	4.0	0.4	1.3	65.0
Provision for loss on disposal	(8.5)	(2.4)	(0.8)	—	(11.7)
Revaluation	252.7	11.2	4.1	—	268.0
Adjustments to prior year acquisitions*	10.9	(46.5)	33.6	—	(2.0)
Disposals	(27.0)	(2.4)	(1.1)	(1.0)	(31.5)
At 30 September 2005	**4,907.1**	**229.9**	**72.0**	**17.6**	**5,226.6**
Depreciation:					
At 1 October 2004	—	—	4.0	3.0	7.0
Charge for the year	—	—	2.2	1.4	3.6
Disposals	—	—	(0.7)	(0.5)	(1.2)
At 30 September 2005	**—**	**—**	**5.5**	**3.9**	**9.4**
Net book value:					
At 30 September 2005	**4,907.1**	**229.9**	**66.5**	**13.7**	**5,217.2**
At 30 September 2004	4,616.3	271.8	29.4	14.3	4,931.8

† Reclassification includes movements arising from a review of the lease terms of the properties acquired with Unique.

* Adjustments made following a review of the provisional fair values attributed to each property acquired with Unique.

Company	Freehold properties £m	Long leasehold properties £m	Short leasehold properties £m	Other assets £m	Total £m
Cost or valuation:					
At 1 October 2004	2,419.9	117.0	23.3	15.0	2,575.2
Reclassifications	3.5	(6.5)	3.0	—	—
Additions	38.9	2.7	0.1	1.3	43.0
Provision for loss on disposal	(4.9)	(1.8)	(0.2)	—	(6.9)
Revaluations	136.1	4.0	—	—	140.1
Disposals	(19.1)	(1.8)	(0.9)	—	(21.8)
At 30 September 2005	**2,574.4**	**113.6**	**25.3**	**16.3**	**2,729.6**
Depreciation:					
At 1 October 2004	—	—	3.6	2.0	5.6
Charge for the year	—	—	0.7	1.2	1.9
Disposals	—	—	(0.5)	—	(0.5)
At 30 September 2005	**—**	**—**	**3.8**	**3.2**	**7.0**
Net book value:					
At 30 September 2005	**2,574.4**	**113.6**	**21.5**	**13.1**	**2,722.6**
At 30 September 2004	2,419.9	117.0	19.7	13.0	2,569.6

Notes to the Accounts

at 30 September 2005

15 Tangible fixed assets (continued)

(a) Assets held for use by lessees under operating leases are detailed below.

	Group £m	Company £m
At 30 September 2005		
Gross book value	4,879.9	2,522.9
Accumulated depreciation	(4.6)	(3.2)
Net book value	**4,875.3**	**2,519.7**
At 1 October 2004		
Gross book value	4,721.5	2,434.8
Accumulated depreciation	(3.3)	(2.8)
Net book value	**4,718.2**	**2,432.0**

(b) Over 80% of the estate, comprising those licensed premises subject to debt security and securitisation restrictions, was valued at existing use value by Humberts Leisure Limited and Christie + Co., external Chartered Surveyors. Properties not subject to debt security or securitisation restrictions were valued at their existing use value internally by the Head of Estates, a Chartered Surveyor. The last external valuation of those pubs that have been valued by an internal Chartered Surveyor was at 30 September 2004. Properties held for disposal were valued by the directors at their open market value for sale less selling costs.

The net book value of licensed premises comprises:

	Group		Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Licensed estate at valuation:				
Freehold properties	**4,899.5**	4,589.0	**2,566.8**	2,411.3
Long leasehold properties	**229.9**	270.0	**113.6**	117.0
Short leasehold properties	**66.5**	14.4	**21.5**	4.9
	5,195.9	4,873.4	**2,701.9**	2,533.2
Licensed estate at cost:				
Freehold properties	**7.6**	27.3	**7.6**	8.6
Long leasehold properties	**—**	1.8	**—**	—
Short leasehold properties	**—**	15.0	**—**	14.8
	7.6	44.1	**7.6**	23.4
	5,203.5	4,917.5	**2,709.5**	2,556.6

The historical cost and net book value of the licensed premises included at valuation is as follows:

Group	Freehold properties £m	Long leasehold properties £m	Short leasehold properties £m
At 30 September 2005	**4,158.0**	**200.9**	**60.5**
At 30 September 2004	4,118.1	251.8	12.6
Company			
At 30 September 2005	**1,971.2**	**91.1**	**18.3**
At 30 September 2004	1,949.7	97.2	2.8

Notes to the Accounts
at 30 September 2005

16 Investments

Group	Investment in associated undertaking (unlisted) £m
Cost and net book value:	
At 1 October 2004	0.2
Disposal of associated undertaking	(0.2)
At 30 September 2005	–

Disposal of associated undertaking
During the year, Enterprise Inns plc sold its holding of shares in Warwickshire Hotels Limited (WHL), an associate undertaking. WHL owns one hotel, The Westley Hotel, Acocks Green, Birmingham (Westley).

The issued share capital of WHL is 20,000 ordinary shares of £1 each and Enterprise was the legal and beneficial owner of 50% of these shares, purchased at a cost of £10,000 in May 1997. The remaining 50% of the ordinary shares were owned by the operator of the Westley, purchased at a cost of £10,000.

Enterprise earned 50% of the profits of WHL during the 8 year period of ownership and this amounted to £225,000 at the date of sale. This amount earned had been accrued in the accounts but no cash distribution had been made by WHL.

The shares were sold in April 2005 due to the retirement of the operator of the hotel. The shares were acquired by Simply Inns Limited for a total cash consideration of £980,000, with £490,000 paid to Enterprise and £490,000 paid to the other shareholder. Enterprise realised a profit on disposal of £255,000, before costs of £15,000.

The sale followed a thorough marketing exercise and competitive sale tendering process conducted on behalf of the owners by Humberts Leisure Limited. At the date of sale, David George, Finance Director, and his immediate family owned 19.7% of the ordinary shares and 100% of the preference shares of Simply Inns Limited.

Company	Subsidiary undertakings shares £m
Cost:	
At 1 October 2004	719.3
Additions	315.0
At 30 September 2005	**1,034.3**
Provision	
At 1 October 2004 and 30 September 2005	(23.6)
Net book value:	
At 30 September 2005	**1,010.7**
At 30 September 2004	695.7

Securitisation of subsidiary company
The securitisation of assets in Unique Pub Properties Limited (UPP) means that there are restrictions over the distribution of cash outside of this company. All cash held in bank accounts in UPP is securitised. Only on satisfaction of various criteria may UPP distribute excess cash to other Group companies.

Notes to the Accounts

at 30 September 2005

16 Investments (continued)

Details of the investments in which the Group or the Company holds more than 20% (unless indicated) of the nominal value of any class of share capital are as follows. Due to the large number of bodies falling within this criteria, only the undertakings whose results or financial position principally affect the accounts are shown, as allowed under s231 of the Companies Act.

Name of company	Country of registration (or incorporation) and operation	Holding	Proportion of voting rights and shares held	Nature of business
Subsidiary undertakings:				
Directly held by Enterprise Inns plc:				
Enterprise Inns Holding Company Limited	England	Ordinary shares	100%	Investment holding company
		Cumulative Redeemable Preference Shares	100%	
Indirectly held by Enterprise Inns plc:				
The Unique Pub Company Limited	England	Ordinary shares	100%	Investment holding company
The Unique Pub Funding Company Limited	England	Ordinary shares	100%	Investment holding company
SupplyLine Services Limited	England	Ordinary shares	100%	Supply of beverages to licensed properties
Thame Pub Management Limited	England	Ordinary shares	100%	Management of licensed properties
Unique Pub Properties Limited	England	Ordinary shares	100%	Ownership of licensed properties
The Unique Pub Finance Company Plc	England	Ordinary shares	100%	Financing acquisitions of licensed properties
		Cumulative Redeemable Preference Shares	100%	
RetailLink Management Limited	England	Ordinary shares	100%	Management of licensed properties
Voyager Pub Group Limited	England	Ordinary shares	100%	Ownership of licensed properties

Notes to the Accounts

at 30 September 2005

17 Assets held for resale

	Group		Company	
	2005	2004	**2005**	2004
	£m	£m	**£m**	£m
Fixtures and fittings and stock purchased from tenants	**7.1**	4.6	**4.9**	3.6

18 Debtors

	Group		Company	
	2005	2004	**2005**	2004
	£m	£m	**£m**	£m
Amounts falling due within one year:				
Trade debtors	**55.3**	68.9	**41.7**	35.8
Amounts owed by subsidiary undertakings	**—**	—	**174.9**	433.9
Other debtors	**0.4**	1.9	**0.2**	0.2
Prepayments and accrued income	**25.0**	13.5	**22.9**	11.9
	80.7	84.3	**239.7**	481.8
Amounts falling due after more than one year:				
Trade debtors	**0.7**	1.1	**0.5**	1.1
Other debtors	**—**	0.3	**—**	0.3
	81.4	85.7	**240.2**	483.2

19 Creditors: amounts falling due within one year

	Group		Company	
	2005	2004	**2005**	2004
	£m	£m	**£m**	£m
Bank overdraft	**—**	—	**3.5**	1.1
Loans — secured	**4.4**	4.6	**6.4**	6.6
Loans — securitised	**21.3**	22.3	**—**	—
Trade creditors	**10.2**	37.2	**10.2**	10.9
Amounts due to subsidiary undertakings	**—**	—	**757.8**	634.0
Corporation tax	**46.0**	31.8	**29.3**	21.1
Other creditors including taxation and social security	**45.2**	43.8	**37.5**	40.5
Accruals and deferred income	**161.8**	141.0	**130.9**	102.6
Proposed dividend	**42.2**	28.7	**42.2**	28.7
	331.1	309.4	**1,017.8**	845.5

Notes to the Accounts

at 30 September 2005

20 Creditors: amounts falling due after more than one year

	Group		Company	
	2005	2004	**2005**	2004
	£m	£m	**£m**	£m
Loans — secured	**257.7**	584.2	**293.5**	472.3
Loans — securitised	**1,841.5**	1,720.6	**—**	—
Debentures — secured	**1,200.3**	1,204.4	**1,180.5**	1,180.3
Accruals and deferred income	**5.0**	—	**5.0**	—
	3,304.5	3,509.2	**1,479.0**	1,652.6

21 Provisions for liabilities and charges

	Group		Company	
	2005	2004	**2005**	2004
	£m	£m	**£m**	£m
Deferred tax (note 21a)	**92.2**	67.7	**85.6**	79.8
Onerous lease (note 21b)	**7.7**	6.0	**2.9**	—
	99.9	73.7	**88.5**	79.8

a) Deferred Tax

	Group	Company
	£m	£m
At 1 October 2004	67.7	79.8
Deferred tax charge in the profit and loss account (note 10)	25.1	5.8
Deferred tax on pension liability	(0.6)	—
At 30 September 2005	**92.2**	**85.6**

The major components of the amounts provided are as follows:

	Group		Company	
	2005	2004	**2005**	2004
	£m	£m	**£m**	£m
Accelerated capital allowances	**103.6**	88.3	**85.6**	79.3
Short-term timing differences	**(11.4)**	(20.6)	**—**	0.5
Provision for deferred tax	**92.2**	67.7	**85.6**	79.8

Notes to the Accounts

at 30 September 2005

21 Provisions for liabilities and charges (continued)

The amounts of deferred tax not provided in the accounts are as follows:

	Group		Company	
	2005	2004 (re-stated)	**2005**	2004 (re-stated)
	£m	£m	**£m**	£m
Rolled over gains	**24.3**	21.8	**24.3**	21.8
Unrealised surplus on the revaluation of fixed assets	**494.2**	443.7	**320.5**	292.0
Total deferred tax not provided	**518.5**	465.5	**344.8**	313.8

No provision has been included in respect of capital gains on the disposal of properties that have already been deferred, or are expected to be deferred, through the application of capital gains rollover relief into replacement assets as no liability is expected to arise.

No deferred tax has been recognised in respect of the unrealised surplus on the revaluation of fixed assets as there was no binding commitment to sell the properties at the balance sheet date.

The 2004 restatement arises from a review of the historical tax base of the Group's properties.

b) Onerous lease provision

	Group	Company
	£m	£m
At 1 October 2004	6.0	—
Reclassification *	3.3	3.3
Charge for the year	(0.9)	(0.3)
Expenditure	(0.7)	(0.1)
At 30 September 2005	**7.7**	**2.9**

The provision is expected to be utilised over the next 6 years.

* Amounts reclassified from creditors: amounts falling due within one year.

Notes to the Accounts

at 30 September 2005

22 Pension liability

	Group £m	Company £m
Gross pension provision		
At 1 October 2004	3.8	–
Movement during the year	(3.7)	–
At 30 September 2005	**0.1**	**–**
Related deferred tax asset		
At 1 October 2004	(1.1)	–
Movement during the year	1.1	–
At 30 September 2005	**–**	**–**
Net pension liability		
At 30 September 2005	**0.1**	**–**
At 30 September 2004	2.7	–

Pension scheme

RetailLink Management Limited (a subsidiary company acquired with Unique) established a Pension Plan for its employees on 1 January 1999. The plan has defined contribution and defined benefit schemes. The plan is now closed. Further contributions of £80,000 per month in addition to the employer's regular contribution were made during the year in order to eliminate the deficiency in the scheme.

The most recent full actuarial valuation of the defined benefit section of the RetailLink Management Limited Pension Plan was at 5 April 2005. This has been updated to 30 September 2005. The valuation used the projected unit method and was carried out by William J Mercer, independent professionally qualified actuaries. The principal assumptions made by the actuaries were:

	2005 %	2004 %
Rate of increase in salaries	**n/a**	3.90
Rate of increase of pensions in payment	**3.30**	3.30
Rate of increase of pensions in deferment	**2.80**	2.90
Discount rate	**5.00**	5.50
Inflation assumption	**2.80**	2.90

Notes to the Accounts

at 30 September 2005

22 Pension liability (continued)

The assets in the scheme and the expected rate of return were:

	At 30 September 2005	At 30 September 2005 £m	At 30 September 2004	At 30 September 2004 £m
Equities	**6.00%**	**12.0**	6.50%	9.4
Bonds	**4.20%**	**4.7**	4.70%	3.1
Total market value of assets		**16.7**		12.5
Present value of liabilities		**(16.8)**		(16.3)
Deficit in the scheme		**(0.1)**		(3.8)
Related deferred tax asset		**—**		1.1
Net pension liability		**(0.1)**		(2.7)

Analysis of the amount charged to operating profit in respect of the defined benefit section of the Pension Plan

	Year ended 30 September 2005 £m	Six months ended 30 September 2004 £m
Current service cost — administrative expenses	**0.3**	0.3
Curtailment (credit)/cost — administrative expenses/exceptional administrative expenses	**(0.3)**	0.4
Total operating charge	**—**	0.7

Analysis of the amount charged to other financial costs

	Year ended 30 September 2005 £m	Six months ended 30 September 2004 £m
Expected return on pension scheme assets	**0.8**	0.4
Interest on pension liabilities	**(0.8)**	(0.4)
Net charge	**—**	—

Notes to the Accounts

at 30 September 2005

22 Pension liability (continued)

Analysis of the amount recognised in the Statement of Total Recognised Gains and Losses

	Year ended 30 September 2005 £m	Six months ended 30 September 2004 £m
Actual return less expected return on assets	1.4	(0.2)
Experience gains and losses on liabilities	1.4	—
Changes in assumptions	(1.5)	(0.5)
Actuarial gain/(loss) recognised in the Statement of Total Recognised Gains and Losses	1.3	(0.7)

Movement in deficit during the period

	Year ended 30 September 2005 £m	Six months ended 30 September 2004 £m
Deficit in scheme at start of period	(3.8)	(3.4)
Movement in period:		
Current service cost	(0.3)	(0.3)
Contributions	2.4	1.0
Curtailment credit/(cost)	0.3	(0.4)
Actuarial gain/(loss)	1.3	(0.7)
Deficit in scheme at end of period	(0.1)	(3.8)

History of experience gains and losses

	Year ended 30 September 2005 £m	Six months ended 30 September 2004 £m
Difference between expected and actual return on scheme assets:		
Amount (£m)	1.4	(0.2)
Percentage of scheme assets	8%	-2%
Experience gains and losses on scheme liabilities:		
Amount (£m)	1.4	—
Percentage of scheme liabilities	8%	0%
Total amount recognised in Statement of Total Recognised Gains and Losses:		
Amount (£m)	1.3	(0.7)
Percentage of scheme liabilities	8%	-4%

Notes to the Accounts
at 30 September 2005

23 Financial Instruments

The Group's financial instruments, other than derivatives, comprise bank loans, a debenture, secured bonds, securitised bonds and cash. The main purpose of these financial instruments is to raise finance for the Group's operations. Details of the Group's debt facilities are given on pages 60 to 65. All financial instruments are denominated in Sterling. The disclosures below exclude short-term debtors and creditors.

The Group also enters into derivatives transactions. The purpose of such transactions is to manage the interest rate risks arising from the Group's sources of finance.

It is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. There is no currency exposure as all transactions are in Sterling. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group borrows its debenture and bonds at a fixed rate. Bank debt is borrowed at, and cash balances attract interest at, a floating rate. This exposure to interest rate risk is reviewed regularly under the Group's hedging policy. At the year-end 100% of the Group's borrowings were at fixed interest rates (2004 — 100%).

The interest rate profile of financial liabilities of the Group at 30 September was as follows:

	Total financial liabilities £m	Fixed rate financial liabilities £m	Floating rate £m
2005	**3,325.2**	**3,325.2**	**—**
Sterling			
2004			
Sterling	3,536.1	3,536.1	—

	2005 £m	2004 £m
Book value of fixed rate financial liabilities	**3,325.2**	3,536.1
Weighted average period of fixed interest rate financial liabilities	**13.7 years**	13.9 years
Weighed average interest rate of fixed rate financial liabilities	**6.90%**	6.95%

The amounts stated above are shown net of issue costs, discounts and premiums and include swaps.

Liquidity risk

As regards liquidity, the Group's policy is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, bank loans, a debenture and secured bonds. At the year end 85% of the Group's borrowings were due to mature in more than five years (2004 — 79%). The maturity of the Group's debt and of the undrawn committed borrowings is set out in note 24(b) and 24(c). Maturity of the Group's funding structure is reviewed throughout the year.

All instruments were valued at market value as at 30 September 2005 by J C Rathbone, independent valuers.

Notes to the Accounts

at 30 September 2005

23 Financial Instruments (continued)

The book and fair values of financial assets and liabilities are as follows:

	2005 Book Value £m	2005 Fair Value £m	2004 Book Value £m	2004 Fair Value £m
Senior Debt and Loan Notes	(256.5)	(260.0)	(430.1)	(435.0)
Debenture — issued 3 February 1999	(59.2)	(58.1)	(59.2)	(56.3)
Secured bond — issued 9 May 2000	(124.1)	(141.3)	(124.1)	(133.2)
Secured bond — issued 15 February 2001	(123.4)	(139.2)	(123.3)	(133.6)
Secured bond — issued 26 February 2002	(272.0)	(298.2)	(271.8)	(282.0)
Secured bond — issued 3 March 2003	(601.8)	(650.4)	(601.9)	(615.1)
Securitised bond A1 — issued 30 March 1999	—	—	(158.3)	(159.4)
Securitised bond A1N — issued 25 February 2005	(124.8)	(125.0)	—	—
Securitised bond A2R — issued 20 September 2002	—	—	(271.6)	(275.1)
Securitised bond A2N — issued 25 February 2005	(261.3)	(261.8)	—	—
Securitised bond A3 — issued 30 March 1999	(460.4)	(493.4)	(460.9)	(469.9)
Securitised bond A4 — issued 20 September 2002	(536.5)	(565.9)	(360.6)	(364.2)
Securitised bond M — issued 30 March 1999	(249.7)	(267.4)	(251.5)	(255.6)
Securitised bond N — issued 20 September 2002	(197.6)	(208.8)	(198.1)	(209.7)
Cash	95.5	95.5	146.7	146.7
Bridging facility — issued 30 March 2004	—	—	(154.1)	(154.9)
Subtotal	(3,171.8)	(3,374.0)	(3,318.8)	(3,397.3)
£550m interest rate swap expiring 1 June 2012	(25.4)	(66.8)	(28.7)	(51.4)
£91m interest rate swap expiring 30 December 2012	(8.2)	(9.1)	(10.6)	(9.2)
£103m interest rate swap expiring 30 December 2012	(8.3)	(10.1)	(11.1)	(10.6)
£103m interest rate swap expiring 30 December 2012	(8.4)	(10.1)	(11.3)	(10.7)
£150m interest rate swap expiring 30 September 2013	—	—	(8.1)	(6.9)
£38m interest rate swap expiring 30 September 2010	—	—	(0.8)	(0.6)
£90m interest rate swap expiring 30 September 2013	(7.6)	(12.6)	—	—
£154.9m interest rate swap expiring 31 December 2005	—	—	—	0.3
Net Debt	(3,229.7)	(3,482.7)	(3,389.4)	(3,486.4)
Other financial liabilities *	(7.7)	(7.7)	(6.0)	(6.0)
	(3,237.4)	(3,490.4)	(3,395.4)	(3,492.4)

* Relates to onerous leases held within provisions for liabilities and charges.

During the year, the Group issued £170 million of Class A4 Asset Backed Notes due 2027. These notes are at a fixed interest rate of 5.7% and the proceeds were used to repay a short-term bridge facility put in place upon the acquisition of Unique. At the same time the Asset Backed A1 & A2R notes were refinanced to take advantage of favourable market conditions, the terms and conditions of these notes remain unchanged following the refinancing.

Notes to the Accounts

at 30 September 2005

23 Financial Instruments (continued)

The Group's other financial liabilities fall due as set out below:

	2005 £m	2004 £m
In more than five years	3.4	3.8
After two years but not more than five years	2.0	1.0
In more than one year but not more than two years	1.1	0.8
Within one year or less	1.2	0.4
	7.7	6.0

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged itself is recognised. The unrecognised loss on financial instruments used for hedging at 30 September 2005 is £50.8m (2004 — £18.5m).

The unrecognised loss is expected to be realised in the Profit and Loss Account over the lives of the relevant financial instruments. The amount expected to be realised in less than one year is £9.0m. The remaining £41.8m will be realised in a period greater than one year.

Unrecognised gains and losses and deferred gains and losses on financial instruments used for hedging are as follows:

2005	Gains £m	Losses £m	Total £m
Gains and losses unrecognised at 30 September 2005	—	(50.8)	(50.8)
Of which:			
Gains and losses expected to be recognised in the Profit and Loss Account in 2006	—	(9.0)	(9.0)

2004	Gains £m	Losses £m	Total £m
Gains and losses unrecognised at 30 September 2004	0.3	(18.8)	(18.5)
Of which:			
Gains and losses recognised in the Profit and Loss Account in 2005	0.2	(3.7)	(3.5)

Notes to the Accounts

at 30 September 2005

24 Loans

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
(a) Details of loans are as follows:				
Senior debt finance				
Revolving loan repayable in full on 31 March 2009. Interest is payable at LIBOR (plus mandatory costs) plus a margin which is capped at 2.0%. The Company is currently paying a margin of 140 basis points.	–	120.0	–	120.0
Term loan repayable by six-monthly instalments. A proportion was repaid on 15 April 2004 and 21 January 2005. The loan is repayable in full on 31 March 2009. Interest is payable at LIBOR (plus mandatory costs) plus a margin which is capped at 2.0%. The Company is currently paying a margin of 140 basis points.	**260.0**	315.0	**260.0**	315.0
	260.0	435.0	**260.0**	435.0
Senior debt issue costs	**(3.5)**	(4.9)	**(3.5)**	(4.9)
	256.5	430.1	**256.5**	430.1
Debenture and Secured Bond finance				
6% debenture repayable by 3 February 2014	**60.0**	60.0	**60.0**	60.0
Discount on the issue of secured bonds	**(0.4)**	(0.4)	**(0.4)**	(0.4)
Debenture issue costs	**(0.4)**	(0.4)	**(0.4)**	(0.4)
6.875% secured bonds repayable on 9 May 2025	**125.0**	125.0	**125.0**	125.0
Premium on the issue of secured bonds	**0.1**	0.1	**0.1**	0.1
Secured bonds issue costs	**(1.0)**	(1.0)	**(1.0)**	(1.0)
6.875% secured bonds repayable on 15 February 2021	**125.0**	125.0	**125.0**	125.0
Discount on the issue of secured bonds	**(0.7)**	(0.8)	**(0.7)**	(0.8)
Secured bonds issue costs	**(0.9)**	(0.9)	**(0.9)**	(0.9)
6.375% secured bonds repayable on 26 September 2031	**275.0**	275.0	**275.0**	275.0
Discount on the issue of secured bonds	**(0.9)**	(1.0)	**(0.9)**	(1.0)
Secured bonds issue costs	**(2.1)**	(2.2)	**(2.1)**	(2.2)
6.5% secured bonds repayable on 6 December 2018	**600.0**	600.0	**600.0**	600.0
Premium on the issue of secured bonds	**5.8**	6.2	**5.8**	6.2
Secured bonds issue costs	**(4.0)**	(4.3)	**(4.0)**	(4.3)
Securitised Bond finance				
A1 – LIBOR + 0.75% secured bonds repayable on 30 September 2010	–	159.4	–	–
Fair value balance on the bonds	–	0.7	–	–
Discount on the issue of secured bonds	–	(0.3)	–	–
Secured bonds issue costs	–	(1.5)	–	–
A1N – LIBOR + 0.38% secured bonds repayable on 30 September 2010	**125.0**	–	–	–
Secured bonds issue costs	**(0.2)**	–	–	–

24 Loans (continued)

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
A2R – LIBOR + 0.48% secured bonds repayable on 30 September 2013	–	275.1	–	–
Fair value balance on the bonds	–	(0.3)	–	–
Secured bonds issue costs	–	(3.2)	–	–
A2N – LIBOR + 0.16% secured bonds repayable on 30 September 2013	**261.8**	–	–	–
Secured bonds issue costs	**(0.5)**	–	–	–
A3 – 6.542% secured bonds repayable on 30 June 2027	**435.0**	435.0	–	–
Fair value balance on the bonds	**35.3**	38.2	–	–
Secured bonds issue costs	**(9.9)**	(12.3)	–	–
A4 – 5.659% secured bonds repayable on 30 June 2027	**535.0**	365.0	–	–
Fair value balance on the bonds	**0.3**	0.4	–	–
Premium on the issue of secured bonds	**7.2**	–	–	–
Secured bonds issue costs	**(6.0)**	(4.8)	–	–
M – 7.395% secured bonds repayable on 30 March 2024	**225.0**	225.0	–	–
Fair value balance on the bonds	**31.7**	33.7	–	–
Secured bonds issue costs	**(7.0)**	(7.2)	–	–
N – 6.464% secured bonds repayable on 30 March 2032	**190.0**	190.0	–	–
Fair value balance on the bonds	**10.3**	10.7	–	–
Secured bonds issue costs	**(2.7)**	(2.6)	–	–
Bank and Bridging finance				
Bridging facility repayable 31 December 2005	–	154.9	–	–
Issue costs	–	(0.8)	–	–
Overdraft	–	–	**3.5**	1.1
Total loans before interest rate swaps	**3,267.3**	3,465.5	**1,440.5**	1,611.5
Interest rate swaps				
£550m interest rate swap expiring on 1 June 2012, coupon 6.66% until 1 June 2012	**25.4**	28.7	**43.4**	48.8
£91m interest rate swap expiring 30 December 2012, coupon 7.934%	**8.2**	10.6	–	–
£103m interest rate swap expiring 30 December 2012, coupon 7.873%	**8.3**	11.1	–	–
£103m interest rate swap expiring 30 December 2012, coupon 7.873%	**8.4**	11.3	–	–
£150m interest rate swap expiring 30 September 2013, coupon 5.885%	–	8.1	–	–
£38m interest rate swap expiring 30 September 2010, coupon 5.660%	–	0.8	–	–
£90m interest rate swap expiring 30 September 2013, coupon 6.079%	**7.6**	–	–	–
	3,325.2	3,536.1	**1,483.9**	1,660.3

Notes to the Accounts

at 30 September 2005

24 Loans (continued)

Security

Senior debt finance is secured by a security deed dated 23 May 2002 entered into by substantially all the companies which comprise the Group, excluding Enterprise Inns Holding Company Limited and its subsidiaries, giving the lenders a floating charge over all of the assets and undertakings of such Group companies (whatsoever and wheresoever both present and future). The floating charge ranks subsequent to the fixed charges created by the debenture and the secured bonds. The value of fixed assets secured by way of a fixed or floating charge as at 30 September 2005 was £5,217.2m (2004 — £4,931.8m).

Debenture and secured bond finance in the Company is secured pursuant to Trust Deeds entered into by Enterprise Inns plc.

- The debenture issued on 3 February 1999 is secured by fixed charges over 213 properties created in a trust deed dated 3 February 1999.
- The secured bonds issued on 9 May 2000 are secured by fixed charges over 405 properties created in a trust deed dated 9 May 2000.
- The secured bonds issued on 15 February 2001 are secured by fixed charges over 361 properties created in a trust deed dated 15 February 2001.
- The secured bonds issued on 26 February 2002 are secured by fixed charges over 639 properties created in a trust deed dated 26 February 2002.
- The secured bonds issued on 3 March 2003 are secured by fixed charges over 1,360 properties created in a trust deed dated 3 March 2003.

Securitised bond finance is secured pursuant to the Issuer Deed of Charge dated 25 February 2005 entered into by the Unique Pub Finance Company Plc (Issuer), Unique Pub Properties Limited (and Enterprise Inns plc (as Cash Manager).

This security incorporates a first fixed charge in favour of the Trustee (for itself and on trust for the Noteholders and the other Issuer Secured Creditors) over Unique Pub Finance Company Plc's right, title, interest and benefit, present and future to all properties, cash, eligible investments and income generated by Unique Pub Properties Limited.

24 Loans (continued)

(b) Amounts (including overdrafts) fall due as follows:

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
In more than five years	**2,824.8**	2,781.6	**1,191.0**	1,197.0
In more than two years but not more than five years	**391.5**	492.9	**217.6**	394.5
In more than one year but not more than two years	**83.2**	234.7	**65.4**	61.1
In one year or less, or on demand (including overdraft)	**25.7**	26.9	**9.9**	7.7
Total	**3,325.2**	3,536.1	**1,483.9**	1,660.3

(c) Details of undrawn committed borrowing facilities available at 30 September are as follows:

Group and Company	2005 £m	2004 £m
Expiring in more than five years	**190.0***	190.0
Expiring after two years but not more than five years	**230.0†**	110.0
Expiring in more than one year but not more than two years	—	4.2
Expiring in one year or less	—	10.9
	420.0	315.1

* Represents a renewable committed liquidity facility in respect of the Unique securitisation.

† Represents the undrawn element of the syndicated bank facility.

Derivatives — other financial instruments

The Group's principal financial instruments, other than derivatives, comprise bank loans, a debenture, secured bonds and securitised bonds. The Group has entered into derivative transactions to manage the interest rate risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

(d) Interest rate hedging arrangements:

The Group is party to five swap agreements:

A swap of £550 million fixed at 6.66% until 1 June 2012.
A swap currently of £91 million fixed at 7.934% until 30 December 2012.
A swap currently of £103 million fixed at 7.873% until 30 December 2012.
A swap currently of £103 million fixed at 7.873% until 30 December 2012.
A swap currently of £90 million fixed at 6.079% until 30 September 2013.

Notes to the Accounts

at 30 September 2005

25 Share capital

Authorised:	2005 No.	2005 £m	2004 No.	2004 £m
Ordinary Shares of 5p each	**500,000,000**	**25.0**	500,000,000	25.0

Allotted, called up and fully paid:	2005 No.	2005 £m	2004 No.	2004 £m
Ordinary Shares of 5p each	**349,505,390**	**17.5**	349,505,390	17.5

At 30 September 2005, the Group owned 9,248,445 of its own shares with a nominal value of £0.5m and a market value of £77.9m (2004 — 6,332,846 shares, nominal value £0.3m, market value £36.1m). These shares are held by the Employee Benefit Trust and Enterprise Inns Quest Trustees Limited and are for use in satisfying awards made under the Enterprise Inns Incentive Plans and other share option schemes.

The Company has two share option schemes under which options to subscribe for the Company's shares have been granted to certain directors and employees. At 30 September 2005 the following options were outstanding:

	Number of shares	Exercise Date	Subscription price (£)
Executive Share Option Scheme	6,856	Between 26/11/99 and 26/11/06	0.88
Executive Share Option Scheme	6,374	Between 18/12/00 and 18/12/07	0.96
Executive Share Option Scheme	7,648	Between 17/12/01 and 17/12/08	1.40
Executive Share Option Scheme	23,924	Between 14/12/02 and 14/12/09	1.63
Executive Share Option Scheme	85,922	Between 18/12/03 and 18/12/10	1.70
Executive Share Option Scheme	322,603	Between 11/12/04 and 11/12/11	2.58
Executive Share Option Scheme	1,700,000	Between 16/12/05 and 16/12/12	2.81
Executive Share Option Scheme	999,000	Between 08/12/06 and 08/12/13	4.90
Executive Share Option Scheme	843,500	Between 07/12/07 and 07/12/14	7.02
Executive Share Option Scheme	340,000	Between 18/05/08 and 18/05/15	7.57
Savings Related Share Option Scheme	18,732	Between 01/02/06 and 01/08/06	1.02
Savings Related Share Option Scheme	31,308	Between 01/02/07 and 01/08/07	1.41
Savings Related Share Option Scheme	189,994	Between 01/02/06 and 01/08/08	1.25
Savings Related Share Option Scheme	111,024	Between 01/02/07 and 01/08/09	2.10
Savings Related Share Option Scheme	281,892	Between 01/02/08 and 01/08/10	2.32
Savings Related Share Option Scheme	147,985	Between 01/02/09 and 01/08/11	3.73
Savings Related Share Option Scheme	134,201	Between 01/02/10 and 01/08/12	5.45

The SAYE scheme is Inland Revenue approved and the Company has taken advantage of the exemption from applying UITF38 to this scheme.

Directors' contingent rights to shares are shown in the Directors' Remuneration Report on pages 27 to 35.

Notes to the Accounts

at 30 September 2005

26 Reserves

Group	Share premium account £m	Re-valuation reserve £m	Capital redemption reserve £m	Merger reserve £m	Other reserve* £m	Profit and loss account £m
At 1 October 2004	485.5	541.8	7.6	77.0	(28.1)	252.3
Transfer of realised revaluation surplus	—	0.2	—	—	—	(0.2)
Retained profit for the year	—	—	—	—	—	150.4
Surplus on revaluation of estate	—	268.0	—	—	—	—
Purchase of shares to be held in trust	—	—	—	—	(37.6)	—
Share-based expense recognised in operating profit	—	—	—	—	—	2.3
Directors' entitlements exercised in the year	—	—	—	—	3.3	(3.3)
Employee entitlements exercised in the year	—	—	—	—	6.8	(3.5)
Actuarial gain recognised in the defined benefit pension scheme of subsidiary, net of deferred tax	—	—	—	—	—	0.9
At 30 September 2005	**485.5**	**810.0**	**7.6**	**77.0**	**(55.6)**	**398.9**

* Other reserve comprises own shares held by employee share trusts.

The cumulative amount of goodwill written off to reserves at 30 September is as follows:

	2005 £m	2004 £m
Positive goodwill	**9.8**	9.8
Negative goodwill	**(7.4)**	(7.4)
	2.4	2.4

Company	Share premium account £m	Re-valuation reserve £m	Capital redemption reserve £m	Other reserve* £m	Profit and loss account £m
At 1 October 2004	485.5	483.4	7.6	(28.1)	208.3
Transfer of realised revaluation surplus	—	(2.2)	—	—	2.2
Retained profit for the year	—	—	—	—	110.8
Surplus on revaluation of estate	—	140.1	—	—	—
Purchase of shares to be held in trust	—	—	—	(37.6)	—
Share-based expense recognised in operating profit	—	—	—	—	2.3
Directors' entitlements exercised in the year	—	—	—	3.3	(3.3)
Employee entitlements exercised in the year	—	—	—	6.8	(3.5)
At 30 September 2005	**485.5**	**621.3**	**7.6**	**(55.6)**	**316.8**

* Other reserve comprises own shares held by employee share trusts.

Notes to the Accounts

at 30 September 2005

27 Reconciliation of shareholders' funds

	2005 £m	2004 £m
Total recognised gains and losses	**480.7**	284.9
Dividends	**(61.4)**	(41.2)
	419.3	243.7
New share capital subscribed	—	0.5
Premium on issue of shares	—	50.7
Consideration paid for purchase of own shares	**(37.6)**	(24.3)
Proceeds received from exercise of employee share options	**3.3**	—
Share-based expense recognised in operating profit	**2.3**	1.6
Net addition to shareholders' funds	**387.3**	272.2
Opening shareholders funds	**1,353.6**	1,081.4
Closing shareholders' funds	**1,740.9**	1,353.6

28 Notes to the statement of cash flows

Analysis of net debt	At 1 October 2004 £m	Cash flow £m	Other non-cash movements £m	At 30 September 2005 £m
Cash at bank and in hand	146.7	(51.2)	—	**95.5**
Cash	146.7	(51.2)	—	**95.5**
Short-term loans	(26.9)	—	1.2	**(25.7)**
Long-term loans	(3,509.2)	202.1	7.6	**(3,299.5)**
	(3,389.4)	150.9	8.8	**(3,229.7)**

29 Capital commitments

Amounts contracted for but not provided in the accounts amounted to £9.0m (2004 — £12.8m) for the Group and £5.0m (2004 — £7.6m) for the Company.

30 Other financial commitments

At 30 September 2005 the Group and Company had annual commitments under non-cancellable operating leases as set out below:

	Land and Buildings			
	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Operating leases which expire:				
within one year	**0.1**	0.1	—	—
within two to five years	**0.5**	0.6	**0.4**	0.5
in over five years	**4.6**	4.6	**3.8**	4.1
	5.2	5.3	**4.2**	4.6

Report of the Auditors

We have audited the Group's financial statements for the year ended 30 September 2005 which comprise Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Note of Historical Cost Profits and Losses, Group Balance Sheet, Balance Sheet, Group Statement of Cash Flows, and the related notes 1 to 30. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements. The directors are also responsible for preparing the Directors' Remuneration Report.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Financial Highlights, Directors and Advisers, Chairman's Statement, Chief Executive's Review, Finance Directors' Report, Directors' Report, Corporate Responsibility Report, Corporate Governance Statement, the unaudited part of the Directors' Remuneration Report, Five Year Record and Notice of Meeting. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Report of the Auditors

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 September 2005 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
Birmingham
22 November 2005

Five Year Record

Group Profit and Loss Accounts
Year ended 30 September

	2005	2004	2003	2002	2001
	£m	£m	£m	£m	£m
Turnover	**919.9**	712.7	480.6	368.9	245.4
Operating Profit	**520.2**	368.9	254.2	178.7	84.8
Profit on ordinary activities before tax	**303.9**	213.2	173.1	92.3	40.7
Profit after tax	**211.8**	147.5	124.5	64.1	26.3
Profit retained for the period	**150.4**	106.3	95.5	43.6	15.2
Adjusted earnings per share (pence)*	**63.2**	47.5	36.1	29.5	19.8

* Excludes exceptional items, goodwill amortisation and a one-off tax credit which occurred in 2003.

Group Balance Sheets

Fixed assets	**5,292.5**	5,011.6	2,692.4	2,386.8	1,323.3
Current assets	**184.0**	237.0	47.7	59.9	62.4
Creditors due within one year	**(331.1)**	(309.4)	(306.4)	(223.6)	(137.2)
Total assets less current liabilities	**5,145.4**	4,939.2	2,433.7	2,223.1	1,248.5
Creditors due after more than one year*	**(3,404.5)**	(3,585.6)	(1,352.3)	(1,531.0)	(926.0)
Net assets	**1,740.9**	1,353.6	1,081.4	692.1	322.5

* Includes provisions for liabilities and charges and pension liability.

Analysis of Ordinary Shareholders

Range	Number of shareholders	%	Shares held	%
1-1000	812	32.2	389,636	0.1
1001-10,000	975	38.7	3,357,625	1.0
10,001-50,000	323	12.8	7,625,299	2.2
50,001-100,000	101	4.0	7,166,820	2.1
100,001- 150,000	64	2.6	7,938,122	2.2
150,001-500,000	127	5.0	36,301,051	10.4
500,001-1,000,000	49	2.0	35,738,812	10.2
1,000,001-5,000,000	52	2.1	101,751,715	29.1
5,000,001 and over	16	0.6	149,236,310	42.7
	2,519	**100.0**	**349,505,390**	**100.0**

Financial Calendar

	2005
Preliminary announcement of annual results to 30 September 2005	22 November
Final dividend — ordinary shares: ex dividend date	28 December
Final dividend — ordinary shares: record date	30 December

	2006
Annual General Meeting	19 January
Final dividend — ordinary shares: payment date	23 January
IFRS announcement — opening IFRS balance sheet and 2005 restated results	April
Announcement of interim results	May
Interim dividend — ordinary shares: record date	June
Interim dividend — ordinary shares: payment date	July
Preliminary announcement of annual results to 30 September 2006	November

Shareholder Information

Shareholder Enquiries

Our registrars, Computershare Investor Services PLC, operate a dedicated telephone enquiry line for shareholders who have routine enquiries. The telephone number is 0870 703 6297.

Electronic Communications

The registrars also provide an online service that enables shareholders to access details of their Enterprise Inns shareholdings and to register to receive communications such as reports and accounts electronically. Details can be found at www-uk.computershare.com/investor.

Dividend Payments

Dividends can be paid direct to UK bank or building society accounts using the BACS system so that your dividend can be paid into your account on the same day the Company makes payment. A tax voucher will still be provided and sent to shareholders by post. Shareholders who wish to arrange direct payment using this method should telephone the registrars on 0870 703 6297.

Notice of Meeting

The 2006 Annual General Meeting of Enterprise Inns plc (the "Company") will be held at the offices of the Company, 3 Monkspath Hall Road, Solihull, West Midlands, B90 4SJ at 11.00 a.m. on 19 January 2006 for the following purposes:

ORDINARY RESOLUTIONS

To consider and, if thought fit, to pass the following resolutions which will be proposed as ordinary resolutions:

1. To receive the directors' report and the audited accounts for the year ended 30 September 2005 and the auditors' report on the accounts.
2. To declare a final dividend.
3. To reappoint Mr H V Reid as a director.
4. To reappoint Mr G W Harrison as a director.
5. To reappoint Ernst & Young LLP as auditors and to authorise the directors to fix the remuneration of the auditors.
6. To approve the directors' remuneration report for the year ended 30 September 2005.
7. THAT the directors be and are generally and unconditionally authorised (in substitution for all subsisting authorities to the extent unused) pursuant to and in accordance with section 80 of the Companies Act 1985 to allot relevant securities (as defined in that section) up to an aggregate nominal value of £5,764,488. This authority shall expire, unless previously renewed, revoked or varied by the Company in general meeting, 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the Annual General Meeting of the Company in 2007, except that the Company may at any time before the expiry of this authority make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred by this resolution had not expired.

SPECIAL RESOLUTIONS

To consider and, if thought fit, to pass the following resolutions which will be proposed as special resolutions:

8. THAT, subject to the passing of resolution 7, the directors be and are empowered pursuant to section 95 of the Companies Act 1985 to allot equity securities (as defined in section 94(2) of that Act) for cash pursuant to the general authority conferred on them by resolution 7 and/or to sell equity securities held as treasury shares for cash pursuant to section 162D of that Act, in each case as if section 89(1) of that Act did not apply to any such allotment or sale, provided that this power shall be limited to:
   (a) any such allotment and/or sale of equity securities in connection with an issue or offer by way of rights or other pre-emptive issue or offer, open for acceptance for a period fixed by the directors, to holders of ordinary shares (other than the Company) on the register on any record date fixed by the directors in proportion (as nearly as may be) to the respective number of ordinary shares deemed to be held by them, subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements, legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange or any other matter whatsoever; and
   (b) any such allotment and/or sale, otherwise than pursuant to sub-paragraph (a) above, of equity securities for cash having, in the case of relevant shares (as defined in section 94(5) of that Act), an aggregate nominal value, or, in the case of other equity securities, giving the right to subscribe for or convert into relevant shares having an aggregate nominal value, not exceeding in aggregate the sum of £873,763.

   This authority shall expire, unless previously renewed, revoked or varied by the Company in general meeting, at such time as the general

Notice of Meeting

authority conferred on the directors by resolution 7 expires, except that the Company may at any time before such expiry make any offer or agreement which would or might require equity securities to be allotted or equity securities held as treasury shares to be sold after such expiry and the directors may allot equity securities and/or sell equity securities held as treasury shares in pursuance of such an offer or agreement as if the power conferred by this resolution had not expired.

9. THAT the Company be and is generally and unconditionally authorised to make market purchases (as defined in section 163(3) of the Companies Act 1985) of its ordinary shares of 5 pence each provided that:
   (a) the maximum number of ordinary shares of 5 pence each which may be acquired is 51,850,998;
   (b) the minimum price per share which may be paid for any such share (excluding expenses) is 5 pence; and
   (c) the maximum price per share which may be paid for any such ordinary share of 5 pence (excluding expenses) is an amount equal to 105 per cent of the average of the middle-market quotations for an ordinary share according to the Daily Official List of London Stock Exchange plc for the five business days immediately preceding the day on which the contract to purchase is made.

   This authority shall expire, unless previously renewed, revoked or varied by the Company in general meeting, 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the Annual General Meeting of the Company in 2007, except that the Company may, at any time before the expiry of this authority, enter into a contract to purchase ordinary shares which would or might be executed wholly or partly after such expiry and purchase ordinary shares in accordance with such contract as if the authority conferred by this resolution had not expired.

10. THAT the articles of association a copy of which is produced to the meeting and signed by the chairman, for the purposes of identification, be adopted as the articles of association of the Company in substitution for and to the exclusion of the existing articles of association of the Company.

The directors believe that the proposals in resolutions 1 to 10 are in the best interests of shareholders as a whole and they unanimously recommend that you vote in favour of all the resolutions.

On behalf of the Board

D C George
Company Secretary
22 November 2005

Registered office:
3 Monkspath Hall Road
Solihull
West Midlands, B90 4SJ
Registered in
England and Wales
No. 2562808

Notes

1. A shareholder of the Company who is entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy does not need to be a shareholder of the Company.

2. A form of proxy for use in connection with the Annual General Meeting is enclosed with the document of which this notice forms part. If you do not have a form of proxy and believe that you should, please contact the Company's registrars, Computershare Investor Services PLC, on 0870 703 6297 or at Computershare Investor Services PLC, P.O. Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH. Completion and return of a form of proxy will not preclude a shareholder from attending and voting at the Annual General Meeting.

Notice of Meeting

3. To appoint a proxy or proxies shareholders must complete: (a) a form of proxy, sign it and return it, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such authority, to the Company's registrars, Computershare Investor Services PLC, PO Box 1075, The Pavilions, Bridgwater Road, Bristol, BS99 3FA; or (b) a CREST Proxy Instruction (as set out in paragraph 4 below); or (c) an online proxy appointment at www.computershare.com/uk/voting/etp (you will need your unique PIN and Shareholder Reference Number printed on your personalised Form of Proxy), in each case so that it is received no later than 11.00 a.m. on 17 January 2006.

4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting and any adjournment(s) of the meeting by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members and those CREST members who have appointed any voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID 3RA50) by the latest time(s) for receipt of proxy appointments set out in paragraph 3 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

   CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed any voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as is necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

   The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

5. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered on the Company's share register no later than 6.00 p.m. on 17 January 2006 shall be entitled to attend the Annual General Meeting and vote in respect of the number of shares registered in their names at that time. Changes to entries on the share register after 6.00 p.m. on 17 January 2006 shall be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting.

Notice of Meeting

6. Copies of the directors' service contracts, the directors' remuneration report, the biographical information of the directors seeking reappointment and the register of directors' interests are available for inspection at the Company's registered office during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) until the end of the Annual General Meeting and will also be available for inspection at the place of the Annual General Meeting for at least 15 minutes before and during the Annual General Meeting.
7. Copies of the Company's existing articles of association and the articles of association proposed to be adopted pursuant to resolution 10 are available for inspection at the Company's registered office and will also be available for inspection at the offices of CMS Cameron McKenna LLP, Mitre House, 160 Aldersgate Street, London EC1A 4DD, in each case during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) until the end of the Annual General Meeting.
8. If you have sold or otherwise transferred all your ordinary shares in Enterprise Inns plc, you should immediately send this document, together with the accompanying form of proxy, to the purchaser or transferee or to the stockbroker, bank or other person through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Explanatory notes to the Notice of Annual General Meeting

The notice of the Annual General Meeting of the Company to be held on Thursday, 19 January 2006 is set out on pages 74 to 77 of this document. The following notes provide an explanation as to why the resolutions set out in the notice are to be put to shareholders.

Resolutions 1 to 7 are ordinary resolutions. These resolutions will be passed if more than 50% of the votes cast for or against are in favour.

Resolution 1 – Laying of Accounts

The Companies Act 1985 (the "Act") requires that, for each financial year, the directors lay the Company's annual accounts, the directors' report, the directors' remuneration report and the auditors' report on the annual accounts and the auditable part of the directors' remuneration report before a general meeting.

Resolution 2 – Declaration of a Final Dividend

An interim dividend of 5.6 pence (net) has already been paid in respect of the 2004/2005 financial year. The directors are recommending a final dividend of 12.4 pence (net) per ordinary share of 5 pence, payable on 23 January 2006 to holders on the register as at 6.00 p.m. on 30 December 2005. The final dividend will not be paid without shareholder approval.

Resolutions 3 and 4 – Reappointment of Mr H V Reid and Mr G W Harrison

The Company's articles of association (the "Articles") require that any director who was not appointed or reappointed at either of the last two annual general meetings before this meeting must retire, although they may offer themselves for reappointment. Accordingly, Mr H V Reid and Mr G W Harrison are retiring and seeking reappointment. Biographical information for Mr H V Reid and Mr G W Harrison and details of why the Board believes they should be re-elected are included in the directors' report in the annual report and accounts.

Resolution 5 – Auditors

The Act requires that auditors be appointed at each general meeting at which accounts are laid, to hold office until the next such meeting. The resolution also seeks authority for the directors to determine the amount of the auditors' fees. The Audit Committee keeps under review the independence and objectivity of the external auditors, further information on which can be found in the annual report and accounts. After considering relevant information the Audit Committee recommended to the Board of directors the reappointment of Ernst & Young LLP.

Resolution 6 – Remuneration Report

The Act requires the Company to seek shareholder approval for the directors' remuneration report at the general meeting before which the Company's annual accounts are laid. The directors' remuneration report is included in the annual report and accounts. If shareholders vote against the report the directors will still be paid but the Remuneration Committee will reconsider its policy.

Resolution 7 – Authority to the directors to allot shares

Under the Act the directors may only allot shares if authorised to do so. If passed, this resolution will authorise the directors to allot and issue new shares up to an aggregate nominal value of £5,764,488 (up to 115,289.779 new ordinary shares of 5 pence each), which is equal to approximately one-third (33.33%) of the issued share capital of the Company (excluding treasury shares) as at 7 December 2005, being the latest practicable date prior to the publication of the notice. At the date of this notice the Company held no treasury shares. As at 7 December 2005, being the latest practicable date prior to the publication of the notice, the Company had 349,505,390 shares in issue and held 3,601,462 treasury shares, which is equal to approximately 1.04% of the issued share capital of the Company (excluding treasury shares) as at that date. The authority will expire 15 months after the date of passing of the resolution or, if earlier, at the conclusion of the Annual General Meeting of the Company in 2007.

Passing this resolution will continue the directors' flexibility to act in the best interests of shareholders, when opportunities arise, by issuing new shares. The directors currently have no intention of issuing new shares.

Explanatory notes to the Notice of Annual General Meeting

Resolutions 8, 9 and 10 are special resolutions. These resolutions will be passed if not less than 75% of the votes cast for and against are in favour.

Resolution 8 – Disapplication of statutory pre-emption rights

If the Company issues new shares for cash it must first offer them to existing shareholders in proportion to their current holdings, in compliance with their statutory pre-emption rights. If passed, this resolution will authorise the directors to modify these rights to deal with legal, regulatory or practical problems that may arise on a rights or other pre-emptive offer or issue.

The resolution also seeks shareholder authority to issue a limited number of shares for cash and/or sell treasury shares without offering them to shareholders first. The authority is for an aggregate nominal amount of up to 5% of the aggregate nominal value of the issued share capital of the Company as at 7 December 2005, being the latest practicable date prior to the publication of the notice (up to 17,475,269 new ordinary shares of 5 pence each). The authority will expire at the same time as the authority to allot shares given pursuant to resolution 7.

The directors consider this authority necessary in order to give them flexibility to deal with opportunities as they arise, subject to the restrictions contained in this resolution.

Resolution 9 – Purchase of own shares by the Company

If passed this resolution will grant the Company authority for a period of up to 15 months after the date of passing of the resolution to buy its own shares in the market. The resolution limits the number of shares that may be purchased to 14.99% of the Company's issued share capital (excluding treasury shares) as at 7 December 2005, being the latest practicable date prior to the publication of the notice. The minimum price payable per share (excluding expenses) is 5 pence and the maximum price payable per share (excluding expenses) is an amount equal to 105% of the average of the middle-market quotations for an ordinary share according to the Daily Official List of London Stock Exchange plc for the five business days immediately preceding the day on which the contract for purchase is made. This authority will only be exercised if market conditions make it advantageous to do so.

On 22 November 2005 (the date of the notice) the Company announced its intention to commence a rolling share buy-back programme. The directors intend to use the authority granted pursuant to this resolution in pursuance of the share buy-back programme. Further details of the share buy-back programme are set out in the Chairman's Statement in the annual report and accounts.

The directors' present intention is that shares purchased pursuant to this authority (to the extent statutory requirements are met and provided they do not exceed 10% of the Company's issued share capital) will be held in treasury for future cancellation, sale for cash, or (provided Listing Rule requirements are met) transfer to an employee share plan, although they may be cancelled immediately on repurchase in the light of circumstances at the time. The effect of any cancellation would be to reduce the number of shares in issue. For most purposes, while held in treasury shares are treated as if they have been cancelled (for example, they carry no voting rights and do not rank for dividends). The directors will only make purchases under this authority after considering the effect on earnings per share and the benefits for shareholders generally.

As at 7 December 2005, being the latest practicable date prior to the publication of the notice, options were outstanding over 5,226,740 ordinary shares of 5 pence each in the Company representing approximately 1.51% of the issued share capital of the Company at that date. If the proposed market purchase authority were used in full, shares over which options were outstanding would, as at 7 December 2005, being the latest practicable date prior to the publication of the notice, represent approximately 1.78% of the Company's adjusted issued share capital (excluding treasury shares) at that date.

Resolution 10 – Adoption by the Company of the new articles of association

To ensure that the Company's constitutional documents

Explanatory notes to the Notice of Annual General Meeting

comply with recent developments in company law and best practice and that the references in them remain current, the directors consider it necessary to update the Company's articles of association. The existing articles of association were adopted on 22 January 2004 and have not been amended since that date.

The principal changes proposed to the Company's articles of association are to the provisions relating to the indemnification of directors and other officers (but without substantively affecting the existing position in relation to its auditors) following recent amendments to the Companies Act 1985.

If approved, the proposed changes would allow the Company to indemnify the directors (or any director of an associated company) in respect of proceedings brought by third parties, covering both legal costs and the financial costs of any adverse judgment. This would not include the legal costs of the unsuccessful defence of criminal proceedings, fines imposed in criminal proceedings or penalties imposed by regulatory bodies such as the Financial Services Authority. The Company would also be permitted to pay the director's defence costs as they are incurred, even if the action is brought by the Company itself. If the director's defence is unsuccessful, the director will still be liable to pay any damages awarded and to repay defence costs (except where the proceedings have been brought by a third party and the Company chooses to indemnify the director). Indemnities granted to the auditors would be subject to the same restrictions as at present. There would be no restrictions on any indemnity granted to other officers of the Company other than its directors (or the directors of an associated company.

The proposed changes also amend and update the provisions dealing with treasury shares to clarify them in line with best practice.

A copy of the proposed Articles of Association incorporating these changes is available for inspection as stated in note 7 to the Notice of Meeting on page 77 of this document.

Farmers Arms

FARMERS ARMS, HESKIN, CHORLEY
Morning Advertiser Best Village Pub – WINNER

Three generations of Malcolm Rothwell's family have been involved at the Farmers Arms over a period of 17 years, offering fine food, a wide selection of beers and eight letting bedrooms. Their track record was recognised when they won the overall Village Pub category in the Morning Advertiser's Best Pub Awards 2005.

Station Inn

STATION INN, DERBY
Morning Advertiser Responsible Retailing Awards – FINALIST

David Lalor, short-listed for the 2005 Morning Advertiser Responsible Drinking Retailing Award for his work and initiatives within Derby's pub industry, has been lessee at the Station Inn for the last 20 years. His nomination by the Derby Crime Reduction Partnership, Pubwatch and CAMRA recognised his responsible and proactive approach to licensed trade, both within his pub and throughout the local community.

Winford Arms

WINFORD ARMS, BRISTOL
Bristol Pub of the Year – WINNER

Licensee Steve Gunter's pub was selected from venues in and around Bristol as the locals' favourite. The pub, winner of the Bristol Evening Post Pub of the Year Award for 2005, was chosen as it demonstrates all of the elements that are great about a pub; "traditional hearty food, top drinks, comfort, friendliness and value for money".

College Arms

COLLEGE ARMS, LOWER QUINTON
National Chef of the Year – WINNER

Steve Love, joint licensee and Chef Patron of the College Arms, reopened the 500-year old Lower Quinton pub recently with wife and partner Claire, following a substantial refurbishment. Steve, a former Roux scholar, was named as the Craft Guild of Chefs National Chef of the Year 2004 – 2006.

Vine Tree

VINE TREE, MONMOUTH
Morning Advertiser Social Responsibility Award – WINNER

Berni Miles, licensee at the Vine Tree and Monmouthshire Pubwatch chairman, collected the Morning Advertiser's PubWatch Award for Social Responsibility at the 2005 Best Pub Awards, as well as winning Most Responsible Tenant or Licensee at the recent Responsible Drink Retailing Industry Awards. Both awards were made in recognition of his group's tough stance and zero-tolerance approach to responsible drinks retailing.

Back cover pictures (left to right)

Mumbai Bluu, Leamington Spa
Horse and Jockey, Goole
Fleur de Lys, St. Albans

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