



Annual Report and Accounts 2007

Contents

Financial Highlights	1
Chairman's Statement	2
Chief Executive's Review (incorporating the business review)	3
Corporate Responsibility	8
Directors and Advisers	13
Directors' Report	15
Corporate Governance	22
Directors' Remuneration Report	30
Group Income Statement	40
Group Statement of Recognised Income and Expense	41
Group Balance Sheet	42
Group Cash Flow Statement	43
Notes to the Group Accounts	44
Group Audit Report	79
Five Year Record	81
Enterprise Inns plc Company Accounts	83
Statement of Recognised Income and Expense	84
Company Balance Sheet	85
Cash Flow Statement	86
Notes to the Company Accounts	87
Company Directors' Responsibilities	111
Company Audit Report	112
Analysis of Shareholders	114
Financial Calendar	114
Shareholder Information	115
Notice of Annual General Meeting	116
Explanatory notes to the Notice of AGM	120

More award-winning Enterprise licensees were recognised during the year for the quality of their businesses and their outstanding entrepreneurial skills:



STANSFIELD ARMS, APPERLEY BRIDGE
WINNER – Tenanted and Leased Pub of the Year
 Morning Advertiser Awards 2007

Following on from their success in 2006, when they won Village Pub of the Year with Enterprise pub the Old White Beare in Norwood Green, twins Nick and Chris Green won the ultimate accolade at the 424-year-old Stansfield Arms, where sales have grown by 85% in 2½ years.

Pictures

(front cover left to right)	(back cover left to right)
Brickmakers, Norwich	Castle Inn, Caldicot
Cubanas, Barry	Brook House, Hayes
Church House, Bollington	Thorverton Arms, Thorverton

The Enterprise Inns Board



Left to right: Hubert Reid, Chairman
 David George, Chief Financial Officer
 Susan Murray, Non-executive director
 Ted Tuppen, Chief Executive
 David Harding, Non-executive director
 Simon Townsend, Chief Operating Officer
 Jo Stewart, Non-executive director



BROOK HOUSE, HAYES
WINNER – Fundraising Pub of the Year
 Morning Advertiser Awards 2007

The fundraising skills of licensee Gary Gilchrist and the generosity of regulars at the Brook House raised a staggering £27,500 in a single day last year, reinforcing the Brook House's place at the heart of its local community.

Financial Highlights

	2007	2006	Increase
Pro-forma EBITDA*§	£526m	£507m	3.7%
EBITDA	£528m	£547m	
Profit before tax and exceptional items	£301m	£315m	
Earnings per share	53.4p	50.5p‡	5.7%
Adjusted earnings per share†	39.6p	34.2p‡	15.8%
Dividends	15.6p	13.5p‡	15.6%

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

§ Adjusted for the effects of the disposal of 769 pubs to Admiral Taverns in September 2006 and of the Scottish estate of 137 pubs in December 2006. See note 4.

† Excludes exceptional items.

‡ Restated for the sub-division of shares from 5 pence to 2.5 pence per share on 17 January 2007.

- At 30 September 2007 the estate comprised 7,763 pubs valued at £5.7 billion.
- The quality of the pub estate has been improved through the acquisition and disposal of pubs and capital expenditure of £75 million.
- Average EBITDA per pub has increased by 6.2% to £68,200.
- 102.9 million shares were repurchased during the year for consideration of £658 million (excluding costs).

Chairman's Statement

I am delighted to report on our results for the year to 30 September 2007 during which pro-forma EBITDA, which excludes the impact of batch disposals, increased by 3.7% to £526 million. Profit before tax and exceptional items of £301 million resulted in adjusted earnings per share of 39.6p, an increase of 15.8% over the prior year. Accordingly, the Board is recommending an increase of 15.6% in the dividend paid to shareholders, giving a total for the year of 15.6 pence per share. Dividend cover based on adjusted earnings per share is 2.5 times. The final dividend of 10.4 pence will be payable on 21 January 2008 to shareholders on the register on 28 December 2007.

During the year we continued to return cash to shareholders through a combination of our share buy-back programme and dividend payments. We purchased 102.9 million shares in the year at a cost of £658 million (excluding associated costs). In addition, we paid £79 million of dividends and therefore returned a total of £737 million to shareholders during the year. At the preliminary results presentation in November last year we announced that we intended to return at least the same level of cash to shareholders as we did in the year to September 2006. The total returned this year of £737 million compares to a total return in the previous year of £463 million, representing an increase of 59%. Taking into account the cash flow needs of the business, we expect to continue the share buy-back programme in the current financial year. Since 30 September we have purchased 3.5 million shares at a cost of £21 million.

At 30 September 2007 the ratio of underlying net debt to EBITDA was 7 times. The Board considers this to be the optimal leverage level for the Group based on the current financing structure. We announced at our interim results presentation in May that we expected, subject to market conditions, the refinancing of the Unique securitisation to be completed by the end of the calendar year. However, to avoid pricing new long-term debt at a time of uncertainty in the debt markets, we consider that a delay into 2008 is appropriate.

Our performance over the past year represents another period of solid growth in a challenging environment which reflects our ongoing commitment to improving the quality of our pub estate through churn and capital expenditure and also the impact of our share buy-back programme. We will remain focused on meeting the challenges of both changing consumer demand and the smoking ban and providing attractive financial returns to our shareholders.

Hubert Reid

Chairman

19 November 2007

Chief Executive's Review

(Incorporating the Business Review)

RESULTS

The year to 30 September 2007 has once again seen investment in enhancing the quality of the Enterprise Inns (ETI) estate and increasing profitability for our licensees and shareholders alike. On a like-for-like basis, which excludes the impact of batch disposals, pro-forma EBITDA increased by 3.7% to £526 million. Profit before tax and exceptional items of £301 million resulted in adjusted earnings per share of 39.6p, an increase of 15.8% over the prior year.

STRATEGY

ETI remains focused on the two key pillars of its business strategy: to be the leading specialist operator of leased and tenanted pubs in the UK and to deliver long-term sustainable growth in shareholder value.

Our licensees have had a tough year. After a reasonable Christmas and New Year, the summer brought with it the challenges of the ban on smoking, miserable weather and extensive flooding and, latterly, a general deterioration in consumer confidence as a number of adverse economic factors created uncertainty in the minds of many consumers.

Through these testing times, the strength of the leased and tenanted partnership has continued to deliver steady results. We have worked closely with our licensees to create effective smoking solutions, sometimes through investment and always with encouragement, advice and support. The majority of our estate is now well positioned to manage the risks and opportunities that the ban has created, although we envisage that the ban will lead to a number of pub closures across the industry, particularly amongst lower quality, wet-led outlets. The poor summer weather was a disappointment for licensees, particularly those who invested heavily in gardens and outside spaces. The summer floods resulted in the temporary closure of 207 pubs, some for several months, and it is a tribute to our licensees and to our team that they "rolled up their sleeves" and got on with sorting out and reopening their pubs. Consumer confidence appears to have been adversely affected by increases in taxation, interest rates, utility bills, food and fuel prices together with the uncertainties surrounding global financial markets. It is difficult to tell how this will impact on consumer behaviour over the next year, although caution would seem to be the watchword.

The resilience of our operating model has delivered good trading results in this testing year, with shareholder returns further enhanced by our commitment to returning cash to shareholders through our ongoing share buy-back programme, which saw ETI purchase for cancellation some 102.9 million shares during the year, representing 17% of the shares in issue (excluding treasury shares) at the beginning of the year.

TEAM

There have been a number of structural and personnel changes during the year, providing ever-improving services to our licensees and strengthening the team at every level to ensure that we are well positioned to meet the challenges of the business.

Our Associate Regional Manager programme has been particularly important, identifying and developing top quality candidates through a six month full-time training programme to take on the key role of regional manager in the ETI estate. During the year, this award-winning programme has successfully trained and promoted eight candidates who are adding a strong new dimension to our field based teams.

Commitment, ownership and reward are vital ingredients in the motivation and retention of key staff and we are delighted that all senior managers and 91% of all employees with over two years' service at ETI have some form of interest in ownership of the business, through direct share ownership, share options, Share Incentive Plans and Save As You Earn schemes. During the year, our Share Incentive Plan won two awards, one for the Best New Share plan for a FTSE 100 Company, another for Best Communication Programme for a Company with up to 1,000 employees.

ESTATE

The quality, value and profitability of the ETI estate have continued to improve during the year. Investment of £75 million (2006: £54 million), alongside a similar amount from our licensees, saw developments at almost

Chief Executive's Review

(Incorporating the Business Review)

1,600 pubs, either through major schemes or minor refurbishments. Whilst much of this investment was initiated through business reviews addressing the challenges of the smoking ban, the end results reflect real improvements in the overall quality and profitability of the chosen pubs, whether through the creation of food offerings, accommodation or simply upgrading existing facilities for the benefit of customers.

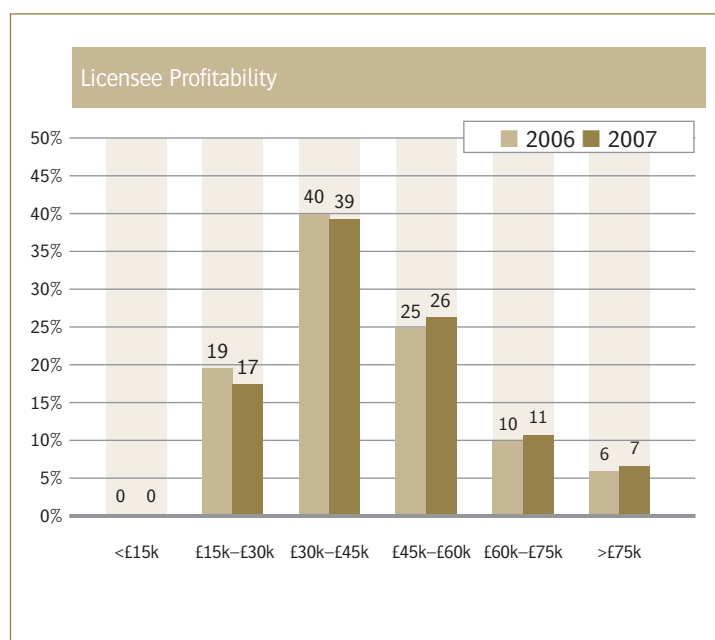
In September 2006, we completed the sale of 769 pubs to Admiral Taverns, pubs which we had identified as not fitting our quality and profitability profile for the future. This was followed on 5 December 2006 by the sale of our entire Scottish estate of 137 pubs to Retail and Licensed Properties Limited for a consideration of £115 million which generated a profit over book value of £13 million. In addition, we sold 17 pubs and some surplus land for £13 million, generating a further profit of £9 million.

Our attention remained focused on the market for individual acquisitions, where our estates team have found a steady supply of top quality pubs, allowing ETI to purchase 108 great pubs during the year for a total consideration of £91 million. In the absence of value enhancing corporate transactions, we continue to view these individual acquisitions, generally at EBITDA multiples of around 10 times, as the best route to creating value for shareholders.

Core growth, complemented by our continuing policy of investment and churn, has seen EBITDA per pub increase to £68,300 for the 7,763 pubs which we owned at 30 September 2007. The book value of the pub estate at the year end, valued on an individual pub by pub basis, increased to £5.7 billion, equivalent to an average value of £736,000 per pub.

As in previous years, our annual estates review is designed to form a view of the quality and sustainability of every pub in the estate. The past two years have seen the number of pubs with outside trading areas increase from 83% to 91%, pubs serving food increase from 81% to 88% and it is encouraging to see that the team continue to rank more than two-thirds of our pubs as 'very good' or 'excellent'. The review did, however, identify that a number of our pubs have or may become unviable as a result of changing market conditions, notably the smoking ban. Against this background we have identified, and put on the market for sale, 96 pubs. We expect to sell these pubs unlicensed, for alternative use, and are confident that we will achieve sale proceeds in excess of book value.

LICENSEES



Chief Executive's Review

(Incorporating the Business Review)

As the quality of our estate improves, so do the opportunities for licensees to build and sustain a profitable business. As ETI seeks to attract the best licensees, it remains a priority to ensure that the package that we offer is fair, that rents are not excessive and that real help is offered, where required, to make the most of the business opportunities that exist in any particular market.

Based upon our annual review of estate profitability, we estimate that the average level of licensee profitability in the 7,763 pubs that we owned at 30 September 2007 has increased by around 4% to £47,000. This increase reflects to some extent the benefit of churn in the estate, but we nevertheless estimate that on a like-for-like basis licensee profitability, despite continuing cost and margin pressures, has increased by 2.6%, broadly in line with inflation.

The ETI estate continues to be attractive to licensees, who recognise the quality of the pubs in our portfolio and the essential fairness of our package. This is once again supported by key performance indicators:

- During the year, some 85,000 visitors used our Internet pub search facility, resulting in more than 1,500 formal applications, of which 80% were received online.
- With 84% of the estate let on long-term, assignable leases, most changes take the form of lease assignments. During the year there have been 790 assignments, at an average premium of £69,000 (£86,000 including fixtures and fittings).
- Rent concessions at 30 September 2007 increased marginally to £1.5 million, around 0.5% of rent roll.
- 1,457 rent reviews were completed during the year, with an average rental increase of 2.7% per annum. Just three rent reviews went to arbitration, two of which were found in favour of ETI.
- Overdue balances are at similar levels to last year and bad debt costs remain around 0.1% of turnover.

Market conditions will continue to test our licensees and we believe that many poorer quality pubs across the industry are likely to close. Nevertheless, given the quality and profitability of the ETI estate, we are confident that our pubs and licensees will continue to meet the challenges, gain market share and prosper.

FINANCIAL STRUCTURE

Cash flow

Free cash inflow during the year amounted to £75 million, based on operating cash inflow and after deduction of mandatory payments in respect of interest and tax and discretionary payments in respect of capital expenditure and dividends.

Debt facilities

The Group has a flexible financing structure including a syndicated bank debt facility of £1 billion, corporate bonds and securitised bonds. At 30 September 2007 underlying net debt was £3,716 million compared to £3,166 million at the start of the year. Underlying net debt represents amounts owed to banks and other lenders net of cash retained in the business. During the year we repaid £81 million of securitised bonds from the proceeds of the sale of pubs and drew down the remaining balance of our syndicated bank facility.

Financial leverage

The two key metrics the Group uses to measure financial leverage are interest cover based on EBITDA and the ratio of underlying net debt to EBITDA. At 30 September 2007, interest cover was 2.4 times and underlying net debt to EBITDA was 7 times.

We believe that there is scope to increase the leverage in the Group to around eight times underlying net debt to EBITDA in a revised financing structure and the proposed refinancing of the Unique securitisation next year will aim to bring the Group closer to this level.

Chief Executive's Review

(Incorporating the Business Review)

Balance Sheet

The book value of the pub estate is £5.7 billion which includes a revaluation increase in the year of £312 million. The net assets of the Group at year end were £1,483 million which compares to £1,602 million as at 30 September 2006. Notwithstanding profit generation and an increase in the value of our pubs, the reduction in net assets arises as a result of the share buy-back programme.

Tax charge

The pre-exceptional tax charge of £85 million represents 28% of profit before tax and exceptional items. The total tax charge of £46 million is 14% of profit before tax.

The exceptional tax credit of £39 million comprises two significant deferred tax credits partially off-set by an exceptional deferred tax charge. The Finance Act 2007 reduced the rate of UK corporation tax to 28% with effect from April 2008. A one-off credit of £23 million arises as a result of a reduction in deferred tax balances due to this change. A second credit of £28 million arises in relation to indexation on the tax base cost of certain properties. A deferred tax charge of £12 million has been recognised in relation to the movement in fair value of interest rate swaps and profit on sale of property.

Cash outflow in respect of tax for the year was £71 million, equivalent to 24% of profit before tax and exceptional items.

Exceptional items

The Group has elected to classify certain items as exceptional and present them separately on the face of the Income Statement. Exceptional items are those which are separately identified by virtue of their size or nature to allow a full understanding of the underlying performance of the Group. As a result, the Group focuses on 'pre-exceptional' performance measures in order to compare underlying performance year on year.

The most significant exceptional items in the year are profit on disposal of property, plant and equipment of £22 million and movements relating to the fair value of financial instruments of £16 million. As discussed above, there is also a significant exceptional tax credit in the year of £39 million.

REAL ESTATE INVESTMENT TRUSTS (REITs)

The Group is involved in ongoing discussions with HMRC regarding a potential conversion to REIT status. HMRC has expressed the view that the Group, as currently structured, does not meet the qualifying criteria for admission as a REIT. We are, however, currently exploring with HMRC whether an internal restructuring of the Group's activities, currently being considered by the Board and designed to enhance shareholder returns and optimise the benefits of our proposed refinancing, would result in the Group becoming eligible for admission to the REIT regime. HMRC is considering various aspects of this proposed restructuring and we will update shareholders when there are significant developments to report.

INDUSTRY ISSUES

Ban on smoking in pubs

There is now a total ban on smoking in pubs throughout the UK and there has been an almost universal level of acceptance amongst pub-goers. Many people who avoided pubs because of the smoky atmosphere are now potential customers and forward-looking licensees are capitalising on this opportunity. Often, these opportunities arise through the provision of good quality food, and we estimate that food revenues across the ETI estate have risen by 13% in the past year, now representing at least 20% of average pub turnover. With standards of pub food constantly improving, there is a risk that the market place for "value for money" food may become overcrowded so our advice to licensees tends towards "do it really well or not at all", focusing above all on the key strengths of each individual pub, and always trying to make sure that their pub is the best in each locality. The coming year will be difficult for some pubs and we remain cautious about the next six to nine months. However, we are confident of a positive outcome as the smoking ban becomes an accepted part of pub-going and licensees and customers alike enjoy the benefits of the more pleasant, healthier smoke-free regime.

Chief Executive's Review

(Incorporating the Business Review)

Responsible drinking

The pub industry, through its trade bodies working with Government and the police, has made real progress over the past couple of years tackling the issues of under age drinking and irresponsible promotions. Proof of Age cards are now a regular and accepted part of pub-going for under 21s, with the result that the number of under-age drinkers being served in pubs has been significantly reduced. Furthermore, and without the need for legislation, industry self regulation has resulted in a marked reduction in irresponsible promotions that encourage excessive drinking, such as happy hours or "two for one" offers.

The pub is a highly regulated, professionally run environment, which should, and generally does, live up to its reputation as "the home of responsible drinking". Unfortunately, drink (and drug) fuelled anti social behaviour remains a serious problem to be tackled at all levels in society. In this regard, one must question the pricing policies of the major supermarkets and some other off trade outlets which sell alcohol, which is generally consumed in an unregulated environment, at very low prices. Not only do they, on occasion, sell alcohol at prices below cost but they have cheap alcohol at the heart of promotions policies, particularly in the run up to Christmas. When it comes to the important issue of tackling irresponsible drinking, it is up to all stakeholders to face up to their share of responsibility.

CONCLUSION AND OUTLOOK

In a challenging year for ETI and our licensees, the team has worked successfully to improve the quality of the pub estate, grow licensee profitability and deliver substantial growth in earnings and dividends. The new financial year has started well, but we remain cautious about consumer confidence and the impact through the coming winter of the smoking ban. In spite of these uncertain conditions, we believe that the quality of our pub estate will deliver performance ahead of the market and that the team will deliver further solid growth in shareholder value.

Ted Tuppen

Chief Executive

19 November 2007

Corporate Responsibility

The Group continues to adopt an approach to the management of corporate responsibility that balances 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; and
- 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 28. 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; and
- ongoing training needs of employees are met.

The Workplace

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;
- the establishment of a communication system with staff;
- the ongoing identification of risks and required responses; and
- 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, in September 2007, provided its annual report and risk assessment to the Board.

During the year the H&S Group has organised fire warden, first aid and lift evacuation training for office-based employees. In addition, the H&S Group has reviewed its policy providing guidance for the health and safety of employees driving on company business and introduced an HSE guidance pack for 'homeworkers'.

Corporate Responsibility

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. Again there has been no material health and safety issue, incident or fine for non-compliance during the period under review.

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.



LowC making low carbon communities happen

(i) Carbon Management

The Pub Estate

The Group has established an Environmental Impact Committee with a view to reviewing strategy and implementing policies to deliver high quality energy services to our pubs, including, in 2007:

- continued promotion of cellar cooling maintenance contracts under which our licensees are able to utilise highly energy efficient cellar cooling equipment (4,244 pubs are currently under such contracts) and to target the replacement of 10% of inefficient cellar cooling equipment each year to ensure optimal energy performance;
- the introduction of a marketing campaign to raise the profile of and promote the benefits of the cellar cooling maintenance contracts to our licensees; and
- continued focus on piloting and incorporating new technologies to ensure optimal energy performance of cellar cooling equipment.

As reported in 2006 the Group adopted the Carbon Trust's 5-Step Carbon Management approach across its operations, including our head office and the pub estate to accelerate the integration of carbon issues throughout the Group and address our short, medium and long-term climate impacts. During the year we appointed LowC Communities Ltd, an external consultant, to provide the necessary skills and expertise to elevate carbon and energy to the forefront of our business thinking.

In 2006 and 2007 we undertook a full carbon analysis of our operations, looking for both environmental and business benefits. As a result of this work we now have a detailed 3 year implementation plan which will be progressively rolled out throughout the business commencing in 2008.

The Group continues to be supported by the Carbon Trust and LowC to implement a range of measures focused on our most energy intensive activities, including:

- the piloting of an energy efficient refurbishment programme in the pub estate, whereby a range of energy efficiency upgrades (primarily to boilers and lighting) will be delivered through our existing supply chains, delivering significant energy savings. This will encompass:
 - training of employees and supply chain partners;
 - implementation and integration of innovative energy efficiency model specifications;
 - pre and post-implementation monitoring of performance;
 - integration of the model specification for all of our funded capital investment and refurbishment projects; and
 - an awareness campaign to all licensees.

Corporate Responsibility

- continuing to develop the advanced maintenance contract for cooling and heating systems in the pub estate, including extensive maintenance to deliver improved energy efficiency (e.g. efficiency checks, descaling of hot water heating elements) and to ensure that the installation of all new mechanical plant carries the green flag efficiency mark to reduce wasted energy use;
- providing advice to licensees on the most beneficial energy contracts through an energy broker who is also tasked to provide energy reporting methods to the pub estate and promote energy consciousness and efficiency amongst our licensees;
- the consideration of a focused awareness programme targeting our licensees who will be able to choose from a range of energy saving improvements for their pub and become involved in their implementation; and
- undertaking ongoing audits of the pub estate to accurately measure energy efficiency savings and to monitor and report the progress of the above-mentioned initiatives.

Head Office

During the year an energy audit was undertaken at our head office to highlight the most important activities that need to be undertaken to reduce carbon emissions and energy costs. This audit tabled a carbon footprint which showed carbon dioxide emissions were currently 818 metric tonnes of CO₂, and found that current annual energy consumption levels for our head office were as follows:

Electricity: 372 kWh/m²

Gas: 333 kWh/m²

Total: 705 kWh/m²

Since the audit we have drawn up an action plan with a detailed list of initiatives that will target annual reductions of approximately 10% of this carbon footprint over the next 12 months. It is anticipated that further savings can also be made in future years. These savings will be targeted by the introduction of:

- an energy management programme adopting a formal 'energy policy';
- the appointment of an energy manager;
- investment in a monitoring and targeting system;
- implementation of an energy awareness campaign for all employees; and
- energy saving technologies, including a full lighting system upgrade.

In addition, annual water consumption levels for our head office are currently 1,726 m³.

The focus for 2008 is to capitalise on the substantial carbon saving opportunities identified in 2007, and to explore in detail the possibility of introducing an 'on-site' renewable energy programme to further reduce our direct business carbon impacts.

(ii) Other Environmental Issues

At head office materials continue to be recycled where possible and paper is sourced from a renewable and sustainable source. 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. The Group supports home working where appropriate.

Corporate Responsibility

The head office catering facility uses kitchen equipment carrying the green flagged efficiency rating. Wherever, possible biodegradable materials are used in its operation.

During the year, and in accordance with our obligations under the Packaging Waste Regulations, our compliance manager recycled approximately 4,389 metric tonnes of glass, paper and plastic used in the pub estate by our licensees.

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

The Group continues to work extensively with licensees, local authorities and local communities to ensure that licensing hours and conditions are appropriate and take account of the opportunities and interests of all parties. Through its membership of the BBPA, the Group continues to engage with Government departments within the Home Office and the Department for Culture, Media and Sport, to promote understanding of, and compliance with, the licensing regime.

A ban on smoking in public places was introduced across England and Wales in 2007. The Group works extensively with licensees to provide solutions in pubs which balance the interest of smokers and non-smokers alike. The Group's capital investment programme continues to reflect opportunities to enhance the retail proposition of pubs in the post-ban era.

In addition:

- the Group is 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;
- training is arranged to provide support to our licensees and to develop business potential;
- the Group has recently revised and updated its Code of Practice (with 'benchmarked' status from the BII Benchmarking and Accreditation Services) under which the Group manages its relationships with licensees, and includes provisions in its agreements with licensees requiring licensed premises to be operated in a responsible manner; and
- the Group seeks to ensure that appropriate and reasonable actions have been implemented across the pub estate to ensure its licensees comply with the Disability Discrimination legislation.



pub is the hub

Finally, as a corporate sponsor we continue to support the philosophy and ethos of The Prince of Wales's 'Pub is the Hub' campaign, encouraging rural licensees to diversify and deliver a wider range of services to the communities they serve, ensuring that the pub becomes the heart of the community and continues to thrive as a vital part of village life. During the year a number of our licensees have developed a range of such services including the use of their properties as village shops and post offices.

Responsible Drinking

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

Corporate Responsibility

- as a voluntary contributor to the funding of the Drinkaware Trust, a new body which brings together industry, charities, lobby groups, medical professionals and experts in the field to address alcohol misuse and promote sensible drinking across the UK;
- being a signatory to the Portman Group's Code of Practice, and working proactively with drinks suppliers to ensure that they adhere to a responsible advertising, pricing and packaging regime;
- actively promoting the Proof of Age Card Scheme to all licensees and providing details of a variety of schemes to all new licensees to enable them to operate the scheme in their premises;
- actively promoting the industry's Challenge 21 campaign and providing campaign materials to every pub;
- through its membership of the BBPA, the Company has actively participated in discussions with Government in the preparation of its National Alcohol Harm Reduction Strategy;
- continuing to work proactively 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; and
- a number of our suppliers have introduced sensible drinking messages on their products.

Future Corporate Responsibility Requirements

During the year the Group has engaged the services of Salta Sustainable with a view to developing a long-term approach to effective corporate responsibility strategy and the adoption of good reporting practices during the next two years.

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.

Directors and Advisers

H V REID #

Chairman

Appointed to the Board 21/01/97

Hubert Reid, 66, is Chairman of 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 a non-executive director and then Chairman of Ibstock Plc, Bryant Group plc and the Royal London Group.

G E TUPPEN #

Chief Executive

Appointed to the Board 22/02/91

Ted Tuppen, 55, 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. Ted is Vice-President, and former Chairman of the British Beer and Pubs Association and was awarded a CBE in the 2006 New Years Honours List in respect of his contribution to the hospitality industry.

A J STEWART *#

Senior Independent Non-Executive Director

Appointed to the Board 29/05/01

Jo Stewart, 58, 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, 60, is Chairman of 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, 50 is Chairman of FB Raphael 1 Limited (the holding company of the Farrow & Ball paint and wallpaper business) and a non-executive director of Compass Group PLC, 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 to 2004.

* Member of the Audit and Remuneration Committees

Member of the Nominations Committee

Directors and Advisers

D C GEORGE

Chief Financial Officer

Appointed to the Board 08/07/91

David George, 56, 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.

W S TOWNSEND

Chief Operating Officer

Appointed to the Board 01/10/00

Simon Townsend, 45, joined the Company in February 1999, and was appointed to the Board in October 2000. He has worked in the pub and leisure industry for over 20 years in various sales, marketing, commercial and operational roles, previously with Whitbread plc, Allied Domecq PLC, Rank Group PLC and Marston, Thompson & Evershed plc.

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, The Pavilions, Bridgwater Road, Bristol, BS13 8AE

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

Directors' Report

The directors present their report and accounts for the year ended 30 September 2007.

Accounts and dividends

The Group profit for the year, after taxation, amounted to £291 million (2006 — £325 million) and is dealt with as shown in the Group Income Statement.

The directors recommend the payment of a final dividend of 10.4 pence (2006 — 9 pence after restating for the sub-division of shares on 17 January 2007) per ordinary share to be approved at the Annual General Meeting on 17 January 2008. The final dividend will be paid on 21 January 2008 to members on the register on 28 December 2007. When added to the interim dividend of 5.2 pence (2007 — 4.5 pence after restating for the sub-division of shares), this produces a total dividend for the year of 15.6 pence (2006 — 13.5 pence after restating for the sub-division of shares) per ordinary share.

Principal activities and review of the business

The principal activity of the Group continues to be that of a leased and tenanted pub operator in the UK.

A review of the year's activities is given in the Chairman's Statement and the Chief Executive's Review (incorporating the Business Review) on pages 2 to 7.

Directors and their interests

The names of the current directors, together with related biographical information, are set out on pages 13 and 14. All directors served throughout the year and were in place on the date of signing of these financial statements.

The rules for the appointment and replacement of directors are set out in the Company's Articles of Association. Directors are appointed by the Company by ordinary resolution at a general meeting of holders of ordinary shares or by the Board on the recommendation of the Nominations Committee. The Corporate Governance Report sets out further details of the requirements for re-election of directors on page 24. In addition, further details of the workings of the Nominations Committee are set out on pages 25 and 26.

In accordance with the Articles of Association of the Company, Mr Tuppen, Mr George, Mr Stewart and Mrs Murray retire from the Board at the Annual General Meeting by rotation and offer themselves for reappointment. The Board believes that their performance 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 Stewart and Mrs Murray consider that they have sufficient time to commit to the Company's affairs notwithstanding their other business commitments and have no conflicting interests. Whilst Mr Stewart was initially appointed on 29 May 2001 the Board has conducted a rigorous evaluation of his performance and considers that his re-election is justified and beneficial to the business.

At no time during the year did any of the directors have an interest in any contract with the Group. 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:

Ordinary Shares of 2.5 pence each		30 September 2007(i)	30 September 2006*
H V Reid	Beneficial	245,000	245,000
G E Tuppen	Beneficial	2,138,964	2,120,108
	As Trustee	415,800	396,300
D C George	Beneficial	2,095,450	2,051,894
W S Townsend	Beneficial	390,928	347,594
A J Stewart	Beneficial	28,000	28,000
D A Harding	Beneficial	3,000	1,000
S E Murray	Beneficial	4,000	4,000

* Restated for the sub-division of shares from 5 pence to 2.5 pence per share on 17 January 2007.

Directors' Report

(i) These shares include the number of Partnership Shares the executive directors hold in the Enterprise Inns 2005 Share Incentive Plan (the 'Share Incentive Plan') purchased on 15 December 2006 at 675.5 pence per share. Shares held by the executive directors under the Share Incentive Plan are set out below:

	At 1 October 2006*	Partnership Shares	Matching Shares	At 30 September 2007
G E Tuppen	652	222	222	1,096
D C George	652	222	222	1,096
W S Townsend	652	222	222	1,096

* Restated for the sub-division of shares from 5 pence to 2.5 pence per share on 17 January 2007.

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.

Powers of the directors

Subject to the Company's Memorandum and Articles of Association, UK legislation and any directions given by special resolution, the business of the Company is managed by the Board. The directors have been authorised to allot and issue ordinary shares and to make market purchases of the Company's ordinary shares. These powers are exercised under authority of resolutions of the Company passed at its Annual General Meeting. Further details of resolutions the Company is seeking for the allotment, issue and purchase of its ordinary shares are set out in the explanatory notes to the notice of the Annual General Meeting set out on pages 120 to 124.

Notifiable interests in shares

As at 19 November 2007 the Company had been notified of the following holdings of 3% or more of the voting rights in the Company's issued share capital (excluding shares held in treasury):

	Number of ordinary shares	Percentage of voting rights of the issued share capital
BlackRock Inc	71,387,085	14.0
Prudential plc	42,130,268	8.3
The Goldman Sachs Group Inc	36,412,078	7.2
Lloyds TSB Group plc	26,066,202	5.1
AXA S.A	25,607,433	5.0
Lansdowne Partners Limited/Lansdowne Partners International Limited	24,242,063	4.8
Legal & General Group plc	20,643,513	4.1
Deutsche Bank AG	20,001,820	3.9
Barclays PLC	16,514,005	3.3

Share Capital

As at 19 November 2007, the Company's issued share capital comprised a single class of share capital which is divided into ordinary shares of 2.5 pence each. Details of the share capital of the Company are set out in note 27 to the accounts on page 70. The Company did not issue any shares during the period under review. The rights and obligations attaching to the Company's ordinary shares are set out in the Company's Articles of Association, copies of which can be obtained from Companies House in the UK or by writing to the Company Secretary. Subject to applicable statutes, shares may be issued with such rights and restrictions as the Company may by

Directors' Report

ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide. Holders of ordinary shares are entitled to attend and speak at general meetings of the Company, to appoint one or more proxies and, if they are corporations, corporate representatives and to exercise voting rights. Holders of ordinary shares may receive a dividend and on a liquidation may share in the assets of the Company. Holders of ordinary shares are entitled to receive the Company's annual report and accounts. Subject to meeting certain thresholds, holders of ordinary shares may requisition a general meeting of the Company or the proposal of resolutions at Annual General Meetings.

Voting rights and restrictions on transfer of shares

On a show of hands at a general meeting of the Company every holder of ordinary shares present in person or by proxy and entitled to vote has one vote and on a poll every member present in person or by proxy and entitled to vote has one vote for every ordinary share held. Further details regarding voting at the Annual General Meeting can be found in the Corporate Governance Report on page 28 and in the notes to the notice of the Annual General Meeting on pages 120 to 124. Details of the exercise of voting rights attached to the ordinary shares held by the Employee Share Trusts are set out in the section entitled, 'Shares held by Employee Share Trusts' below. Voting rights for the ordinary shares held in treasury are suspended. None of the ordinary shares, including the shares held by the Employee Share Trusts, carry any special rights with regard to control of the Company. Electronic and paper proxy appointments and voting instructions must be received by the Company's Registrars not later than 48 hours before a general meeting.

There are no restrictions on the transfer of ordinary shares in the Company other than:

- certain restrictions may from time to time be imposed by laws and regulations (for example insider trading laws);
- pursuant to the Company's share dealing code whereby the directors and employees of the Company require approval to deal in the Company's shares; and
- where a person with at least a 0.25% interest in the Company's certificated shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

The Company is not aware of any arrangements between shareholders that may result in restrictions on the transfer of ordinary shares and for voting rights.

Own shares acquired by the Company

At the Annual General Meeting held on 16 January 2007, the Company was given authority to purchase up to 89,614,002 of its ordinary shares during the next 18 months or until the date of its next AGM. During the financial year the Company, utilising this authority and the authority given at the AGM on 19 January 2006, made on market purchases totalling 102,862,096 of its own ordinary shares of 2.5 pence each, representing 17% of the issued share capital (excluding treasury shares) at the beginning of the year, for an aggregate consideration of £658 million (excluding costs). These shares were cancelled. As at 30 September 2007, 50,000,000 shares were held in treasury. The maximum number of shares held in treasury during the year ended 30 September 2007 was 50,000,000 on 1 October 2006 for a period of 365 days, representing 7.5% of total called up share capital at that time. The present authority for the Company to purchase its own shares will expire at the Annual General Meeting to be held on 17 January 2008. The directors will be seeking a new authority for the Company to purchase its ordinary shares as part of the planned continuation of the share buy-back programme. It is expected that any shares purchased pursuant to the share buy-back programme will be cancelled and the number of shares in issue reduced accordingly. Alternatively, the shares may be purchased and held as treasury shares. Further details are set out in the explanatory notes to the notice of AGM on pages 120 to 124.

Shares held by Employee Share Trusts

The Company has established an employee benefit trust, the trustee of which is Halifax EES Trustees International Limited. As at 30 September 2007, the trustee held 9,756,732 shares which are used to satisfy awards made under the Enterprise Inns Incentive Plans and other share option schemes. The voting rights in relation to these shares are exercisable by the trustee; however, in accordance with investor protection guidelines the trustee abstains from voting. The Company has also established a Quest trust to hold shares to

Directors' Report

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 2007, this trustee held 270,968 shares. Again voting rights in relation to these shares are exercisable by the trustee; however, in accordance with investor protection guidelines the trustee abstains from voting. 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 2007 was 10,027,700 representing 1.8% of the total called up share capital at that date. During the year, the Quest Trust purchased 39,839 of the Company's shares. These shares were purchased for a consideration of £0.25 million (net of expenses) and had a nominal value of £995. The maximum number of shares held by the trusts during the year ended 30 September 2007 was 13,740,506 on 1 October 2006 for a period of 52 days, representing 2.1% of total called up share capital at that time.

During the year, 3,478,084 shares with a nominal value of £86,952 were disposed of by the trusts by way of the exercise of share options under the share schemes. Of these, a total of 1,279,918 shares were disposed of through the short-term and long-term incentive schemes for a consideration of £18 and a total of 274,561 shares were disposed of through the Quest Trust for a consideration of £0.29 million.

Articles of Association

The Company's Articles of Association (adopted by special resolution on 19 January 2006) may only be amended by special resolution at a general meeting of the shareholders. At the Annual General Meeting to be held on 17 January 2008, a resolution will be put to shareholders proposing the adoption of new Articles of Association. A summary of the principal proposed changes can be found in the explanatory notes to the notice of Annual General Meeting on pages 120 to 124.

Significant agreements

The Company has entered into supply and distribution contracts with Scottish & Newcastle UK Limited and InBev UK Limited which are terminable upon a change of control of the Company.

In addition, the Company is a party to certain funding documents which contain provisions that allow the counterparties to terminate funding to the Company in certain circumstances where there has been a change of control of the Company. These include:

- The second supplemental credit agreement (the "Credit Agreement") dated 15 May 2006 between the Company and the financial institutions named in the Credit Agreement which provides that if any person or persons acting in concert gains control of the Company, the Company must promptly notify the agent and the lenders must then negotiate with the Company with a view to continuing the loan facilities under the Credit Agreement. If at the end of the required time frame, the Company has not received a notice of continuance of the loan facilities from the lenders, the loan facilities will be terminated and all of the loan commitments cancelled under the Credit Agreement.
- The £60 million 6% Secured Bonds due 2014, the £125 million 6.875% Secured Bonds due 2025, the £125 million 6.875% Secured Bonds due 2021, the £275 million 6.375% Secured Bonds due 2031, the £600 million 6.5% Secured Bonds due 2018 (collectively the "Secured Bonds"), the terms and conditions of each of which provide that following the occurrence of a restructuring event (defined in the terms and conditions to include (i) any person or persons acting in concert becoming interested in more than 50% of the shares of the Company, (ii) any person or group of connected persons acquiring control of the Company, or (iii) any person or persons acquiring the right to appoint more than 50% of the directors of the Company) the Secured Bonds must, if they are not rated, after a written resolution of the bondholders, be either redeemed by the Company or the Company must successfully seek an investment grade rating for the Secured Bonds. If the Secured Bonds are rated, on a restructuring event, they must be redeemed by the Company where such rating is below investment grade or later falls below investment grade.

Directors' Report

Compensation for loss of office

There are no agreements between the Company and its directors or employees providing for compensation for loss of office or employment that occurs as a result of a takeover bid. Further details of the directors' service contracts can be found in the Directors' Remuneration Report on pages 30 to 39.

Directors' indemnities

The Company's Articles of Association permit the Board to grant the directors indemnities in relation to their duties as directors, including qualifying third party indemnity provisions (within the meaning of the Companies Act 1985) in respect of any liabilities incurred by them in connection with any negligence, default, breach of duty or breach of trust in relation to the Company. No such indemnities have been granted.

Employment policies

The Group is dependent on the skills and commitment of its employees and recognises the importance of creating a workplace in which all employees are inspired and enabled to give their best. A core set of common values means that employees at all levels of the business are encouraged to make the fullest possible contribution as their performance is central to the successful delivery of its objectives. To attract and retain these skills the Group is committed to equal opportunities and the creation of an entirely non-discriminatory and diverse 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 the merit of the individual concerned. The Group is dedicated to undertaking its business operations in a way which respects individual human rights, treats individuals with dignity and allows freedom of association.

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 whistle-blowing.

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 actively encourages learning and development and 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.

The Group operates a comprehensive employee appraisal process which ensures that clear goals are set, 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. Employee engagement is met through a variety of means

Directors' Report

including regular briefings and team meetings through its management structure which allows a free flow of information and ideas via publications such as the 'Insider' and 'Eagle Eye'. Employees can also ask the executive management team questions on an anonymous basis via the 'Ask the Exec' forum. 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 corporate intranet supplement effective communication to all employees.

The Company continues to encourage employee ownership of its shares through the provision of the following employee share plans administered by HBOS Employee Equity Solutions:

- The Save As You Earn Scheme in which 282 employees have entered into savings contracts 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.
- The Share Incentive Plan in which 299 employees have purchased shares out of pre-tax income up to statutory limits which are held in a trust. Currently, the Company awards one free matching share for each share bought by an employee.



In November 2006 the Company won two awards from ifs Proshare for its Share Incentive Plan for 'Best New Share Plan' and 'Most Effective Communication of an Employee Share Plan — up to 1,000 employees'. These awards demonstrate the Company's commitment to encouraging employee share ownership and reward.

Charitable and political donations

At pub level, the Company 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 and the Company 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 and the Company had an average of 25 days' purchases outstanding in trade creditors.

Financial instruments

For financial risk management objectives and policies, please see note 22 to the accounts.

Directors' statement as to disclosure of information to auditors

Each person who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all of the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

Directors' Report

Statement of directors' responsibilities in relation to the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards ('IFRS') as adopted by the European Union.

The directors are required to prepare financial statements for each financial year which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company 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 17 January 2008 at 11.00 a.m. The notice convening the AGM and an explanation of the resolutions sought are set out on pages 116 to 124. At the meeting, the Company will be seeking shareholder approval, amongst other matters, for:

- authority for the Company to make market purchases of up to 14.99% of its own shares; and
- adoption of new Articles of Association to ensure consistency with the provisions of the Companies Act 2006 including provisions to facilitate the use of electronic and website communications.

The directors consider that all the resolutions proposed are in the best interests of the Company and it is their recommendation that you support these proposals as they intend to do so in respect of their own holdings.

Auditors

A resolution to reappoint Ernst & Young LLP as the Group's auditors will be put to shareholders at the forthcoming Annual General Meeting.

By order of the Board

D C George

Secretary

19 November 2007

Corporate Governance

Introduction

The Board recognises that good governance helps the business deliver its strategy, generate long-term shareholder value and minimise risk. For the year under review the appropriate governance provisions are as set out in the Combined Code on Corporate Governance adopted by the Financial Reporting Council in July 2003 (the "Combined Code").

The Company is committed to maintaining high standards of corporate governance as set out in the Combined Code provisions, the Turnbull Report on Internal Control and appropriate best practice guidance issued by investor bodies. Our corporate governance framework is directed in a manner which is responsible and in accordance with high standards of honesty, transparency and accountability. The Board considers that this statement on governance provides the information to enable shareholders to evaluate how the provisions and principles of the Combined Code have been applied.

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 achieve compliance.

Throughout the year ended 30 September 2007 the Company has been in full compliance with the provisions set out in Section 1 of the Combined Code and the principles of good governance.

The Company has also complied with the Smith Guidance on Audit Committees.

The Workings of the Board and its Committees

The Board

Role

The Board is responsible to the Company's shareholders for the success of the Group and for its overall strategic direction, its values and its governance. It provides the leadership necessary to enable the business objectives to be met whilst ensuring the obligations to its shareholders are safeguarded.

Composition

For the year under review the Board comprised the Chairman, three executive directors and three independent non-executive directors. The role of Chairman and Chief Executive are distinct and separate and clear divisions of accountability and responsibility have been agreed by the Board, are set out in writing and operate effectively. During the year the Board has again reviewed its composition and has concluded that its composition fully satisfies the requirements of the business and ensures proper governance of the Group. There were no changes to the membership of the Board during the year.

The Chairman, Mr H V Reid, has primary responsibility for leadership of the Board, sets its agenda and devotes such time to his role as is necessary to properly discharge his duties. He facilitates the effective engagement of the non-executive directors. He is responsible, jointly with the Chief Executive, for the effective communication with the Company's shareholders and representation of the Group externally.

The Chief Executive, Mr G E Tuppen, has executive responsibility for executing the Group's strategy and development. He leads the management of the Company in order to optimise long-term shareholder value by meeting key strategic and financial objectives.

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 recognises that length of service can impact on the independence of a non-executive director and, having considered this, is satisfied that all non-executives remain independent in character and judgement for the purposes of the Combined Code. 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.

Corporate Governance

The Board is satisfied that, as non-executive directors seeking re election, Mr A J Stewart and Mrs S E Murray continue to perform effectively and demonstrate commitment and time to their roles and duties.

In addition, given he is seeking re-election for a third three year term and in compliance with provision A.7.2 of the Combined Code, the Board has rigorously reviewed the performance of Mr A J Stewart and concluded that his re-election is justified and beneficial to the business.

Biographical details of the Board members are set out on pages 13 and 14.

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 and its success. The Board therefore provides entrepreneurial leadership, sets and monitors the Company's strategic aims, reviews management performance and examines major capital expenditure and acquisition opportunities.

The Board has established, and reviewed during the year, 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.

Meetings and Attendance

The Board held six scheduled meetings in the past year and is expected to hold a similar number of such meetings over its next financial year. The Board can convene additional meetings as necessary to consider matters that are time critical. In addition two separate Strategic Business Reviews are held 'off site' annually at which high level strategic issues, such as future business direction and its financial and operational implications, are reviewed and debated. These Strategic Business Reviews have a strong operational focus and also give the Board the opportunity to hear contributions from the senior management team. All of the current directors attended all Board Meetings and the Strategic Business Reviews 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 judgement 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. In terms of commitments outside of the Company, any material changes must be reported to and pre-cleared with the Chairman.

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 Senior Independent Director is available to shareholders if they have any concerns that cannot be resolved through contact via normal channels.

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 of the non-executives including the Chairman met twice during the year without the executive directors being present to discuss in detail the matters which they believed to be relevant for the purposes of the Strategic Business Reviews, including key operational and financial issues, performance of the Chief Executive and overall feedback arising from the performance evaluation process.

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 has arranged appropriate directors' and officers' liability insurance to provide cover in the event of legal action against its directors.

Corporate Governance

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 between the non-executives and senior management. The written responsibilities of the Company Secretary are available on the Company's website. During the year the Board has reviewed the joint roles of Mr D C George as Chief Financial Officer and Company Secretary. As the Deputy Company Secretary reports direct to the Board and Chairman on governance issues, has full day-to-day responsibility for the Company Secretariat function within the Group and provides independent counsel to the non-executive directors, the Board is of the view that given this delegation of responsibilities that there is no compromise to the independence of the Company Secretary.

All new directors receive an appropriately tailored induction programme arranged to develop their knowledge and understanding of the Group and the key business issues, including social, environmental and ethical 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. During the year the directors have, amongst other matters, received appropriate guidance on the material provisions of the Companies Act 2006 and the implications for periodic financial reporting under the Transparency Directive.

Re-election of directors

The Articles of Association of the Company require that any newly appointed directors will be subject to election at the next following Annual General Meeting and also that at least one-third of directors (excluding those appointed to the Board during the year) shall retire by rotation each year. This is applied so that each director will submit themselves for election or re-election at regular intervals and at least once every three years.

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 and approval by Shareholders.

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. All committees of the Board that are subject to the requirements of the Combined Code are chaired by an independent director or have a majority of independent directors as members. The names and biographical details of all Board Committee members are set out on pages 13 and 14.

The Audit Committee

The Board's obligation to establish formal and transparent arrangements for considering how it should apply financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's external auditors is met through 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. All members are independent. The Committee met three times during the year to coincide with the financial reporting and audit cycles of the Company including the submission of the interim and annual financial statements. All Committee members attended each meeting during the year. Representatives from the external auditors, the Chairman, Chief Executive and Chief Financial Officer were in attendance at part or all of each meeting by invitation. As a matter of best practice the Committee is able to meet alone with external auditors as required at the end of its meetings.

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

Corporate Governance

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. The Company has in place a whistle-blowing policy under which employees may, in confidence, raise concerns about possible improprieties in such matters as financial reporting.

For the year under review the Committee:

- has monitored the integrity of the financial statements, interim and final report and accounts and relevant regulatory announcements;
- reviewed the adoption of International Financial Reporting Standards in the parent company accounts;
- agreed the annual audit plan, has considered external auditor reports and has monitored and followed up management actions in response to issues raised;
- met regularly with management and with internal and external auditors to review the effectiveness of internal controls and business risk management and is satisfied that proper and satisfactory internal controls remain in place to identify and contain business risk;
- reviewed and monitored the independence and objectivity of external auditors;
- updated a formal written policy for the engagement of auditors for non-audit services, which includes appropriate safeguards; and
- carried out an annual evaluation of its performance.

The Committee has adopted a policy on the engagement of external auditors for the provision of non-audit services and reviews this annually.

The policy is designed to:

- ensure that the engagement does not impair the objectivity of the auditors' opinion on the Group financial statements;
- establish a transparent process and reporting to enable the Committee to monitor policy compliance; and
- avoid unnecessary restrictions on the engagement of auditors for non-audit services where the provision of advice is of a higher quality and more cost-effective than other providers.

The policy covers the type of services permitted including:

- advice and assurance work regarding direct and indirect tax matters including tax compliance;
- due diligence investigations related to potential acquisitions and disposals; and
- accounting advice and reviews of accounting standards.

The Committee is confident that in reviewing the external auditors' Annual Audit Results Report the objectivity and independence of the auditors are not impaired by the provision of non-audit services. This report includes a statement confirming compliance by the auditors with the Auditing Practices Boards Ethical Standard 5 ('Non-Audit services provided to audit clients'). The Committee is satisfied that such non-audit work is best handled by them due to knowledge of the Group. The Committee aims to have non-audit work carried out in a manner that affords full value for money and considers it appropriate for commercial and practical reasons, including confidentiality, to use the external auditors for certain non-audit services. The amount of non-audit fees charged by auditors is disclosed in note 6 to the accounts.

The Nominations Committee

The Committee is chaired by Mr H V Reid and its members are the Chief Executive, Mr G E Tuppen and the three non-executive directors Mr A J Stewart, Mr D A Harding and Mrs S E Murray.

Corporate Governance

The Committee is responsible for proactively refreshing and reviewing the Board's composition. The Committee nominates, 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 Committee 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 comply with the principles set out in the Combined Code and satisfy the needs for the balance of the Board. Any appointments are based on merit and against objective criteria, including the time available to, and the commitment which will be required of, the potential director.

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 individual terms and conditions of appointment of directors can be inspected during normal office hours at the Company's registered office and at the Annual General Meeting.

During the year in review the Committee:

- reviewed the plan for the retirement of directors by rotation;
- reviewed the framework and the proposed timetable for succession planning for executive and non-executive appointments; and
- carried out an annual evaluation of its performance.

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. 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 on five occasions during the year and all Committee 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 30 to 39.

During the period in review the Committee:

- determined the remuneration for executive directors and the Chairman;
- reviewed overall levels of remuneration for senior managers;
- determined the awards and, where relevant, performance targets under the Company's incentive arrangements under the Annual Bonus Plan and Long Term Incentive Plan 2002 and 2005;
- agreed adjustments to outstanding awards under the Annual Bonus Plan and Long Term Incentive Plan 2002 and 2005 following the sub-division of ordinary shares from 5 pence to 2.5 pence on 17 January 2007;
- agreed the content and presentation of the remuneration report for inclusion in the report and accounts; and
- carried out an annual evaluation of its performance.

Corporate Governance

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 Chief Financial Officer. In addition and to ensure full compliance with its obligations under the Disclosure Rules published by the UK Listing Authority, the Company has established a Disclosure Committee comprising the Chairman, Chief Executive and Chief Financial Officer 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 including a policy based on the Model Code which cover the dealings in securities and applies to directors, persons discharging managerial responsibility and employee insiders.

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 critical self assessment performance evaluation programme in accordance with this principle and has effectively evaluated the Board, its Committees and its individual directors, including the Chairman.

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 these questionnaires are compiled into a report by the Deputy Company Secretary and the Chairman presented the findings to the Board. This year's review found that the Board's performance continues to be effective and appropriate for the needs of the business. In addition, the more operational stance taken at the Strategic Business Reviews provided valuable input into future business development and was welcomed by the Board.

Board Committee performance evaluation

For the Board Committee performance evaluation process each Committee Chairman and Committee member completed a questionnaire in which they were asked to score a number of performance criteria. The results of these questionnaires were compiled into a report by the Deputy Company Secretary and the Chairman presented the findings to the Board. This year's review found that the Committees continued to fully support the Board, were of the right size and structure and concluded that the Committees fully utilised the overall working relationships and discussions between members.

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 their questionnaire and to discuss matters in detail including any matters arising from the evaluation of the Board and Committee performance. 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 under the Annual Bonus Plan 2005.

Shareholder relations

The Board places considerable importance on maintaining clear communications with its stakeholders to ensure a mutual understanding of its objectives and has a continuing dialogue with institutional investors to

Corporate Governance

discuss the progress of the business and deal with a wide range of enquiries. This includes one-on-one meetings, 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 Chairman is responsible for ensuring, via the Company Secretary, that views of major shareholders are fed back to the Board on a regular basis. The effectiveness of how shareholder views are communicated forms part of the annual Board performance evaluation process. During the year information about the progress of the Company, including reports, regulatory announcements released through the London Stock Exchange and presentations, is made available simultaneously on its website so that shareholders have full access to material information. Directors regularly receive copies of analyst reports and reports on movements in major shareholdings as well as key broker comments.

The Annual General Meeting, held in January each year, is the principal opportunity to encourage participation by 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 17 January 2008 can be found in the Notice of the meeting on pages 116 to 119. The Notice is sent by first class post 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 Combined Code the Company has proposed in the Notice separate resolutions on each substantial matter. Again this year the Company is, in line with relevant guidelines, offering shareholders a facility for electronic proxy voting and voting through the CREST electronic proxy appointment service. The voting results are announced on the same day to the London Stock Exchange and on the Company's website.

The Company has adopted, pursuant to good investor practice, innovative ways of communicating with shareholders and has given 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 the new provisions introduced in the Companies Act 2006 and good environmental practice, the Company is seeking shareholder approval at the Annual General Meeting to expand the use of electronic and website communications in the future.

Finally the Company's Registrars, Computershare Investor Services PLC, deal with a wide range of investor queries on behalf of shareholders. Details of additional shareholder services are set out on page 115.

Internal Control

The Board is responsible for the overall system of internal control for the Group and for reviewing its effectiveness. It carries out such a review at least annually covering all material controls including financial, operational and compliance controls and risk management systems.

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, with advice from its Audit Committee, is satisfied that this 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.

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.

Corporate Governance

- An established organisational structure with clearly defined lines of responsibility and delegation of authority.
- An established internal audit function which implements the annual internal audit plan as agreed by the Committee.
- 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. 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) who have provided specific advice (not regarding remuneration) on matters relating to share schemes and the Enterprise Inns Incentive Plans (and who were appointed by the Committee for this purpose). E&Y are the Group's auditors and also provide advisory services in respect of non-audit matters and taxation. In addition, the Committee has sought advice relating to directors' remuneration and the Enterprise Inns Incentive Plan 2005 from New Bridge Street Consultants LLP (who were appointed by the Committee and who provide no other services to the Company save in respect of advice in connection with the operation of the Company's incentive schemes and executive remuneration more generally).

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.

When setting the remuneration of the executive directors, due regard is given by the Committee to pay and conditions elsewhere in the Group.

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 executive directors' 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.
- Performance related elements: comprising short-term performance related cash and deferred share bonuses and long-term incentive arrangements satisfied by the award of shares.

It is the Committee's policy that the performance related elements of the package should equate to around two-thirds of total remuneration for the executive directors based on an on-target, expected value approach to valuing the package.

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

Directors' Remuneration Report

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 against appropriate comparators and taking account of individual performance. Benefits principally comprise car allowances or the use of a motor car, fuel and private medical insurances. In determining the basic salary for the executive directors the Committee takes account of the changes to executive director responsibilities, benchmark data received from its remuneration advisers and the continuing outstanding performance of the executives.

Pensions

The pension contributions are amounts equal to 25% of basic salary. The Committee has agreed that from 1 October 2006 G E Tuppen would receive a sum equivalent to 25% of basic salary in lieu of his pension contributions as a salary supplement (this sum is not included in any bonus or share incentive award calculations).

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 24 January 2002 an ordinary resolution was passed adopting the Enterprise Inns Incentive Plan 2002 ("the 2002 Plan"). The 2002 Plan provided 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 Plan").

The 2005 Plan has replaced 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 (under which awards were last made for the financial year 2003/04), the short-term incentive depended upon achievement of annual growth in adjusted EPS measured against RPI. There was a one year performance period for awards. No short-term award was made unless adjusted EPS growth exceeded RPI by at least 2.5% over the performance period. To achieve the maximum award of 20% of salary, adjusted EPS growth must have exceeded RPI by 15%. Awards between the minimum and maximum limits were 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 and then remain exercisable for a further period of 72 months.

Short-term cash and share incentives under the 2005 Plan

Under the terms of the 2005 Plan (currently in operation) executive directors are eligible to participate in an annual bonus scheme as determined by the Committee. For the year under review the maximum award level under the 2005 Plan for the Chief Executive was 100% of salary. For the other executive directors the maximum award level was 75% of salary.

During the year under review it was agreed that from 1 October 2007 and in line with current market practice for FTSE 100 peers, these maximum award levels would be increased for the Chief Executive to 125% of salary and for executive directors to 100% of salary. The Committee is satisfied that this increase in bonus potential is appropriate given (i) practice amongst other FTSE 100 companies, (ii) the increase in bonus opportunity further strengthens the link between executives' pay and performance and (iii) the deferred share element of the short-term incentive (described more fully below). In addition, the Committee has taken account of this increase in bonus opportunity when determining the targets that are to apply to short-term incentive awards in the forthcoming year.

Directors' Remuneration Report

Awards under the 2005 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). Deferred Share awards may not ordinarily be exercised for 36 months after the end of the performance criteria period and then remain exercisable for a further period of 6 months. 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.

The cash bonus awards for the year are shown in the remuneration table on page 35.

Long-term share incentives under the 2002 Plan

Under the 2002 Plan, awards of ordinary shares were made to participants upon achievement of compound growth in adjusted EPS measured against RPI over 3 years (the final such award under the 2002 Plan was made for the financial year 2003/04). To qualify for any award, adjusted EPS growth must have exceeded 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 have exceeded 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 and then remain exercisable for a further period of 108 months.

Long-term share incentives under the 2005 Plan

Under the 2005 Plan (which is currently in operation), long-term incentive awards have 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 Plan; and
- shares acquired by participants using their cash bonus or other funds, up to the 25% of salary maximum.

Performance Share and Matching Share 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, for awards made under the 2005 Plan in the past and (it is currently intended) in the future, one-half of an award will be subject to a performance condition based on average compound annual adjusted EPS growth. This 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 Share Award that vests	Level of match under the relevant portion of Matching Share Award (Matching Award Shares: Investment Shares)
Less than 7%	0%	0:1
7%	20%	0.4:1
15%	100%	2:1

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

Directors' Remuneration Report

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 Share Award that vests	Level of match under the relevant portion of Matching Share 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.

All awards vest in three equal tranches on the third, fourth and fifth anniversaries of grant and remain exercisable for a further period of 6 months.

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, 20% of the total award will vest.

The Committee believes that these performance conditions are appropriate 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; and
- the TSR targets will require the Company to deliver returns to shareholders in excess of its FTSE 100 peers.

The Committee will, however, review the appropriateness of these performance conditions (and the operation of the 2005 Plan as a whole) on a regular basis in light of the Company's circumstances and prospects. The Committee will seek independent advice to determine the extent to which the adjusted EPS growth and TSR targets are met.

Remuneration Policy – Non-Executive Directors

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 in light of the time commitment and responsibilities of each individual. The Chairman's fee is approved by the Board on the recommendation of the Committee.

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 months' 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:

Directors' Remuneration Report

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
W S Townsend	31 October 2000	1 October 2000	12 months

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 13 and 14.

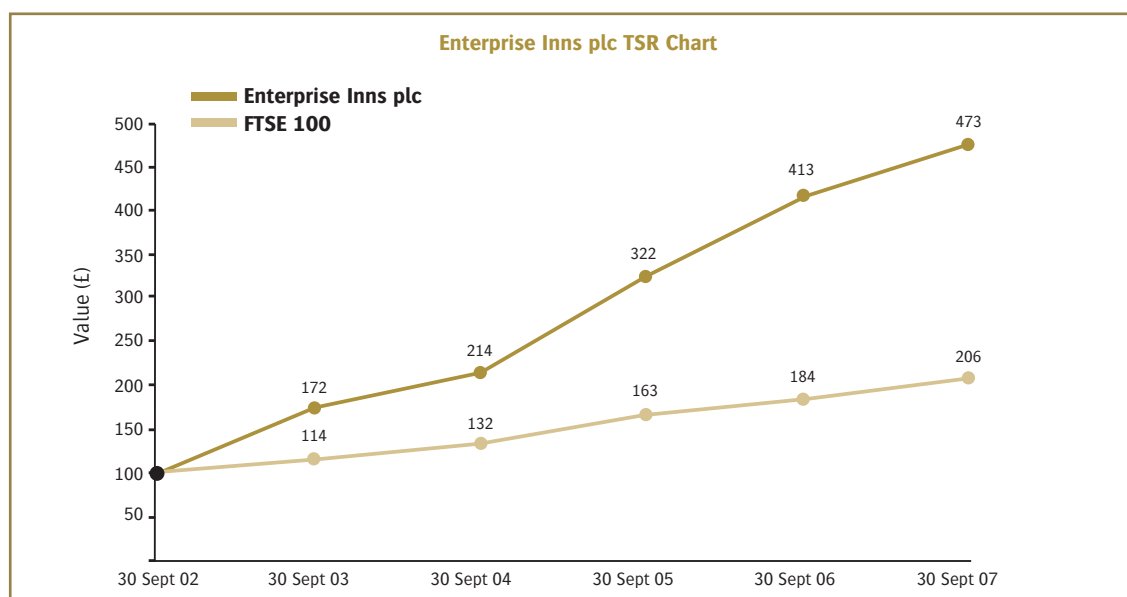
Forward-looking statement

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, in terms of the change in value (with dividends reinvested) of an initial investment of £100 on 30 September 2002 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. The graph shows that the Company has outperformed the index over this period.



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)	Total 2007	Total 2006
H V Reid	210	—	—	—	210	180
A J Stewart	60	—	—	—	60	50
D A Harding	55	—	—	—	55	45
S E Murray	50	—	—	—	50	40
Executive Directors						
G E Tuppen (c)	—	575	23	345	943	863
D C George	—	345	21	155	521	477
W S Townsend	—	320	21	140	481	408
	375	1,240	65	640	2,320	2,063

- (a) Benefits include car allowances or the use of a motor car, fuel, private medical insurances and professional fees.
- (b) The Chairman and non-executive directors are not eligible for performance related bonuses or share awards under the Plans. The bonus disclosed relates to the cash bonus awarded under the 2005 Plan and earned in the year ended 30 September 2007. The performance related payment reflects another year of good performance by the Company. Details of the Deferred Share awards made under the 2005 Plan are shown separately in this report.
- (c) In addition, for the year under review, G E Tuppen was paid a salary supplement of £144,000 in lieu of a contribution to his personal pension scheme.

The pension contributions paid to the directors' individual defined contribution schemes and salary supplements in lieu of contributions are shown below:

Executive Directors	2007	2006
	£'000	£'000
G E Tuppen	144*	131
D C George	86	79
W S Townsend	80	68
	310	278

* Paid as a salary supplement with effect from 1 October 2006.

Directors' Remuneration Report

Interest in options

The executive directors and other employees are able to acquire shares in the Company by participating in the Enterprise Inns Savings Related Share Options Scheme and options granted under this scheme, together with details of options exercised during the year, are set out in the table below. There are no performance conditions restricting the exercise of options held under this scheme (reflecting the relevant legislation).

Name	Exercise price £*	At 1 Oct 2006*	Exercised	Lapsed	Granted	At 30 Sept 2007	Market price at exercise £	Aggregate gain £'000
G E Tuppen	3.535	4,554	—	—	—	4,554(i)	—	—
D C George	3.535	4,554	—	—	—	4,554(i)	—	—
W S Townsend	1.0475	9,464	(9,464)	—	—	—	6.49	52
	3.535	1,820	—	—	—	1,820(i)	—	—
	4.67	—	—	—	2,102	2,102(ii)	—	—
		11,284	(9,464)	—	2,102	3,922		52

* The exercise price and number of shares have been adjusted where appropriate to take into account the sub-division of ordinary shares on 17 January 2007.

Notes:

- (i) Exercise period 01/02/2011–01/08/2011.
- (ii) Exercise period 01/02/2012–01/08/2012.

Directors' Remuneration Report

Short-term share incentives

Details of short-term awards made under the 2005 Plans, together with details of awards exercised under the 2002 Plan during the year, are set out in the table below:

Name/Scheme	Date of grant	At 1 Oct 2006*	Granted	Exercised*	At 30 Sept 2007	Market price at exercise £	Aggregate gain £'000	Market value £'000 (iii)	Exercisable From	To
G E Tuppen										
2002 Plan	22/12/2003	24,098	—	(24,098)	—	6.15	148	—	—	—
2005 Plan	17/11/2005	43,610(i)	—	—	43,610	—	—	258	17/11/2008	17/05/2009
2005 Plan	14/11/2006	35,134(ii)	—	—	35,134	—	—	208	14/11/2009	14/05/2010
2005 Plan	13/11/2007	—	38,851(iv)	—	38,851	—	—	230(v)	13/11/2010	28/05/2011
		102,842	38,851	(24,098)	117,595		148			
D C George										
2002 Plan	22/12/2003	14,458	—	(14,458)	—	6.15	89	—	—	—
2005 Plan	17/11/2005	19,624(i)	—	—	19,624	—	—	116	17/11/2008	17/05/2009
2005 Plan	14/11/2006	15,810(ii)	—	—	15,810	—	—	94	14/11/2009	14/05/2010
2005 Plan	13/11/2007	—	17,483(iv)	—	17,483	—	—	103(v)	13/11/2010	28/05/2011
		49,892	17,483	(14,458)	52,917		89			
W S Townsend										
2002 Plan	22/12/2003	11,698	—	(11,698)	—	6.15	69	—	—	—
2005 Plan	17/11/2005	15,918(i)	—	—	15,918	—	—	94	17/11/2008	17/05/2009
2005 Plan	14/11/2006	13,190(ii)	—	—	13,190	—	—	78	14/11/2009	14/05/2010
2005 Plan	13/11/2007	—	15,783(iv)	—	15,783	—	—	93(v)	13/11/2010	28/05/2011
		40,806	15,783	(11,698)	44,891		69			

* The number of shares have been adjusted where appropriate to take into account the sub-division of ordinary shares from 5 pence to 2.5 pence per share on 17 January 2007.

Notes:

- (i) These shares have vested and have been used to count 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 2005 Plan, details of which are set out below.
- (ii) These shares have vested and have been used to count towards the participant's co-investment in Investment Shares for the purposes of calculating the Matching Share award for the financial year 2006/07 under the 2005 Plan, details of which are set out below.
- (iii) Market value is calculated using the mid market price of the ordinary shares at 30 September 2007 being £5.92.
- (iv) The share price at which the number of Deferred Shares granted under the 2005 Plan is calculated will not be confirmed until after the date of the approval of the accounts. The number of Deferred Shares to be awarded for the financial year 2006/07 is therefore estimated using the mid market price of the ordinary shares at 30 September 2007 being £5.92.
- (v) Market value is based on a percentage of basic salary earned as a result of achievement of performance objectives for the year 2006/07. These awards have become unconditional since the end of the financial year. It is intended that the relevant portion of 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 2007/08 under the 2005 Plan, details of which are set out below.

£1 in aggregate is payable by the participants on the exercise of each year's short-term incentive award.

Directors' Remuneration Report

Long-term share incentives

Details of long-term awards made under the 2002 and 2005 Plans, together with details of awards exercised during the year, are set out in the table below:

Name/Scheme	Date of grant	At 1 Oct 2006*	Awarded Performance Shares*	Awarded Matching Shares*	Exercised	Lapsed	At 30 Sept 2007	Market price at exercise £	Aggregate gain £'000	Market value £'000 (v)	Exercisable From	To
G E Tuppen												
2002 Plan	20/12/2002	314,422	—	—	(314,422)	—	—	6.15	1,934	—	—	—
2002 Plan	22/12/2003(i)	209,470	—	—	—	—	209,470	—	—	1,240	1/10/2008	22/12/2017
2005 Plan	04/02/2005(ii)	280,740	—	—	—	—	280,740	—	—	1,662	4/02/2008	4/08/2010
2005 Plan	19/12/2005(iii)	238,498	—	—	—	—	238,498	—	—	1,412	19/12/2008	19/06/2011
2005 Plan	15/12/2006(iv)	—	144,302	48,100	—	—	192,402	—	—	1,139	15/12/2009	15/06/2012
		1,043,130	144,302	48,100	(314,422)	—	921,110		1,934			
D C George												
2002 Plan	20/12/2002	188,654	—	—	(188,654)	—	—	6.15	1,160	—	—	—
2002 Plan	22/12/2003(i)	125,682	—	—	—	—	125,682	—	—	744	1/10/2008	22/12/2017
2005 Plan	04/02/2005(ii)	168,442	—	—	—	—	168,442	—	—	997	4/02/2008	4/08/2010
2005 Plan	19/12/2005(iii)	143,098	—	—	—	—	143,098	—	—	847	19/12/2008	19/06/2011
2005 Plan	15/12/2006(iv)	—	86,580	28,860	—	—	115,440	—	—	683	15/12/2009	15/06/2012
		625,876	86,580	28,860	(188,854)	—	552,462		1,160			
W S Townsend												
2002 Plan	20/12/2002	154,128	—	—	(154,128)	—	—	6.15	948	—	—	—
2002 Plan	22/12/2003(i)	105,384	—	—	—	—	105,384	—	—	624	1/10/2008	22/12/2017
2005 Plan	04/02/2005(ii)	140,370	—	—	—	—	140,370	—	—	831	4/02/2008	4/08/2010
2005 Plan	19/12/2005(iii)	122,656	—	—	—	—	122,656	—	—	726	19/12/2008	19/06/2011
2005 Plan	15/12/2006(iv)	—	80,306	26,768	—	—	107,074	—	—	634	15/12/2009	15/06/2012
		522,538	80,306	26,768	(154,128)	—	475,484		948			

* The number of shares have been adjusted where appropriate to take into account the sub-division of ordinary shares from 5 pence to 2.5 pence per share on 17 January 2007.

Directors' Remuneration Report

Notes:

- (i) The award is calculated using average salary paid to participants between 1 October 2003 and 30 September 2006. Market value of each share is taken at the start of the incentive period (230.9 pence as adjusted to take into account the sub-division of ordinary shares from 5 pence to 2.5 pence per share on 17 January 2007).
- (ii) The award is calculated at a maximum of 150% of salary at the start of the performance period as defined under the 2005 Plan. Market value is calculated on the average share price over the five dealing days following announcement of the results for the financial year 2003/04 (341.9 pence as adjusted to take into account the sub-division of ordinary shares from 5 pence to 2.5 pence per share on 17 January 2007). The number of shares that will vest under this award are still subject to the satisfaction of the TSR condition and approval of the Committee.
- (iii) The award is calculated at a maximum of 150% of salary at the start of the performance period as defined under the 2005 Plan. Market value is calculated on the average share price over the five dealing days following announcement of the results for the financial year 2004/05 (440.25 pence as adjusted to take into account the sub-division of ordinary shares from 5 pence to 2.5 pence per share on 17 January 2007).
- (iv) The award is calculated at a maximum of 150% of salary at the start of the performance period as defined under the 2005 Plan. Market value is calculated on the average share price over the five dealing days following announcement of the results for the financial year 2005/06 (597.7 pence as adjusted to take into account the sub-division of ordinary shares from 5 pence to 2.5 pence per share on 17 January 2007).
- (v) Market value is calculated using the mid market price of the ordinary shares at 30 September 2007 being £5.92 per share.

The high and low share prices during the year were £7.745 and £5.24 pence respectively.

The fair value of short-term and long-term incentive plans recognised as a cost in the Income Statement during the year is shown in note 28 to the accounts on page 70.

Shareholders are invited to approve this report at the Annual General Meeting on 17 January 2008, details of which are set out on pages 116 to 119.

On behalf of the Board

A J Stewart

Chairman of the Remuneration Committee

19 November 2007

Group Income Statement

for the year ended 30 September 2007

	Notes	2007			2006		
		Pre-exceptional items £m	Exceptional items £m	Total £m	Pre-exceptional items £m	Exceptional items £m	Total £m
Revenue	2	921	—	921	970	—	970
Cost of sales	3	(359)	—	(359)	(387)	—	(387)
Gross profit		562	—	562	583	—	583
Administrative expenses		(34)	—	(34)	(36)	(2)	(38)
EBITDA†	4	528	—	528	547	(2)	545
Depreciation and amortisation		(7)	—	(7)	(8)	—	(8)
Operating profit	5	521	—	521	539	(2)	537
Net profit on sale of property, plant and equipment	7	—	22	22	—	67	67
Movements from revaluation of pub estate	8	—	(2)	(2)	—	(2)	(2)
Interest receivable		8	—	8	6	—	6
Interest payable	10	(228)	—	(228)	(230)	—	(230)
Write off of unamortised issue costs	10	—	—	—	—	(3)	(3)
Movement in fair value of financial instruments	10	—	16	16	—	40	40
Total finance costs	10	(228)	16	(212)	(230)	37	(193)
Profit before tax		301	36	337	315	100	415
Taxation	11	(85)	39	(46)	(95)	5	(90)
Profit after tax attributable to members of the parent company		216	75	291	220	105	325
Earnings per share‡							
Basic	12			53.4p			50.5p
Basic diluted	12			53.0p			50.0p
Adjusted*	12	39.6p			34.2p		
Adjusted diluted*	12	39.3p			33.9p		
Dividends‡							
Dividends paid per share in respect of the year	13			5.2p			4.5p
Dividends proposed per share in respect of the year	13			10.4p			9.0p
				15.6p			13.5p

† Earnings before interest, tax, depreciation and amortisation.

‡ Restated for the sub-division of shares from 5 pence to 2.5 pence per share on 17 January 2007.

* Excludes exceptional items.

Group Statement of Recognised Income and Expense

for the year ended 30 September 2007

	2007	2006
	£m	£m
Unrealised surplus on revaluation of licensed estate	312	323
Movement in deferred tax liability related to revaluation of licensed estate	(75)	(91)
Tax relating to share schemes recognised directly in equity	3	5
Gains on cash flow hedges	6	—
Deferred tax relating to gains on cash flow hedges	(2)	—
Actuarial gain on defined benefit pension scheme	2	—
Deferred tax relating to gain on defined benefit pension scheme	(1)	—
Restatement of deferred tax for change in UK tax rate	24	—
Net income recognised directly in equity	269	237
Profit for the year	291	325
Total recognised income and expense for the year attributable to members of the parent company	560	562

Group Balance Sheet

at 30 September 2007

	Notes	2007 £m	Restated* 2006 £m
Non-current assets			
Goodwill	14	417	417
Investments	15	—	2
Intangible assets: operating lease premiums	16	19	24
Property, plant and equipment	17	5,710	5,343
Pension scheme	26	2	—
Financial assets	22	4	1
		6,152	5,787
Current assets			
Assets held for sale	18	8	6
Trade and other receivables	19	91	94
Cash		90	111
Financial assets	22	4	1
		193	212
Non-current assets held for sale	20	11	10
Total assets		6,356	6,009
Current liabilities			
Trade and other payables	21	(200)	(210)
Current tax payable		(59)	(52)
Financial liabilities	22	(77)	(128)
Provisions	24	—	(1)
		(336)	(391)
Non-current liabilities			
Financial liabilities	22	(3,819)	(3,316)
Accruals and deferred income		(4)	(4)
Provisions	24	(3)	(4)
Deferred tax	25	(711)	(692)
		(4,537)	(4,016)
Total liabilities		(4,873)	(4,407)
Net assets		1,483	1,602
Equity			
Called up share capital	27	14	16
Share premium account	29	486	486
Revaluation reserve	29	1,096	845
Capital redemption reserve	29	11	9
Merger reserve	29	77	77
Treasury share reserve	29	(227)	(227)
Other reserve	29	(31)	(42)
Cash flow hedge reserve	29	4	—
Profit and loss account	29	53	438
Enterprise Inns shareholders' equity	29	1,483	1,602

* See note 1.

Approved by the Board on 19 November 2007 and signed on its behalf by:

G E Tuppen
D C George

Group Cash Flow Statement

for the year ended 30 September 2007

	2007 £m	2006 £m
Cash flow from operating activities		
Operating profit	521	537
Depreciation and amortisation	7	8
Share-based expense recognised in profit	3	3
Decrease/(increase) in receivables	6	(10)
Decrease in payables	(10)	(2)
Decrease in provisions	(2)	(3)
(Increase)/decrease in current assets held for sale	(2)	1
	523	534
Tax paid	(71)	(69)
Net cash flows from operating activities	452	465
Cash flows from investing activities		
Payments to acquire public houses	(91)	(80)
Payments made on improvements to public houses	(75)	(54)
Payments to acquire other property, plant and equipment	(3)	(7)
Receipts from sale of property, plant and equipment	128	362
Receipts from sale of investments	1	—
Net cash flows from investing activities	(40)	221
Cash flows from financing activities		
Interest paid	(228)	(234)
Interest received	8	7
Issue costs of long-term loans	—	(4)
Equity dividends paid	(79)	(70)
Payments to acquire shares held in employee benefit trust	—	(17)
Payments to acquire own shares	(667)	(388)
Receipts from exercise of share options	5	5
Restructuring of interest rate swaps	(1)	(30)
Debt due in less than one year — new short-term loans	75	—
Debt due in less than one year — repayment of short-term loans	(40)	—
Debt due beyond one year — new long-term loans	685	602
Debt due beyond one year — repayment of long-term loans	(191)	(542)
Net cash flows from financing activities	(433)	(671)
Net (decrease)/increase in cash	(21)	15
Cash at 1 October	111	96
Cash at 30 September	90	111

Notes to the Group Accounts

at 30 September 2007

1. Accounting Policies

The consolidated financial statements of Enterprise Inns plc for the year ended 30 September 2007 were authorised for issue by the Board on 19 November 2007. Enterprise Inns plc is a public limited company incorporated and registered in England. The Company's ordinary shares are traded on the London Stock Exchange.

Basis of preparation

The accounts are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Consolidated accounts are drawn up to 30 September each year and adjustments are made to the accounts of the subsidiaries where necessary to bring the accounting policies used in line with those used by the Group.

The 2006 balance sheet has been adjusted with respect to the treatment of contingent agreements entered into regarding share buy-backs during the close period. In accordance with IAS 32 'Financial Instruments: Disclosure and Presentation' a financial liability has been recognised as the Company has entered into a contingent agreement with a third party which requires the Company to purchase shares during the close period. We have restated the Balance Sheet for the comparative periods to recognise the financial liability estimated to have existed at those dates.

Goodwill

Goodwill represents the excess of consideration over the fair value of identifiable assets and liabilities acquired in a business combination. Goodwill is stated at cost less any impairment. Goodwill is not amortised but is tested for impairment annually, or more frequently where events or changes in circumstances indicate that the carrying value may be impaired. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of profit or loss on sale.

Goodwill arising on acquisitions prior to 1 October 1998 was written off against reserves and has not been reinstated. Any such goodwill is not included in determining any profit or loss on disposal.

Property, plant and equipment

Licensed land and buildings are held at their fair value and landlords' fixtures and fittings and other assets are held at cost. The Group's licensed land and buildings, except for those non-current assets held for sale, is revalued each year by professionally qualified external valuers and employees who are professionally qualified to carry out such valuations. Surpluses arising from the revaluation exercise are taken directly to the revaluation reserve except where they reverse a revaluation decrease relating to the same asset which has previously been recognised as an expense in the Income Statement. Any deficit arising from the revaluation exercise is taken directly to the revaluation reserve to the extent that there is a surplus in place relating to the same asset. Any further decrease in value is recognised in the Income Statement as an expense.

Freehold land is not depreciated. Freehold buildings are depreciated so as to write off the difference between their carrying value and residual value over their useful economic life of 50 years. Residual value is reviewed at least at each financial year end and there is no depreciable amount if residual value is the same as, or exceeds, book value.

Landlords' fixtures and fittings are held at cost less accumulated depreciation. The useful economic life of additions to landlord's fixtures and fittings has been calculated at 30 years. Depreciation is charged on a straight-line basis to write off the total cost less residual value over their useful economic life.

Properties held under finance leases are depreciated on a straight-line basis over the lower of the remaining lease term and their useful economic life of 50 years.

Depreciation is provided on other categories of property, plant and equipment over 3 to 50 years on a straight-line basis to residual value.

Profits or losses on disposal of property, plant and equipment are calculated as the difference between the net sales proceeds and the carrying amount of the asset at the date of disposal.

Notes to the Group Accounts

at 30 September 2007

1. Accounting Policies (continued)

Property, plant and equipment are reviewed annually for indications of impairment. Where any indications are identified, assets are assessed fully for impairment. Impairment occurs where the recoverable amount of the asset is less than its carrying amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Any impairment loss is treated as a revaluation decrease to the extent that a surplus exists for the same asset, and thereafter as an expense in the Income Statement.

Leases

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Pubs acquired under finance leases are capitalised at the lower of their fair value and the present value of future minimum lease payments. The corresponding liability is included in the balance sheet as a finance lease payable. Pubs held under finance leases are revalued along with the freehold estate on an annual basis. Lease payments are apportioned between finance charges and reduction of the lease liability so as to obtain a constant rate of interest on the remaining balance of the liability. Finance charges are charged as an expense to the Income Statement.

Leases where substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals paid under operating leases are charged on a straight-line basis to the Income Statement over the lease term. The fair value attributed to pubs acquired as part of business combinations that are held as operating leases are classified in the balance sheet as 'intangible assets: operating lease premiums' within non-current assets and are amortised over the lease term.

Non-current assets held for sale

Non-current assets held for sale are held at the lower of their carrying value and expected sale proceeds, net of selling costs. Pubs and operating lease intangibles are classified as held for sale when they have been identified for disposal by the Group. They must be available for immediate sale in their present condition and the sale should be highly probable. These conditions are met when management are committed to the sale, the pub or lease is actively marketed and the sale is expected to occur within one year. Pubs held for sale are not depreciated and operating lease intangibles held for sale are not amortised.

Current assets held for sale

Current assets held for sale comprises tenants' fixtures and fittings and are held at the lower of cost and net realisable value. Net realisable value is based on estimated selling price less further costs expected to be incurred on disposal.

Repairs and maintenance

Repairs and maintenance expenditure is charged to the Income Statement as incurred.

Financial instruments

i) Cash and cash equivalents

Cash comprises cash at bank and in hand. Any short-term deposits with an original maturity date of three months or less are classified as cash equivalents.

ii) Borrowings

Borrowings which include bank borrowings, syndicated debt finance, debentures, secured bonds and securitised bonds are initially recognised at fair value and are subsequently measured at amortised cost. This method is used to ensure that the interest charge associated with the debt, combined with the amortisation of the issue costs, premiums and discounts, represents a constant percentage of the borrowings across the life of the instrument.

iii) Derivative financial instruments

The Group uses interest rate swaps to manage the exposure to changes in interest rates and these are classified as derivative financial instruments. Interest rate swaps are initially measured at fair value on acquisition and are subsequently restated to fair value at each reporting date. Any change in the fair value of the instruments is recognised in the Income Statement unless hedge accounting has been adopted. Hedge accounting is only adopted where, at the inception of the hedge, there is formal designation documentation of the hedging relationship and it meets the Group's risk management strategy for undertaking the hedge, and it is expected to be highly effective.

Notes to the Group Accounts

at 30 September 2007

1. Accounting Policies (continued)

The portion of any change in the fair value of the hedging instrument used in a cash flow hedge which meets the conditions for hedge accounting and is determined to be an effective hedge, is recognised directly in equity. Changes in fair value relating to any ineffective portions are recognised in the Income Statement. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gains or losses arising from changes in the fair value of the hedging instrument recognised in equity are kept in equity until the forecast transaction occurs. In the case of interest rate swaps, the 'forecast transaction' is the payment of interest.

iv) Equity instruments

Equity instruments, being ordinary shares issued by the Company, are recorded at the fair value of the proceeds received, net of any direct issue costs. The nominal value of shares issued is recorded in Share Capital and the balance of the net proceeds is recorded in Share Premium.

Net debt

Net debt is the total of all financial assets and liabilities less cash. Underlying net debt is amounts repayable to banks and other lenders, net of cash retained in the business.

Taxation

The income tax expense comprises both the income tax payable based on taxable profits for the year and deferred tax. Deferred tax is provided using the balance sheet liability method in respect of temporary differences between the carrying value of assets and liabilities for accounting and tax purposes. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. No deferred tax is recognised if the taxable temporary difference arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Current tax assets and liabilities are offset where there is a legally enforceable right to set off the recognised amounts and the intention is to either settle on a net basis or realise the asset and liability simultaneously. Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and the assets and liabilities relate to taxes levied by the same tax authority which are intended to be settled net or simultaneously.

Both current and deferred tax are recognised in the Income Statement except when it relates to items recognised directly in equity, in which case the corresponding tax is also recognised in equity. Tax is calculated using tax rates enacted or substantively enacted at the balance sheet date.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, the amount of the provision is discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The amount of the provision would therefore represent the present value of the expenditure expected to be required to settle the obligation.

Pension obligations

The Group has both defined contribution and defined benefit pension arrangements.

The cost of defined contribution payments made to employees' own pension plans is charged to the Income Statement as incurred.

The defined benefit scheme is now closed to new members and for the future accrual of benefits. The net amount recognised in the balance sheet comprises the difference between the present value of the scheme's liabilities and the fair value of the scheme's assets. This is determined annually by qualified actuaries using the projected unit credit method. Current service cost and past service cost are charged to operating profit. The net of the expected return on scheme assets and interest on scheme liabilities is recognised within finance income or finance costs. Actuarial gains and losses are recognised in full in the period in which they occur in the Statement of Recognised Income and Expense.

Notes to the Group Accounts

at 30 September 2007

1. Accounting Policies (continued)

Treasury shares

The cost of own shares held in employee benefit trusts and in treasury is deducted from shareholders' equity until the shares are cancelled, reissued or disposed of. Any proceeds received are also taken to shareholders' equity. No gain or loss is recognised in the Income Statement on the purchase, sale, issue or cancellation of own shares held.

Revenue recognition

Revenue represents amounts receivable for goods and services provided in the normal course of business, net of discounts and VAT. Revenue is measured as the fair value of consideration received or receivable. Sales of beverages are recognised when these goods are delivered to our customers. Rents receivable are recognised on a straight-line basis over the life of the lease. Amusement machine royalties are recognised in the accounting period to which the income relates.

Segmental reporting

A business segment is a distinguishable component of an entity that provides a product or service that is subject to risks and returns that are different to those of other segments. The Group has one business segment, being the operation of a leased and tenanted pub estate. The Group operates solely within the UK and therefore also has just one geographical segment.

Share-based payments

The Group has applied the transitional provisions of IFRS 2 'Share Based Payments' and applied its requirements to those awards granted after 7 November 2002 that were not vested at 1 January 2005.

The Group operates a number of equity-settled share-based payment schemes for employees. Share-based payments are measured at fair value at the date of award and this value is subsequently updated at each balance sheet date for management's best estimate of the effect of non-market based vesting conditions on the number of equity instruments that will ultimately vest. The fair value is recognised as an expense over the vesting period by calculating the cumulative expense and recognising the movement in the cumulative expense in the Income Statement. A corresponding entry is made to equity. The fair value of share options is measured using valuation models.

Dividends

Final dividends are recognised as a liability when they have been approved by shareholders at the Annual General Meeting. Interim dividends are recognised when they are paid.

Operating profit

Operating profit as referred to in the Income Statement is defined as being profit generated from normal trading activities before interest receivable, finance costs and taxation.

Exceptional items

The Group has elected to classify certain items as exceptional and present them separately on the face of the Income Statement. Exceptional items are classified as those which are separately identified by virtue of their size or nature to allow a full understanding of the underlying performance of the Group and include the following:

Exceptional administrative costs

The exceptional item shown within administrative costs relates to restructuring costs.

Net profit on sale of property, plant and equipment

Net profit arising from the sale of property, plant and equipment.

Movements from revaluation of pub estate

Under IFRS any revaluation that causes the book value of a pub to fall below historic cost will lead to a charge in the Income Statement. If that same pub later recovers in value so that its book value exceeds historic cost, the increase in value is credited to the Income Statement to the extent that a debit was previously recognised. Where pubs identified for disposal are written down to 'fair value less costs to sell', this write-down is also recognised in this line. Most of the impact of the annual revaluation exercise is accounted for in equity and recognised in the Statement of Recognised Income and Expense.

Notes to the Group Accounts

at 30 September 2007

1. Accounting Policies (continued)

Movement in fair value of financial instruments

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

Tax

Under IFRS, a deferred tax liability has been recognised on the balance sheet relating to the pub estate. On transition to IFRS, the Group elected to apply IFRS 3 retrospectively to acquisitions from 1 January 1999. This led to an increase in goodwill in respect of this deferred tax. As this pre-acquisition liability reduces due to capital gains indexation relief, a credit is recognised in the Income Statement. This has been classified as an exceptional tax item due to its size and because it does not relate to any income or expense recognised in the Income Statement in the same period. All other movements in respect of this deferred tax liability are accounted for in equity and recognised in the Statement of Recognised Income and Expense.

The tax effect of all other exceptional items is also included within the exceptional items column in the Income Statement.

New standards and interpretations

The Company has elected to adopt early IFRS 7 'Financial Instruments: Disclosure' which is not yet mandatory for adoption.

A number of other new standards and interpretations were issued by the IASB and IFRC with an effective date after the date of these financial statements. The following standards which are relevant to the Company are not expected to have a material impact on the financial statements although the Amendment to IAS 1 may require some additional disclosure. The effective dates below represent the latest date that the Company will be required to implement the standard:

- Amendment to IAS 1 – Capital Disclosures – effective from 1 October 2007
- Amendment to IAS 23 – Borrowing Costs – effective from 1 January 2009
- IFRIC 11 – Group and Treasury Share Transactions – effective from 1 October 2007
- IFRS 8 – Operating Segments – effective from 1 January 2009
- IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – effective 1 October 2008

Use of accounting estimates and judgements

The Group makes estimates and assumptions during the preparation of the financial statements. Actual results may differ from these estimates under different assumptions and conditions. The estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements are discussed below:

a) Property, Plant and Equipment

Properties are valued annually at open market value in accordance with the Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors ('RICS'). The valuation is based on market observations and estimates the amount that would be paid by a willing buyer to a willing seller in an arms length transaction after proper marketing. Non-current assets held for sale are valued at the lower of their carrying value and their market value less any costs that may be incurred to sell the pub. Further information about the valuation of the pub estate is provided in note 17 of these accounts.

The Group estimates the useful economic life and residual value of property, plant and equipment (PPE) and these estimates influence the depreciation charged each year. For details of these estimates, see the detailed accounting policy for PPE.

Notes to the Group Accounts

at 30 September 2007

1. Accounting Policies (continued)

b) Testing goodwill for impairment

The Group annually tests whether goodwill has been impaired. The recoverable amount of the cash generating unit that the goodwill has been allocated to is determined based on value-in-use calculations which require estimating future cash flows and applying a suitable discount rate. Details of the tests and carrying value of the asset are shown in note 14.

c) Valuation of interest rate swaps

The Group measures interest rate swaps at fair value at each balance sheet date. The swap valuation rates are derived from the mid point of the zero coupon prevailing at the close of business on the balance sheet date. The fair value represents the net present value of the difference between the projected cash flows at the swap contract rate and the valuation rate for the period from the balance sheet date to the contracted expiry date. The calculation therefore uses estimates of present values and future interest rates.

d) Taxation

Judgement is required when determining the provision for taxes as the tax treatment of some transactions cannot be finally determined until a formal resolution has been reached with the tax authorities. Tax benefits are not recognised unless it is probable that the benefit will be obtained. Tax provisions are made if it is expected that a liability will arise. The Group reviews each significant tax liability or benefit to assess the appropriate accounting treatment.

e) Other

The Group also makes estimations and judgements in the valuation of share-based payments and the pension liability. However, the value of these items is such that any variation in the estimates used is unlikely to have a significant effect on the amounts recognised in the financial statements.

Share buy-backs in close period

The 2006 Balance Sheet has been adjusted with respect to the treatment of contingent agreements entered into regarding share buy-backs during the close period. In accordance with IAS 32 'Financial Instruments: Presentation' a financial liability has been recognised as the Company has entered into a contingent agreement with a third party which requires the Company to purchase shares acquired during the close period. The Balance Sheet has been restated for the comparative period to recognise the financial liability estimated to have existed at that date of £74 million.

2. Revenue

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

Revenue is derived as follows:

	2007	2006
	£m	£m
Beer and cider sales	602	635
Wines, spirits and minerals sales	33	36
Rents receivable	261	270
Income from amusement and other machines	25	29
	921	970

Notes to the Group Accounts

at 30 September 2007

3. Cost of sales

	2007 £m	2006 £m
Beer and cider cost of sales	326	349
Wines, spirits and minerals cost of sales	26	28
Leasehold charges	3	4
Repairs and maintenance	4	6
	359	387

4. EBITDA – impact of disposal of pubs

The Group disposed of 769 pubs to Admiral Taverns on 6 September 2006 and its Scottish estate of 137 pubs to Retail and Licensed Properties Limited on 5 December 2006.

The pubs disposed of generated a total of £2 million of EBITDA before exceptional items in the year ended 30 September 2007 and £40 million in the year ended 30 September 2006.

An analysis of the impact of these disposals on current and prior period EBITDA is set out below, to allow for a like-for-like comparison.

Reconciliation of EBITDA

Year ended 30 September 2007	As reported £m	Disposals £m	Pro-forma £m
Revenue			
Beer and cider sales	602	(2)	600
Wines, spirits and minerals sales	33	–	33
Rents receivable	261	(1)	260
Income from amusement and other machines	25	–	25
	921	(3)	918
Cost of sales			
Beer and cider cost of sales	(326)	1	(325)
Wines, spirits and minerals cost of sales	(26)	–	(26)
Leasehold charges	(3)	–	(3)
Repairs and maintenance	(4)	–	(4)
	(359)	1	(358)
Administrative expenses	(34)	–	(34)
EBITDA before exceptional items	528	(2)	526

Reconciliation of EBITDA

Year ended 30 September 2006	As reported £m	Disposals £m	Pro-forma £m
Revenue			
Beer and cider sales	635	(47)	588
Wines, spirits and minerals sales	36	(3)	33
Rents receivable	270	(15)	255
Income from amusement and other machines	29	(4)	25
	970	(69)	901
Cost of sales			
Beer and cider cost of sales	(349)	26	(323)
Wines, spirits and minerals cost of sales	(28)	2	(26)
Leasehold charges	(4)	1	(3)
Repairs and maintenance	(6)	–	(6)
	(387)	29	(358)
Administrative expenses	(36)	–	(36)
EBITDA before exceptional items	547	(40)	507

Notes to the Group Accounts

at 30 September 2007

5. Operating profit

Operating profit is stated after charging:

	2007 £m	2006 £m
Depreciation		
Relating to cost of sales	6	6
Relating to administrative expenses	—	1
	6	7
Amortisation		
Relating to cost of sales	1	1
Depreciation and amortisation	7	8

6. Auditors' remuneration

This note is shown rounded to the nearest thousand

	2007 £000	2006 £000
Group audit fees	230	293
Audit fees in respect of subsidiaries	45	49
Other fees pursuant to legislation	22	59
Tax fees	318	189
All other services	41	36
	656	626

Tax fees in 2007 includes fees incurred in respect of advice on REITs of £180,000.

7. Net profit on disposal of property, plant and equipment

	2007 £m	2006 £m
Profits on disposal of property, plant and equipment	24	97
Losses on disposal of property, plant and equipment	(2)	(30)
	22	67

There is no current tax expense associated with the profit on sale of property. A deferred tax charge of £7 million (2006 — £19 million) arises as a result of the disposal of these properties.

8. Movements on revaluation of pub estate

	2007 £m	2006 £m
Movements on revaluation of pub estate	(1)	1
Write-down of non-current assets held for sale to fair value less costs to sell	(1)	(3)
	(2)	(2)

There is no current tax expense associated with these movements. A deferred tax credit of £1 million (2006 — £1 million) arises as a result of the revaluation and write-down of these properties.

Notes to the Group Accounts

at 30 September 2007

9. Staff costs

	2007 £m	2006 £m
Wages and salaries	22	24
Social security costs	3	3
Other pension costs	2	2
	27	29

Included in wages and salaries is a total expense relating to share-based payments of £3 million (2006 — £3 million). All of this expense arises from transactions accounted for as equity-settled share-based payments (see note 28). Other pension costs represents payments made into employees' individual defined contribution plans. The average monthly number of employees comprised:

	2007 No.	2006 No.
Operations staff	220	244
Administration staff	290	283
	510	527

Directors' emoluments are summarised below to the nearest £'000 with full detail given in the Directors' Remuneration Report.

	2007 £'000	2006 £'000
Directors' emoluments*	2,320	2,478
Share-based payments†	1,828	2,078
Aggregate gains made on exercise of share options	4,400	5,499

* Comprises fees, salary, benefits and performance-related bonus.

† Fair value of share-based payments charged to the Income Statement during the year.

10. Finance costs

	2007 £m	2006 £m
Bank loans and overdrafts	49	37
Debentures/secured bonds/securitised bonds	177	191
Other interest payable and finance costs	2	2
Interest payable	228	230
Exceptional finance costs:		
Write-off of unamortised issue costs	—	3
Movement in fair value of interest rate swaps (note 22)	(19)	(40)
Movement in fair value of liability for share buy-backs	3	—
	(16)	(37)
Total finance costs	212	193

The write-off of unamortised issue costs in 2006 resulted from refinancing exercises. This write-off was classified as exceptional as it is not expected to occur every year and is not part of the cash outflow of servicing the Group's debt.

The movement in fair value of interest rate swaps arises as a result of the revaluation of the swaps at the balance sheet date (see note 1).

The total interest charge under the effective interest rate method (which excludes swap fair value movements and the movement in fair value of the liability for share buy-backs) is £228 million (2006 — £233 million).

Notes to the Group Accounts

at 30 September 2007

11. Taxation

a) Total tax expense recognised in the Group Income Statement

	2007			2006		
	Pre- exceptional items	Exceptional items	Total	Pre- exceptional items	Exceptional items	Total
	£m	£m	£m	£m	£m	£m
Current tax						
UK corporation tax	79	—	79	82	(1)	81
Adjustments in respect of prior years	4	—	4	(3)	—	(3)
Total current tax	83	—	83	79	(1)	78
Deferred tax						
Origination and reversal of temporary differences (note 11c)	11	(39)	(28)	16	(4)	12
Adjustments in respect of prior years	(9)	—	(9)	—	—	—
Total deferred tax	2	(39)	(37)	16	(4)	12
Taxation (note 11b)	85	(39)	46	95	(5)	90

b) Tax charge reconciliation

	2007			2006		
	Pre- exceptional items	Exceptional items	Total	Pre- exceptional items	Exceptional items	Total
	£m	£m	£m	£m	£m	£m
Profit before tax	301	36	337	315	100	415
Tax at 30% on profit on ordinary activities before taxation (2006: 30%)	90	11	101	94	30	124
Effects of:						
Expenses not deductible for tax purposes	1	1	2	4	—	4
Indexation on property disposals	—	(4)	(4)	—	(14)	(14)
Reduction in deferred tax liability due to indexation	—	(24)	(24)	—	(21)	(21)
Adjustments in respect of prior years	(5)	—	(5)	(3)	—	(3)
Restatement of deferred tax for change in UK tax rate	—	(23)	(23)	—	—	—
Movement in deferred tax balances during the year at 28%	(1)	—	(1)	—	—	—
Total tax charge in the Income Statement	85	(39)	46	95	(5)	90

Notes to the Group Accounts

at 30 September 2007

11. Taxation (continued)

c) Deferred tax recognised in the Group Income Statement

	2007			2006		
	Pre- exceptional items	Exceptional items	Total	Pre- exceptional items	Exceptional items	Total
	£m	£m	£m	£m	£m	£m
Accelerated capital allowances	9	—	9	8	—	8
Deferred tax on movement in fair value of interest rate swaps	—	6	6	9	12	21
Utilisation of tax losses	—	—	—	3	—	3
Temporary differences	3	—	3	(4)	—	(4)
Deferred tax on share schemes	(1)	—	(1)	—	—	—
Deferred tax on profit on sale of property	—	6	6	—	18	18
Reduction in deferred tax liability due to indexation	—	(28)	(28)	—	(34)	(34)
Re-statement of deferred tax balances for change in UK tax rate	—	(23)	(23)	—	—	—
	11	(39)	(28)	16	(4)	12

d) Tax recognised directly in equity

	2007 £m	2006 £m
Increase in deferred tax liability related to revaluation of property and rolled over gains	75	91
Deferred tax relating to share schemes credited to equity	(3)	(5)
Movement in deferred tax relating to gains on cash flow hedges	2	—
Deferred tax relating to gain on defined benefit pension scheme	1	—
Re-statement of deferred tax balances for change in UK tax rate	(24)	—
Tax charge in the statement of recognised income and expense	51	86

Notes to the Group Accounts

at 30 September 2007

12. Earnings per Ordinary share

The calculation of basic earnings per share is based on earnings of £291 million (2006 – £325 million) and on 545.0 million (2006 – 644.2 million*) 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 and shares held in treasury.

Adjusted earnings per share, which the directors believe reflects the underlying performance of the Group, is based on earnings adjusted for the effects of exceptional items, net of tax, of £216 million (2006 – £220 million) and on 545.0 million (2006 – 644.2 million*) 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 and shares held in treasury.

Basic earnings are adjusted as follows:

	2007 £m	2006 £m
Profit after tax	291	325
Exceptional finance costs:		
Write-off of unamortised issue costs	–	3
Movement in fair value of interest rate swaps	(19)	(40)
Movement in fair value of liability for share buy-backs	3	–
Other exceptional items:		
Net profit on disposal of property	(22)	(67)
Movements from revaluation of pub estate	2	2
Reorganisation costs	–	2
Tax impact of exceptional items listed above	12	29
Deferred tax relating to change in UK Corporation Tax rate	(23)	–
Reduction in deferred tax liability due to indexation	(28)	(34)
Adjusted earnings	216	220

Diluted earnings per share is based on profit for the year of £291 million (2006 – £325 million) and adjusted profit of £216 million (2006 – £220 million) and on 549.1 million (2006 – 649.4 million*) ordinary shares calculated as follows:

	2007 No.	2006 No.*
Basic weighted average number of shares	545.0	644.2
Executive share option scheme	1.6	1.8
Enterprise Inns Quest share save scheme	0.7	0.8
Long-term and short-term incentive plans	1.8	2.6
Diluted weighted average number of shares	549.1	649.4

* Restated for the sub-division of shares from 5 pence to 2.5 pence per share on 17 January 2007.

Notes to the Group Accounts

at 30 September 2007

13. Dividends paid and proposed

	2007 £m	2006 £m
Paid during the year		
Equity dividends on ordinary shares:		
Final dividend relating to prior year 9 pence (2006 — 6.2 pence*)	52	42
Interim dividend for current year 5.2 pence (2006 — 4.5 pence*)	27	28
	79	70
Proposed for approval by shareholders at the AGM		
Final dividend for current year 10.4 pence (2006 — 9.0 pence*)	52	52

Proposed dividends are not accounted for until they are approved at the AGM.

The dividends relating to shares held by the Employee Benefit Trust and shares held in treasury have been waived. No dividend is due on shares held in treasury.

* Restated for the sub-division of shares from 5 pence to 2.5 pence per share on 17 January 2007.

14. Goodwill

	2007 £m	2006 £m
At 1 October and 30 September	417	417

Impairment testing

Goodwill acquired via business combinations is tested annually for impairment. For this purpose, the goodwill is allocated to the pub estate. This represents the lowest level within the Group that goodwill is monitored for internal management purposes. The impairment test compares the recoverable amount of the cash-generating unit with its carrying amount. The recoverable amount is determined using a value in use calculation. This calculation discounts estimated future cash flows using a discount rate of 8% (2006 — 8%).

Future cash flows are estimated using management forecasts of cash flow over a five year period. Each element of the cash flows beyond this forecast period is extrapolated using a growth rate of 3% (2006 — 3%). The impairment test did not result in any impairment of goodwill.

15. Investments

	2007 £m	2006 £m
Cost and net book value:		
At 1 October	2	—
Additions	—	2
Disposals	(2)	—
At 30 September	—	2

On 6 September 2006, the Group disposed of 769 pubs to Admiral Taverns. Part of the consideration received for this disposal was £2 million of preference shares in Admiral Taverns. These preference shares were redeemed during the year.

Notes to the Group Accounts

at 30 September 2007

16. Intangible assets: operating lease premiums

	2007 £m	2006 £m
Cost:		
At 1 October	27	29
Transfer to non-current assets held for sale	(4)	(2)
At 30 September	23	27
Amortisation:		
At 1 October	3	2
Provided during the year	1	1
At 30 September	4	3
Net book value:		
At 30 September	19	24
At 1 October	24	27

Lease premiums are amortised on a straight-line basis over the remaining life of the lease. The amortisation is charged to the Income Statement in the line item 'depreciation and amortisation'.

17. Property, plant and equipment

	Licensed land and buildings £m	Landlords' fixtures and fittings £m	Other assets £m	Total £m
Cost or valuation				
At 1 October 2005	5,051	103	24	5,178
Additions	102	33	8	143
Revaluation	323	—	—	323
Write-down to fair value less costs to sell	(3)	—	—	(3)
Net transfers to non-current assets held for sale	(263)	(12)	—	(275)
Disposals	(6)	—	(2)	(8)
At 1 October 2006	5,204	124	30	5,358
Additions	126	39	3	168
Revaluation	312	—	—	312
Write-down to fair value less costs to sell	(2)	—	—	(2)
Net transfers to non-current assets held for sale	(103)	(2)	—	(105)
Disposals	—	—	(1)	(1)
At 30 September 2007	5,537	161	32	5,730
Depreciation				
At 1 October 2005	11	6	4	21
Charge for the year	3	2	2	7
Net transfers to non-current assets held for sale	(4)	(1)	—	(5)
Disposals	(5)	—	(2)	(7)
Revaluation	(1)	—	—	(1)
At 1 October 2006	4	7	4	15
Charge for the year	2	2	2	6
Net transfers to non-current assets held for sale	—	—	—	—
Disposals	—	—	(1)	(1)
Revaluation	—	—	—	—
At 30 September 2007	6	9	5	20
Net book value				
At 30 September 2007	5,531	152	27	5,710
At 30 September 2006	5,200	117	26	5,343

Notes to the Group Accounts

at 30 September 2007

17. Property, plant and equipment (continued)

Revaluation of property, plant and equipment

With the exception of properties identified for disposal, the Group's licensed land and buildings were revalued as at 30 September 2007 by Humberts Leisure Limited and Christie & Co., independent Chartered Surveyors, and by the internal Head of Estates, Simon Millar MRICS, Chartered Surveyor.

The land and buildings were valued at market value (as defined within RICS Appraisal and Valuation Standards 'Red Book'), reflecting the current and future rent and other income streams which are expected to be generated by each property capitalised at an appropriate yield. The valuation also takes account of the terms of the leases or tenancies under which the properties are let. Market value is influenced by factors such as income, location, pub quality and tenure. The valuations are made by reference to market transactions within the UK pub sector.

The pubs used as security for the secured bonds and debenture in Enterprise Inns plc have been valued by Humberts Leisure Limited. The balance of the estate held in Enterprise Inns plc has been valued by the Head of Estates. The results of this internal valuation have been compared to that of the external valuers. This review ensured that the results are consistent.

A representative sample of the pubs held by Unique Pub Properties Limited ('Unique') has been valued by Christie & Co. The methods of this valuation have been applied across the rest of the Unique estate on a pub by pub basis in line with the requirements of the securitisation. The results of both the Unique and Enterprise valuations are also compared, ensuring consistency.

Pubs identified for disposal which are classified in the balance sheet as 'non-current assets held for sale' are held at the lower of carrying amount and fair value less cost to sell. This fair value is based on the estimated net realisable disposal proceeds (ERV) which are provided by third party property agents who have been engaged to sell the properties.

If licensed land and buildings had been measured using the cost model, the carrying amounts would be as follows:

	Licensed land and buildings £m
At 30 September 2007	
Cost	4,118
Accumulated depreciation	(38)
Net book value	4,080
At 30 September 2006	
Cost	4,093
Accumulated depreciation	(36)
Net book value	4,057

The carrying value of property held under finance leases at 30 September 2007 was £248 million (2006 — £236 million). Additions during the year include £5 million of property held under finance leases (2006 — £3 million).

At 30 September 2007, the Group had entered into contractual commitments to purchase £26 million (2006: £9 million) of property, plant and equipment.

Notes to the Group Accounts

at 30 September 2007

18. Current assets held for sale

	2007 £m	2006 £m
Fixtures and fittings and stock purchased from tenants		
Cost		
At 1 October	10	11
Additions	12	12
Disposals	(10)	(13)
At 30 September	12	10
Provision		
At 1 October	4	4
Charge for the year	(1)	2
Utilised during the year	1	(2)
At 30 September	4	4
Net realisable value	8	6

19. Trade and other receivables

	2007 £m	2006 £m
Trade receivables	75	76
Prepayments and accrued income	11	16
Other receivables	5	2
	91	94

20. Non-current assets held for sale

	2007 £m	2006 £m
At 1 October	10	36
Net transfer from property, plant and equipment (note 17)	105	270
Net transfer from intangible assets: operating lease premiums (note 16)	4	2
Disposals	(108)	(298)
At 30 September	11	10
Representing:		
Property, plant and equipment	10	10
Intangible assets: operating lease premiums	1	—
	11	10

Non-current assets held for sale comprises both freehold and leasehold licensed and unlicensed properties that have been identified by the Group for disposal as part of the continued improvement in quality of its property portfolio. Non-current assets held for sale will usually be sold unlicensed for alternative use. The sale of all assets within this category is expected to be completed within one year of the balance sheet date.

A balance of £1 million (2006 — £1 million) in relation to these pubs is held within the revaluation reserve representing revaluation surpluses.

Notes to the Group Accounts

at 30 September 2007

21. Trade and other payables

	2007 £m	2006 £m
Trade payables	17	17
Accruals and deferred income	142	150
Other payables	41	43
	200	210

22. Financial assets and liabilities

	2007 £m	2006 £m
Financial assets		
Current		
Interest rate swap	4	1
Non-current		
Interest rate swap	4	1
Total financial assets	8	2
		Restated*
	2007	2006
	£m	£m
Financial liabilities		
Current		
Unsecured bank facility	35	—
Securitised bonds	—	13
Interest rate swaps	21	41
Provision for close-period share buy-backs	21	74
	77	128
Non-current		
Syndicated bank borrowings	997	421
Corporate bonds	1,181	1,181
Securitised bonds	1,637	1,709
Finance lease payables	4	5
	3,819	3,316
Total financial liabilities	3,896	3,444
Total financial assets and liabilities	3,888	3,442

* See note 1.

Notes to the Group Accounts

at 30 September 2007

22. Financial assets and liabilities (continued)

Fair values

Bank borrowings, the debenture, bonds and interest rate swaps were valued at fair value as at 30 September by J C Rathbone, independent valuers. Fair value is calculated by discounting future cash flows using prevailing interest rates. The finance lease payables are valued by calculating the present value of the future minimum lease payments.

The book and fair values of financial assets and liabilities have been analysed into categories as below:

		2007 Nominal value £m	2007 Book value £m	2007 Fair value £m	2006 Nominal value £m	Restated* 2006 Book value £m	2006 Fair value £m
Bank borrowings	LIBOR + 0.6%	1,000	997	1,000	425	421	425
Unsecured bank facility	LIBOR + 0.9%	35	35	35	—	—	—
Corporate bonds:							
Debenture — issued 3 February 1999	6%	60	59	60	60	59	61
Secured bond — issued 9 May 2000	6.875%	125	124	136	125	124	144
Secured bond — issued 15 February 2001	6.875%	125	124	134	125	124	140
Secured bond — issued 26 February 2002	6.375%	275	272	291	275	272	310
Secured bond — issued 3 March 2003	6.5%	600	602	614	600	602	647
		1,185	1,181	1,235	1,185	1,181	1,302
Securitised bonds:							
A1N — issued 25 February 2005	LIBOR + 0.38%	—	—	—	34	34	34
A2N — issued 25 February 2005	LIBOR + 0.16%	201	201	201	248	248	249
A3 — issued 30 March 1999	6.542%	435	456	454	435	458	485
A4 — issued 20 September 2002	5.659%	535	536	523	535	537	566
M — issued 30 March 1999	7.395%	225	247	254	225	248	267
N — issued 20 September 2002	6.464%	190	197	199	190	197	213
		1,586	1,637	1,631	1,667	1,722	1,814
Interest rate swaps:							
£275m swap expiring 1 June 2012	6.662%	—	12	12	—	22	22
£350m swap expiring 30 September 2011	4.887%	—	(8)	(8)	—	(2)	(2)
£41m swap expiring 30 December 2012	7.873%	—	3	3	—	5	5
£70m swap expiring 30 December 2012	7.873%	—	3	3	—	6	6
£90m swap expiring 30 September 2013	6.079%	—	3	3	—	8	8
		—	13	13	—	39	39
		3,806	3,863	3,914	3,277	3,363	3,580
Finance lease payables (note 23)		—	4	4	—	5	5
Provision for close-period share buy-backs		—	21	21	—	74	74
Total debt		3,806	3,888	3,939	3,277	3,442	3,659
Cash		(90)	(90)		(111)	(111)	
Underlying net debt/net debt (note 30)		3,716	3,798		3,166	3,331	

* See note 1.

Bank borrowings, corporate bonds and securitised bonds are held at amortised cost. Interest rate swaps are held at fair value and finance lease payables represents the present value of future minimum lease payments. The liability for close-period share buy-back contracts represents an estimate of the amount that may be incurred on share buy-backs during the period from 1 October to the date of the preliminary announcement of results. There is no difference between the book value and the fair value of this provision. Other categories of financial instruments include trade receivables and trade payables; however, there is no difference between the book value and fair value of these items.

Notes to the Group Accounts

at 30 September 2007

22. Financial assets and liabilities (continued)

Interest rate swaps

On 29 September 2006 the Group designated the £350 million swap that expires in September 2011 as an effective cash flow hedge under IAS 39. This cash flow hedge is hedging future movements in interest rates until September 2011. As a result, changes in the fair value of the effective portion of this swap are recognised directly in equity instead of in the Income Statement. Changes in the fair value of the ineffective portion of the hedge are recognised in the Income Statement.

All of the Group's swaps are in place to hedge cash payments made on the floating rate debt.

The movement in the fair value of interest rate swaps has been accounted for as follows:

	2007 £m	2006 £m
At 1 October	39	109
Cash payment made	(1)	(30)
Fair value movements:		
– ineffective portion and swaps not designated as effective hedges recognised in Income Statement	(19)	(40)
– effective portion recognised in Cash Flow Hedge Reserve	(6)	–
At 30 September	13	39

Financial instruments and risk

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. The Group also enters into derivative transactions, specifically interest rate swaps and contracts to purchase shares in a close period. The purpose of such transactions is to manage the interest rate risk arising from the Group's sources of finance and meet the objective of the Group's share buy-back strategy.

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 as follows.

Liquidity risk

The Group has exposure to liquidity risk, being the risk that payments cannot be made when they fall due. The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of overdrafts, bank loans, debentures and securitised debt.

This objective is achieved through the following processes:

- Regular cash flow forecasting and reporting through the treasury function
- Regular review of the Group's debt portfolio including maturities and repayment profile
- Maintenance of undrawn overdraft and bank facilities
- Management of share buy-back programme

At 30 September 2007, the nominal value of the Company's borrowings (excluding interest rate swaps, liability for share buy-back contracts and finance lease payables) comprised:

	2007	2006
Syndicated and other bank borrowings	27%	13%
Corporate bonds	31%	36%
Securitised bonds	42%	51%

Notes to the Group Accounts

at 30 September 2007

22. Financial assets and liabilities (continued)

The maturity of the Group's debt, including interest rate swap liabilities, is set out below:

	2007	2006
	£m	£m
In more than five years	2,676	2,751
In more than two years but not more than five years	1,150	578
In more than one year but not more than two years	5	21
In one year or less or on demand	34	22
	3,865	3,372

The table above shows the contractual, undiscounted cash flows due in future periods to settle the Group's debt. The total amount payable shown above differs from the total book value of Group debt of £3,863 million as the book value of Group debt includes the fair value of the interest rates swaps which is based on discounted cash flows. The contractual maturity of trade and other payables is within one year. The liability for close-period share buy-backs will be reversed within one year.

An analysis of minimum lease payments due under finance leases is set out in note 23.

The Group's bank borrowings, secured bonds and securitised bonds are repayable as follows:

Syndicated bank borrowings	2011
Unsecured bank facility*	2008
Corporate bonds	
£60 million 6% Debenture	2014
£125 million 6.875% bond	2025
£125 million 6.875% bond	2021
£275 million 6.375% bond	2031
£600 million 6.5% bond	2018
Securitised bonds	
A2N	2010–2013
A3	2013–2021
A4	2013–2027
M	2021–2024
N	2027–2032

* The unsecured bank facility is uncommitted and can be cancelled by the bank by providing 30 days' notice.

Details of undrawn borrowing facilities available at 30 September are as follows:

	2007	2006
	£m	£m
Expiring in		
In more than five years	190	190
In more than two years but not more than five years	—	575
In more than one year but not more than two years	—	—
In one year or less or on demand	65	—
	255	765

Notes to the Group Accounts

at 30 September 2007

22. Financial assets and liabilities (continued)

The undrawn facilities relate to:

	2007 £m	2006 £m
Renewable committed liquidity facility in respect of the Unique securitisation	190	190
Undrawn element of the syndicated bank facility	—	575
Undrawn element of uncommitted bank facility	65	—

Interest rate risk

The Group borrows its debenture and bonds, except for the A2N bonds, at a fixed rate. Bank debt and the A2N bonds are borrowed at, and cash balances attract interest at, a floating rate. The Group's objective is to manage exposure to changes in interest rates. This exposure is managed by borrowing at fixed rates and using interest rate swaps acquired with Group companies. At 30 September 2007, the Group's borrowings were 89% fixed (after including the impact of interest rate swaps) with a weighted average interest rate of 6.5% for an average of 11 years (2006 — 100% fixed at an average rate of 6.6% for 13 years).

Cash flows associated with cash deposits, debt and interest rate swaps and the fair value of these instruments fluctuates with changes in interest rates. The effect on the profit for the year would have been as follows if interest rates had been 50 basis points higher or lower during the period.

	Interest receivable £m	Interest Payable £m	Movement in fair value of interest rate swap £m
As reported in Income Statement	8	(228)	19
Effect if interest rates increased by 50 basis points (0.5%)	9	(229)	29
Difference	1	(1)	10
As reported in Income Statement	8	(228)	19
Effect if interest rates decreased by 50 basis points (0.5%)	7	(227)	9
Difference	(1)	1	(10)

Credit risk

There are no significant concentrations of credit risk within the Group. The Group is exposed to a small amount of credit risk that is primarily attributable to trade receivables and cash balances. The Group's objective is to minimise this risk by dealing with third parties with high credit ratings and carrying out credit checks where appropriate. The amount of trade and other receivables included in the balance sheet are net of a bad debt provision which has been estimated by management following a review of individual receivable accounts and is based on prior experience and known factors at the balance sheet date after taking into account collateral held in the form of cash deposits. Receivables are written off against the bad debt provision when management considers that the debt is no longer recoverable. At 30 September 2007 the value of collateral is £30 million (2006 — £27 million). This balance is held on the balance sheet in 'other payables'.

An analysis of the provision held against trade receivables is set out below. This provision relates to trade receivables which are primarily represented by licensees.

	2007 £m	2006 £m
Allowance as at 1 October	4	5
Increase in provision during the year	3	3
Provision utilised during the year	(1)	(1)
Provision released during the year	(3)	(3)
Allowance as at 30 September	3	4

Notes to the Group Accounts

at 30 September 2007

22. Financial assets and liabilities (continued)

There are no trade receivables that are past due at the balance sheet date that have not been provided against. There are no indications as at 30 September 2007 that debtors will not meet their payment obligations in respect of the amount of trade receivables recognised in the balance sheet that are neither past due nor impaired. The maximum amount of exposure to credit risk is the carrying value of trade receivables and the fair value of interest rate swaps classified as financial assets. The Group's credit risk on liquid funds is limited because the Group only invests with banks and financial institutions with high credit ratings.

Security

Senior debt finance is secured by a security deed entered into by substantially all of the companies which comprise the Group, excluding Enterprise Inns Holding Company Limited and its subsidiaries and Unique Pubs Limited and its subsidiaries. The lenders have a floating charge over all of the assets and undertakings of such Group companies. The floating charge ranks subsequent to the fixed charges created by the debenture and secured bonds. The value of assets secured by way of a fixed or floating charge as at 30 September 2007 is — Property, Plant and Equipment £5,683 million (2006 — £5,317 million), operating lease premiums £19 million (£24 million) and pubs held for sale £11 million (£10 million).

23. Leases

The Group as lessee

The Group leases a proportion of its licensed estate from landlords under finance leases and operating leases. These leases have varying terms, escalation clauses and renewal rights.

Finance leases

	2007 £m	2006 £m
Future minimum lease payments due under finance leases:		
after one year but not more than five years	2	2
in more than five years	26	27
	28	29
Future finance lease interest	(24)	(24)
Present value of future minimum lease payments	4	5

The present value of future minimum lease payments is due in more than five years (2006 — more than five years).

Pubs that are leased from landlords under finance leases are let to tenants. Future minimum rentals receivable from non-cancellable sub-leases on the above properties are £133 million (2006 — £149 million).

Operating leases

	2007 £m	2006 £m
Operating lease rentals recognised as an expense in the year	3	4
	2007 £m	2006 £m
Future minimum lease payments due under operating leases:		
within one year	3	3
after one year but not more than five years	12	12
in more than five years	57	64
	72	79

Notes to the Group Accounts

at 30 September 2007

23. Leases (continued)

Pubs that are leased from landlords under operating leases are let to tenants. Future minimum rentals receivable from non-cancellable operating sub-leases on the above properties are £30 million (2006 — £37 million).

The Group as lessor

The Group leases its licensed estate and other non-licensed properties to tenants. The majority of lease agreements have terms of between 6 months and 30 years and are classified for accounting purposes as operating leases. Most of the leases with terms of over 3 years include provision for rent reviews on either a 3 or 5 year basis.

The present value of future minimum lease rentals receivable under non-cancellable operating leases is as follows:

	2007 £m	2006 £m
Future minimum lease rentals receivable under operating leases:		
within one year	249	254
after one year but not more than five years	884	939
in more than five years	1,865	2,173
	2,998	3,366

24. Provisions

	2007 £m	2006 £m
At 1 October:		
Current	1	1
Non-current	4	7
	5	8
Movement during the year:		
Release of provision during the year	(1)	(1)
Utilisation	(1)	(2)
	(2)	(3)
At 30 September:		
Current	—	1
Non-current	3	4
	3	5

The provision relates to future commitments under onerous lease agreements. The provision is expected to be utilised as the pubs are disposed of. The remaining lease terms vary from 2 to 64 years.

Notes to the Group Accounts

at 30 September 2007

25. Deferred tax

The deferred tax in the Group Balance Sheet relates to the following:

	2007 £m	2006 £m
Unrealised surplus on revaluation of property	550	541
Rolled over gains	71	68
Accelerated capital allowances	102	98
Fair value of interest rate swaps	(4)	(12)
Share-based payments	(6)	(8)
Pension scheme	1	—
Other temporary differences	(3)	5
	711	692

The Group has not provided deferred tax in relation to temporary differences associated with undistributed earnings of subsidiaries on the basis that under current enacted law, no tax is payable on dividends payable and receivable within the Group.

26. Pension

The Group made defined contribution payments to employees' own pension plans of £2 million (2006 — £2 million) these payments are charged to the Income Statement as incurred.

RetailLink Management Limited (a subsidiary Company) established a pension plan for its employees in January 1999. The plan has defined contribution and defined benefit schemes. The plan is now closed to new members and for the future accrual of benefits and is administered and accounted for by Enterprise Inns plc. The most recent full actuarial valuation of the defined benefit section of the plan was at 5 April 2005. This has been updated to 30 September 2007. The valuation was carried out by Mercer, independent professionally qualified actuaries, using the projected unit credit method.

Assets and liabilities of the plan

	2007 £m	2006 £m
Fair value of plan assets:		
Equities	13	13
Bonds	6	6
	19	19
Present value of plan liabilities	(17)	(19)
Net pension surplus	2	—

The present value of plan liabilities relates to funded plans.

Notes to the Group Accounts

at 30 September 2007

26. Pension (continued)

Movement in surplus during the year

	2007 £m	2006 £m
Net liability at the start of the year	—	—
Employer contributions	—	—
Actuarial gain	2	—
Net surplus at the end of the year	2	—

Analysis of amounts recognised in the Income Statement

	2007 £m	2006 £m
Interest cost on plan liabilities	(1)	(1)
Expected return on plan assets	1	1
	—	—

The amounts above are recognised within interest payable.

Analysis of amounts recognised in the Statement of Recognised Income and Expense

	2007 £m	2006 £m
Actual return on plan assets	1	2
Less expected return on plan assets	(1)	(1)
	—	1
Other actuarial gains and losses	2	(1)
	2	—

Changes in the fair value of plan assets

	2007 £m	2006 £m
Fair value of plan assets at the start of the year	19	17
Expected return on plan assets	1	1
Actuarial gain on plan assets	—	1
Benefits paid	(1)	—
Fair value of plan assets at the end of the year	19	19

Changes in the present value of scheme liabilities

	2007 £m	2006 £m
Present value of plan liabilities at the start of the year	(19)	(17)
Interest cost	(1)	(1)
Benefits paid	1	—
Actuarial gain/(loss) on plan liabilities	2	(1)
Present value of plan liabilities at the end of the year	(17)	(19)

Notes to the Group Accounts

at 30 September 2007

26. Pension (continued)

The principal assumptions made by the actuaries were:

	2007 %	2006 %
Rate of increase in pension payments	3.60	3.50
Rate of increase of pensions in deferment	3.40	3.00
Discount rate	5.70	5.00
Inflation assumption	3.40	3.00
Expected return on plan assets:		
Equities	7.60	7.00
Bonds	4.50	3.90
Longevity at age 65 for current pensioners		
Men	22 years	22 years
Women	25 years	25 years
Longevity at age 65 for future pensioners		
Men	24 years	24 years
Women	27 years	27 years

The expected rates of return on individual categories of plan assets are determined by reference to the relevant indices published by FTSE. The expected rates of return shown for 30 September 2007 are after a deduction for plan expenses of 0.75% p.a. (2006 — 0.75%).

The mortality tables used to value the plan's liabilities are PMA92(YOB=1935)mc less 1 year age rating for current pensioners and PMA92(YOB=1965)mc less 1 year age rating for future retirees. These tables give a life expectancy as set out above.

The history of the plan for the current and prior years is as follows:

	2007 £m	2006 £m	2005 £m	2004* £m
Fair value of plan assets	19	19	17	13
Present value of plan liabilities	(17)	(19)	(17)	(16)
Net surplus/(deficit)	2	—	—	(3)
Experience adjustments on plan assets	—	1	1	—
Experience adjustments on plan liabilities	2	(1)	—	1

* Six month period ending 30 September 2004.

Total contributions to the defined benefit scheme during the year to 30 September 2008 is expected to be £nil.

Since the acquisition of the defined benefit scheme on 31 March 2004, the total amount of actuarial gains and losses recognised in the Statement of Recognised Income and Expense is £3 million gain (2006 — £1 million gain).

Notes to the Group Accounts

at 30 September 2007

27. Share capital

Authorised:	2007		2006	
	No.	£m	No.	£m
Ordinary shares of 0.25p each	1,000,000,000	25	1,000,000,000†	25
Allotted, called up and fully paid:	No.	£m	No.	£m
Ordinary shares of 0.25p each				
At 1 October	664,329,150	16	699,010,780†	17
Cancelled	(102,862,096)	(2)	(34,681,630)†	(1)
At 30 September	561,467,054	14	664,329,150†	16

Ordinary shares carry no right to fixed income. Holders of ordinary shares are entitled to vote at meetings.

On 17 January 2007 each of the Group's issued and unissued existing ordinary shares of 5 pence each was sub-divided into two new ordinary shares of 2.5 pence each.

At 30 September 2007, the Group owned 50 million (2006 — 50 million) of its own shares as treasury shares with a nominal value of £1 million (2006 — £1 million) and a market value of £293 million (2006 — £264 million).

In addition, at 30 September 2007 the Group held 10,027,700 shares with a nominal value of £0.3 million and a market value of £59 million (2006 — 13,740,506 shares, nominal value £0.3 million, market value £72 million). These shares are held by the Employee Benefit Trust and Enterprise Inns Quest Trustees Limited and are shares used to satisfy awards made under the Enterprise Inns Incentive Plans and other share option schemes (note 28).

During the year the Group made on market purchases totalling 103 million (2006 — 84 million) of its own ordinary shares for an aggregate consideration of £658 million (2006 — £393 million) (excluding costs). These shares were cancelled. Transaction costs of £3 million (2006 — £3 million) have been accounted for directly in equity in the profit and loss reserve.

† Restated for the sub-division of shares from 5 pence to 2.5 pence per share on 17 January 2007.

28. Share-based payments

The Group operates share-based payment schemes for both directors and other employees. Details of the Short-Term Incentive Plan (STIP) and Long-Term Incentive Plan (LTIP) which form part of the remuneration of the Executive directors are given in the Directors' Remuneration Report on pages 30 to 39.

The Group also operates an Employee Share Option Scheme (ESOS), a Savings Related Share Option Scheme (SAYE) and a Share Incentive Plan (SIP).

A total expense of £3 million (2006 — £3 million) has been incurred in the year in relation to share-based payments. This expense relates wholly to the equity-settled schemes described above.

Share Incentive Plan

The SIP is open to all employees. At times determined by the Company, employees may allocate the lower of £1,500 and 10% of pre-tax salary to purchase shares out of their salary. The Board may also decide to award matching shares. The shares are held in trust on behalf of the employee. If shares are removed from trust within three years, any allocation of matching shares may be lost. Shares can be transferred tax-free to employees after a period of five years. Matching shares were awarded in 2006 and 2007.

The cost of the matching shares is being spread over the three year vesting period of the scheme.

Details of the number of matching shares held in trust during the year are as follows:

	2007*	2006*
Outstanding beginning of year	84,670	—
Granted	46,532	89,828
Vested	(11,888)	—
Forfeited/expired	(4,142)	(5,158)
Outstanding at end of year	115,172	84,670
Weighted average remaining contractual life	1.6 years	2.2 years

* Restated for the sub-division of shares from 5 pence to 2.5 pence per share on 17 January 2007.

Notes to the Group Accounts

at 30 September 2007

28. Share-based payments (continued)

Employee Share Option Scheme

The ESOS scheme is open to all employees. Share options are awarded to employees at the discretion of the Board. The current intention of the Board is to issue options with an exercise price equal to the market value of a share at grant date. Options will normally vest after 3 years if an employee remains in service and if EPS growth targets are met. For options granted during the years ended 30 September 2006 and 2007 options will only vest in full if the average compound annual percentage growth in adjusted EPS between the grant date and the third anniversary of the grant date is 8.33%. Options may normally only be exercised during the period of 7 years commencing on the third anniversary of the date of grant of the option. Options will usually be settled by issuing ordinary shares held by the Employee Benefit Trust.

Details of the share options outstanding during the year are as follows:

	2007		2006	
	Number of share options	Weighted average exercise price £	Number of share options*	Weighted average exercise price £†
Outstanding beginning of year	6,632,268	3.22	8,671,654	2.22
Granted	896,110	6.18	2,041,500	4.45
Exercised	(2,198,166)	2.47	(3,397,492)	1.42
Forfeited/expired	(251,380)	4.54	(683,394)	3.04
Outstanding at end of year‡	5,078,832	4.01	6,632,268	3.22
Weighted average remaining contractual life		6.5 years		6.5 years

‡ Included in this balance are 228,231 options (2006: 267,462*) which have not been accounted for under IFRS 2 as they were granted before 7 November 2002. Such options are not accounted for under IFRS 2 in line with the transitional provisions of this standard and of IFRS 1 'First-time adoption of IFRS'. Options will only vest in full if certain performance criteria are met.

Options outstanding at 30 September 2007 comprise the following:

Exercise date	Number of share options	Exercise price £
Exercisable:		
18/12/03–18/12/10	100,656	0.85
11/12/04–11/12/11	127,575	1.29
16/12/05–16/12/12	228,572	1.40
08/12/06–08/12/13	283,145	2.45
	739,948	
Not yet exercisable:		
07/12/07–07/12/14	1,432,078	3.51
18/05/08–18/05/15	516,926	3.79
06/12/08–06/12/15	1,535,563	4.45
04/12/09–04/12/16	854,317	6.18
	4,338,884	
	5,078,832	

The weighted average fair value of options granted during the year under the ESOS was £0.96 (2006 – £0.73*).

* Restated for the sub-division of shares from 5 pence to 2.5 pence per share on 17 January 2007.

Notes to the Group Accounts

at 30 September 2007

28. Share-based payments (continued)

Savings-Related Share Option Scheme

The SAYE scheme is open to executive directors and employees at the discretion of the Board. Participants contract to save a fixed amount each month with a savings institution for a period of five or seven years. At the end of the savings term, participants are given the option to purchase shares at a price set before the savings began. The option price will be not less than 80% of the market value of a share on the date that participants are invited to take part in the scheme, or the nominal value of a share if lower. Options will usually be settled using ordinary shares held by Enterprise Inns Quest Trustees Ltd (an employee benefit trust) and will usually be exercisable for six months after the fifth or seventh anniversary of the commencement of the savings contract.

Details of the share options outstanding during the year are as follows:

	2007		2006	
	Number of share options	Weighted average exercise price £	Number of share options*	Weighted average exercise price* £
Outstanding at beginning of year	1,555,734	1.83	1,830,272	1.35
Granted	142,838	4.67	261,548	3.54
Exercised	(274,561)	1.07	(419,158)	0.64
Forfeited/expired	(103,633)	2.62	(116,928)	2.39
Outstanding at end of year†	1,320,378	2.23	1,555,734	1.83
Weighted average remaining contractual life		2.7 years		2.8 years

† Included in this balance are 43,078 options (2006 – 284,292*) which have not been accounted for under IFRS 2 as they were granted before 7 November 2002. Such options are not accounted for under IFRS 2 in line with the transitional provisions of this standard and of IFRS 1 'First-time adoption of IFRS'.

Options outstanding at 30 September 2007 comprise the following:

Exercise date	Number of share options	Exercise price
Not yet exercisable:		
01/02/08–01/08/08	11,152	0.62
01/02/07–01/08/09	31,926	1.05
01/02/08–01/08/10	492,019	1.16
01/02/09–01/08/11	248,629	1.86
01/02/10–01/08/12	206,213	2.73
01/02/11–01/08/13	201,757	3.54
01/02/12–01/08/14	128,682	4.67
	1,320,378	

The weighted average fair value of options granted during the year under the SAYE scheme was £1.73 (2006 – £1.30*).

* Restated for the sub-division of shares from 5 pence to 2.5 pence per share on 17 January 2007.

STIP and LTIP

Executive directors are eligible to participate in a STIP and LTIP plan. A summary of the rules of these schemes along with details of shares that have been granted and are outstanding in relation to individual directors is included in the Directors' Remuneration Report on pages 30 to 39.

Other members of the executive management team are also eligible to participate in a STIP scheme. Share awards vest based on achievement of personal objectives and of Group EBITDA targets. Shares awarded vest equally on the first and second anniversary of fulfilment of performance targets.

Notes to the Group Accounts

at 30 September 2007

28. Share-based payments (continued)

Details of the total number of shares outstanding during the year are as follows:

	2007		2006	
	LTIP Number of share options	STIP Number of share options	LTIP Number of share options*	STIP Number of share options*
Outstanding at beginning of year	2,897,114	266,408	3,330,872	270,266
Granted†	414,916	101,078	695,958	86,328
Exercised	(1,156,798)	(123,122)	(906,766)	(88,736)
Forfeited	—	—	(222,950)	(1,450)
Outstanding at end of year‡	2,155,232	244,364	2,897,114	266,408
Weighted average remaining contractual life	4.0 years	2.5 years	4.9 years	3.0 years

Directors pay £1 to exercise awards granted under the STIP and LTIP. This is a one-off charge. All of the shares outstanding at 30 September are not yet exercisable.

† The share price at which the number of shares granted under the STIP scheme is calculated is not confirmed until after the date of the approval of the accounts. The number of STIP shares granted during the year is therefore estimated using the closing share price on 30 September 2007. The number of shares granted in 2006 has been amended to show the actual number granted in 2006.

‡ Included in the 2006 balance are 81,882* LTIP shares which have not been accounted for under IFRS 2 as they were granted before 7 November 2002. Such shares are not accounted for under IFRS 2 in line with the transitional provisions of this standard and of IFRS 1 'First-time adoption of IFRS'. Awards will only vest in full if certain performance criteria are met.

The weighted average fair value of shares granted during the year under the STIP was £5.32 (2006 — £4.75*) and under the LTIP was £5.08 (2006 — £2.95*).

The weighted average share price on exercise of shares and share options under all schemes during the year was £6.53 (2006 — £4.78*).

* Restated for the sub-division of shares from 5 pence to 2.5 pence per share on 17 January 2007.

Notes to the Group Accounts

at 30 September 2007

28. Share-based payments (continued)

Fair value of share schemes

The fair value of equity-settled share options and share awards granted is estimated at the date of grant using share option valuation models. The ESOS, SAYE and STIP schemes are valued using the Black-Scholes model. The element of the LTIP scheme that relates to non-market conditions is valued using the Black-Scholes model. The element of the LTIP that includes market conditions is valued using the Monte Carlo Simulation Model.

The following tables list the inputs to the models for options and shares granted during the year:

Weighted average:	ESOS		SAYE	
	2007	2006*	2007	2006*
Share price (£)	6.18	4.45	5.84	4.43
Exercise price (£)	6.18	4.45	4.67	3.54
Dividend yield	2.9%	2.4%	2.9%	2.4%
Expected volatility	20%	21%	21%	21%
Risk-free interest rate	4.76%	4.22%	5.17%	4.18%
Expected life of option (years)	3.3	3.3	5 or 7	5 or 7

Weighted average:	STIP		LTIP	
	2007	2006*	2007	2006*
Share price (£)	5.90	5.28	6.77	4.41
Exercise price (£)	—	—	—	—
Dividend yield	2.9%	2.4%	2.9%	2.4%
Expected volatility	19%	22%	20%	21%
Risk-free interest rate	4.86%	4.31%	4.9%	4.2%
Expected life of option (years)	2–4§	4	3–5‡	3–5‡

Expected share price volatility is based on historic volatility over the same period of time as the vesting period of the option. The expected life of an option is based on historical data.

The LTIP will only vest in full if a TSR target is met. This is a market condition and the TSR performance criteria has therefore been taken into account when calculating the fair value of the options granted under the LTIP. These conditions have been incorporated into the Monte Carlo Simulation model which is used to fair value the TSR element of the scheme.

* Restated for the sub-division of shares from 5 pence to 2.5 pence per share on 17 January 2007.

§ Two STIP schemes are in place. One vests equally after 2 and 3 years and the other vests after 4 years.

‡ The LTIP vests in three equal tranches after 3, 4 and 5 years.

Notes to the Group Accounts

at 30 September 2007

29. Statement of changes in equity

	Share Capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Merger reserve £m	Treasury share reserve £m	Other reserve £m	Cash flow hedge reserve £m	Restated* Profit and loss account £m	Restated* Total £m
At 1 October 2005	17	486	667	8	77	—	(56)	—	374	1,573
Total recognised income and expense for the year	—	—	232	—	—	—	—	—	330	562
Transfer of realised revaluation surplus	—	—	(54)	—	—	—	—	—	54	—
Equity dividends paid (note 13)	—	—	—	—	—	—	—	—	(70)	(70)
Consideration paid for purchase of own shares	—	—	—	—	—	(227)	—	—	(3)	(230)
Cancellation of ordinary shares	(1)	—	—	1	—	—	—	—	(166)	(166)
Employee share option entitlements exercised in the year	—	—	—	—	—	—	11	—	(7)	4
Directors' share option entitlements exercised in the year	—	—	—	—	—	—	3	—	(3)	—
Share-based expense recognised in operating profit	—	—	—	—	—	—	—	—	3	3
At 30 September 2006 (as previously reported)	16	486	845	9	77	(227)	(42)	—	512	1,676
Adjustment for provision for share buy-backs	—	—	—	—	—	—	—	—	(74)	(74)
At 30 September 2006 (restated)	16	486	845	9	77	(227)	(42)	0	438	1,602
Total recognised income and expense for the year	—	—	261	—	—	—	—	4	295	560
Transfer of realised revaluation surplus	—	—	(10)	—	—	—	—	—	10	—
Equity dividends paid (note 13)	—	—	—	—	—	—	—	—	(79)	(79)
Cancellation of ordinary shares	(2)	—	—	2	—	—	—	—	(661)	(661)
Change in provision for share buy-backs	—	—	—	—	—	—	—	—	53	53
Employee share option entitlements exercised in the year	—	—	—	—	—	—	7	—	(2)	5
Directors' share option entitlements exercised in the year	—	—	—	—	—	—	4	—	(4)	—
Share-based expense recognised in operating profit	—	—	—	—	—	—	—	—	3	3
At 30 September 2007	14	486	1,096	11	77	(227)	(31)	4	53	1,483

* See note 1.

Notes to the Group Accounts

at 30 September 2007

29. Statement of changes in equity (continued)

Share premium account

This reserve represents the amount of proceeds received for shares in excess of their nominal value.

Revaluation reserve

This reserve shows the surplus generated on revaluation of the estate. It represents the amount by which the fair value of the estate exceeds its historic cost.

Capital redemption reserve

This reserve arose on the repurchase and cancellation of own shares in 1995/96, 2005/06 and 2006/07.

Merger reserve

This reserve arose as a consequence of the acquisition of Century Inns plc in 1998/99.

Treasury share reserve

This reserve shows the cost of own shares purchased by the Company and held as treasury shares. These shares can be cancelled or reissued.

Other reserve

This comprises the cost of shares in the Company that are held by employee benefit trusts. These shares are used to satisfy awards made under share incentive plans (note 28).

30. Additional cash flow information

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

	2007 £m	Restated* 2006 £m
(Decrease)/increase in cash in the year	(21)	15
Cash inflow from change in debt	(529)	(30)
Issue costs of new long-term loans	—	4
Change in net debt resulting from cash flows	(550)	(11)
Amortisation of issue costs and discounts/premiums on long-term loans	(2)	(2)
Amortisation of securitised bonds	5	5
Change in fair value of interest rate swaps	26	40
Change in provision for share buy-backs†	53	(74)
Change in finance lease payables	1	—
Write-off of unamortised issue costs	—	(3)
Movement in net debt in the year	(467)	(45)
Net debt at start of year	(3,331)	(3,286)
Net debt at end of year	(3,798)	(3,331)

Notes to the Group Accounts

at 30 September 2007

30. Additional cash flow information (continued)

b) Analysis of net debt

	2007 £m	Restated* 2006 £m
Corporate bonds	(1,185)	(1,185)
Syndicated and other bank borrowings	(1,035)	(425)
Securitised bonds	(1,586)	(1,667)
Gross debt	(3,806)	(3,277)
Cash	90	111
Underlying net debt (note 22)	(3,716)	(3,166)
Capitalised debt issue costs	18	20
Fair value adjustments on acquisition of bonds	(62)	(67)
Fair value of interest rate swaps	(13)	(39)
Provision for share buy-backs in close period†	(21)	(74)
Finance lease payables	(4)	(5)
Net debt (note 22)	(3,798)	(3,331)
Balance sheet:		
Current financial assets	4	1
Non-current financial assets	4	1
Current financial liabilities	(77)	(128)
Non-current financial liabilities	(3,819)	(3,316)
Cash	90	111
Net debt	(3,798)	(3,331)

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

* See note 1.

† The 2006 balance sheet has been restated to include a provision for share buy-backs (see note 1). The provision of £74 million was set up at 30 September 2006 as this was the first date at which such a liability existed. The provision at 30 September 2007 is £21 million and the change in provision during the year is therefore £53 million.

Notes to the Group Accounts

at 30 September 2007

31. Related party transactions

Compensation of key management personnel

	2007	2006
	£000	£000
Short-term employee benefits	2,320	2,478
Post-employment benefits	310	346
Share-based payment	1,828	2,078
	4,458	4,902

Key management personnel comprises both executive and non-executive directors.

Short-term employee benefits comprises fees, salaries, benefits and performance related bonus as reported in the Directors' Remuneration Report. Post-employment benefits comprise payments made to the directors' own personal pension schemes and salary supplements in lieu of a contribution to a personal pension scheme. Share-based payment comprises the fair value of STIP and LTIP awards charged in the year. Further information about the remuneration of individual directors is available in the Directors' Remuneration Report on pages 30 to 39.

Principal subsidiaries

The Group's principal subsidiaries are listed in the following table. The list comprises those companies that principally affect the results or financial position of the Group.

Company	Country of Incorporation	Holding	Proportion of voting rights and shares held	Nature of business
<i>Indirectly held by Enterprise Inns plc:</i>				
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 property
		Cumulative Redeemable Preference Shares	100%	
Voyager Pub Group Limited	England	Ordinary shares	100%	Ownership of licensed properties

Independent Auditors' Report to the Members of Enterprise Inns plc

We have audited the Group financial statements of Enterprise Inns plc for the year ended 30 September 2007 which comprise the Group Income Statement, the Group Statement of Recognised Income and Expense, the Group Balance Sheet, the Group Cash Flow Statement and the related notes 1 to 31. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Enterprise Inns plc for the year ended 30 September 2007 and on 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' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 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 Group financial statements. The other information comprises only the Financial Highlights, the Chairman's Statement, the Chief Executive's Review (incorporating the Business Review), the Corporate Responsibility Report, Directors and Advisers and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Group 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 Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming

Independent Auditors' Report to the Members of Enterprise Inns plc

our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 September 2007 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group financial statements.

Ernst & Young LLP

Registered Auditor

Birmingham

19 November 2007

Note:

The maintenance and integrity of the Enterprise Inns plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Five Year Record

Year ended 30 September	2007 IFRS £m	2006 IFRS £m	2005 IFRS £m	2005 UK GAAP £m	2004 UK GAAP £m	2003 UK GAAP £m
Revenue	921	970	952	920	713	481
Operating profit	521	537	518	520	369	254
Profit before tax and exceptionals	301	315	290	306	231	173
Profit after tax	291	325	209	212	148	125
Adjusted earnings per share (pence)*	39.6	34.2	29.2	31.6	23.8	18.1

* Excludes exceptional items. Restated for the sub-division of ordinary shares from 5 pence to 2.5 pence per share on 17 January 2007.

Year ended 30 September	2007 IFRS £m	2006 IFRS £m	2005 IFRS £m	2005 UK GAAP £m	2004 UK GAAP £m	2003 UK GAAP £m
Non-current assets	6,152	5,787	5,601	5,293	5,012	2,692
Current assets†	204	222	220	184	237	48
Current liabilities	(336)	(391)	(386)	(331)	(309)	(306)
Non-current liabilities	(4,537)	(4,016)	(3,862)	(3,405)	(3,586)	(1,352)
Net assets	1,483	1,602	1,573	1,741	1,354	1,082

† Includes non-current assets held for resale in IFRS figures.

Enterprise Inns plc

Company Accounts 2006/07

Statement of Recognised Income and Expense

for the year ended 30 September 2007

	2007 £m	Restated* 2006 £m
Unrealised surplus on revaluation of licensed estate	160	177
Movement in deferred tax liability related to revaluation of licensed estate	(37)	(71)
Tax related to share schemes recognised directly in equity	3	5
Excess of fair value over cost of investment acquired	—	500
Gains on cash flow hedges	6	—
Deferred tax relating to gains on cash flow hedges	(2)	—
Actuarial gain on defined benefit pension scheme	2	—
Deferred tax relating to gain on defined benefit pension scheme	(1)	—
Reduction in deferred tax balances for change in UK tax rate	17	—
Net income recognised directly in equity	148	611
Profit for the year	386	1,005
Total recognised income and expense for the year attributable to members of the parent company	534	1,616

* See note 1.

Balance Sheet

at 30 September 2007

	Notes	2007 £m	Restated* 2006 £m
Non-current assets			
Investments	2	2,350	2,361
Intangible assets: operating lease premiums	3	7	8
Property, plant and equipment	4	3,061	2,815
Pension scheme	13	2	—
Financial assets	9	91	69
		5,511	5,253
Current assets			
Assets held for sale	5	6	5
Trade and other receivables	6	287	262
Cash		6	6
Financial assets	9	4	1
		303	274
Non-current assets held for sale	7	7	7
		5,821	5,534
Current liabilities			
Trade and other payables	8	(887)	(875)
Current tax payable		(42)	(36)
Financial liabilities	9	(78)	(112)
		(1,007)	(1,023)
Non-current liabilities			
Financial liabilities	9	(2,199)	(1,760)
Accruals and deferred income		(4)	(4)
Provisions	11	(3)	(3)
Deferred tax	12	(334)	(325)
		(2,540)	(2,092)
		(3,547)	(3,115)
Total liabilities			
		2,274	2,419
Net assets			
Equity			
Called up share capital	14	14	16
Share premium account	15	486	486
Revaluation reserve	15	710	577
Capital redemption reserve	15	11	9
Treasury share reserve	15	(227)	(227)
Cash flow hedge reserve	15	4	—
Other reserves	15	358	356
Profit and loss account	15	918	1,202
Enterprise Inns shareholders' equity	15	2,274	2,419

* See note 1.

Approved by the Board on 19 November and signed on its behalf by:

G E Tuppen
D C George

Cash Flow Statement

for the year ending 30 September 2007

	2007 £m	2006 £m
Cash flow from operating activities		
Operating profit	306	311
Depreciation and amortisation	4	4
Share-based expense recognised in profit	3	3
Increase in receivables	(40)	(78)
Increase in payables	35	115
Increase in current assets held for sale	(1)	—
	307	355
Tax paid	(38)	(39)
Net cash flows from operating activities	269	316
Cash flows from investing activities		
Payments to acquire public houses	(78)	(76)
Payments made on improvements to public houses	(44)	(35)
Payments to acquire other property, plant and equipment	(7)	(7)
Receipts from sale of property, plant and equipment	43	232
Dividend from trading investment	213	965
Receipts from sale of investments	2	—
Acquisition of investments	—	(952)
Net cash flows from investing activities	129	127
Cash flows from financing activities		
Interest paid	(126)	(117)
Interest received	1	1
Issue costs of long-term loans	—	(4)
Equity dividends paid	(79)	(70)
Payment to acquire shares held in employee benefit trust	—	(17)
Payments to acquire own shares	(667)	(388)
Receipts from exercise of share options	5	5
Restructuring of interest rate swaps	—	(25)
Repayment of intercompany loans	(136)	—
Debt due in less than one year — new short-term loans	75	—
Debt due in less than one year — repayment of short-term loans	(40)	—
Debt due beyond one year — new long-term loans	685	592
Debt due beyond one year — repayment of long-term loans	(110)	(427)
Net cash flows from financing activities	(392)	(450)
Net increase/(decrease) in cash	6	(7)
Cash at 1 October	(10)	(3)
Cash at 30 September	(4)	(10)

Notes to the Company Accounts

at 30 September 2007

1. Accounting Policies

The financial statements of Enterprise Inns plc for the year ended 30 September 2007 were authorised for issue by the Board on 19 November 2007. Enterprise Inns plc is a public limited company incorporated and registered in England. The Company's ordinary shares are traded on the London Stock Exchange.

Basis of preparation

The accounts are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

This is the first year in which the Company has prepared its financial statements under IFRS and the comparatives have been restated from UK GAAP accordingly. Detailed reconciliations from UK GAAP to IFRS of the 2006 Income Statement and Balance Sheet are included in note 21 along with a narrative explanation of the adjustments made.

The Company has taken advantage of the provisions of the exemption provided under section 230 of the Companies Act 1985 not to publish its individual income statement and related notes.

These accounts are for the Company and are not consolidated financial statements. Separate consolidated financial statements for the Group are prepared under IFRS and are published separately within this document.

Property, plant and equipment

Licensed land and buildings are held at their fair value and landlords' fixtures and fittings and other assets are held at cost. The Company's licensed land and buildings, except for those non-current assets held for sale, are revalued each year by professionally qualified external valuers and employees who are professionally qualified to carry out such valuations. Surpluses arising from the revaluation exercise are taken directly to the revaluation reserve except where they reverse a revaluation decrease relating to the same asset which has previously been recognised as an expense in the Income Statement. Any deficit arising from the revaluation exercise is taken directly to the revaluation reserve to the extent that there is a surplus in place relating to the same asset. Any further decrease in value is recognised in the Income Statement as an expense.

Freehold land is not depreciated. Freehold buildings are depreciated so as to write off the difference between their carrying value and residual value over their useful economic life of 50 years. Residual value is reviewed at least at each financial year end and there is no depreciable amount if residual value is the same as, or exceeds, book value.

Landlords' fixtures and fittings are held at cost less accumulated depreciation. The useful economic life of additions to landlords' fixtures and fittings has been calculated at 30 years. Depreciation is charged on a straight-line basis to write off the total cost less residual value over their useful economic life.

Properties held under finance leases are depreciated on a straight-line basis over the lower of the remaining lease term and their useful economic life of 50 years.

Depreciation is provided on other categories of property, plant and equipment over 3 to 50 years on a straight-line basis to residual value.

Profits or losses on disposal of property, plant and equipment are calculated as the difference between the net sales proceeds and the carrying amount of the asset at the date of disposal.

Property, plant and equipment are reviewed annually for indications of impairment. Where any indications are identified, assets are assessed fully for impairment. Impairment occurs where the recoverable amount of the asset is less than its carrying amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Any impairment loss is treated as a revaluation decrease to the extent that a surplus exists for the same asset, and thereafter as an expense in the Income Statement.

Notes to the Company Accounts

at 30 September 2007

1. Accounting Policies (continued)

Leases

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Pubs acquired under finance leases are capitalised at the lower of their fair value and the present value of future minimum lease payments. The corresponding liability is included in the balance sheet as a finance lease liability. Pubs held under finance leases are revalued along with the freehold estate on an annual basis. Lease payments are apportioned between finance charges and reduction of the lease payable so as to obtain a constant rate of interest on the remaining balance of the liability. Finance charges are charged as an expense to the Income Statement.

Leases where substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals paid under operating leases are charged on a straight-line basis to the Income Statement over the lease term. The fair value attributed to pubs acquired as part of business combinations that are held as operating leases are classified in the balance sheet as 'intangible assets: operating lease premiums' within non-current assets and are amortised over the lease term.

Non-current assets held for sale

Non-current assets held for sale are held at the lower of their carrying value and expected sale proceeds, net of selling costs. Pubs and operating lease intangibles are classified as held for sale when they have been identified for disposal by the Company. They must be available for immediate sale in their present condition and the sale should be highly probable. These conditions are met when management are committed to the sale, the pub or lease is actively marketed and the sale is expected to occur within one year. Pubs held for sale are not depreciated and operating lease intangibles held for sale are not amortised.

Investments

Fixed asset investments are initially recognised at fair value and then held at this value subject to an annual impairment test.

Current assets held for sale

Current assets held for sale comprises tenants' fixtures and fittings and are held at the lower of cost and net realisable value. Net realisable value is based on estimated selling price less further costs expected to be incurred on disposal.

Financial instruments

i) Cash and cash equivalents

Cash comprises cash at bank and in hand. Any short-term deposits with an original maturity date of three months or less are classified as cash equivalents.

ii) Borrowings

Borrowings which include bank borrowings, syndicated debt finance and debentures are initially recognised at fair value and are subsequently measured at amortised cost. This method is used to ensure that the interest charge associated with the debt, combined with the amortisation of the issue costs, premiums and discounts, represents a constant percentage of the borrowings across the life of the instrument.

iii) Derivative financial instruments

The Company uses interest rate swaps to manage the exposure to changes in interest rates and these are classified as derivative financial instruments. Interest rate swaps are initially measured at fair value on acquisition and are subsequently restated to fair value at each reporting date. Any change in the fair value of the instruments is recognised in the Income Statement unless hedge accounting has been adopted. Hedge accounting is only adopted where, at the inception of the hedge, there is formal designation documentation of the hedging relationship and it meets the Company's risk management strategy for undertaking the hedge, and it is expected to be highly effective.

Notes to the Company Accounts

at 30 September 2007

1. Accounting Policies (continued)

The portion of any change in the fair value of the hedging instrument used in a cash flow hedge which meets the conditions for hedge accounting and is determined to be an effective hedge, is recognised directly in equity. Changes in fair value relating to any ineffective portions are recognised in the Income Statement. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gains or losses arising from changes in the fair value of the hedging instrument recognised in equity are kept in equity until the forecast transaction occurs. In the case of interest rate swaps, the 'forecast transaction' is the payment of interest.

iv) Equity instruments

Equity instruments, being ordinary shares issued by the Company, are recorded at the fair value of the proceeds received, net of any direct issue costs. The nominal value of shares issued is recorded in Share Capital and the balance of the net proceeds is recorded in Share Premium.

Taxation

The income tax expense comprises both the income tax payable based on taxable profits for the year and deferred tax. Deferred tax is provided using the balance sheet liability method in respect of temporary differences between the carrying value of assets and liabilities for accounting and tax purposes. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. No deferred tax is recognised if the taxable temporary difference arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Current tax assets and liabilities are offset where there is a legally enforceable right to set off the recognised amounts and the intention is to either settle on a net basis or realise the asset and liability simultaneously. Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and the assets and liabilities relate to taxes levied by the same tax authority which are intended to be settled net or simultaneously.

Both current and deferred tax are recognised in the Income Statement except when it relates to items recognised directly in equity, in which case the corresponding tax is also recognised in equity. Tax is calculated using tax rates enacted or substantively enacted at the balance sheet date.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, the amount of the provision is discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The amount of the provision would therefore represent the present value of the expenditure expected to be required to settle the obligation.

Pension obligations

The Company has both defined contribution and defined benefit pension arrangements.

The cost of defined contribution payments made to employees' own pension plans is charged to the Income Statement as incurred.

The defined benefit scheme is now closed to new members and for the future accrual of benefits. The net amount recognised in the balance sheet comprises the difference between the present value of the scheme's liabilities and the fair value of the scheme's assets. This is determined annually by qualified actuaries using the projected unit credit method. Current service cost and past service cost are charged to operating profit. The net of the expected return on scheme assets and interest on scheme liabilities is recognised within finance income or finance costs. Actuarial gains and losses are recognised in full in the period in which they occur in the Statement of Recognised Income and Expense.

Notes to the Company Accounts

at 30 September 2007

1. Accounting Policies (continued)

Treasury shares

The cost of own shares held in employee benefit trusts and in treasury is deducted from shareholders' equity until the shares are cancelled, reissued or disposed of. Any proceeds received are also taken to shareholders' equity. No gain or loss is recognised in the Income Statement on the purchase, sale, issue or cancellation of own shares held.

Revenue recognition

Revenue represents amounts receivable for goods and services provided in the normal course of business, net of discounts and VAT. Revenue is measured as the fair value of consideration received or receivable. Sales of beverages are recognised when these goods are delivered to our customers. Rents receivable are recognised on a straight-line basis over the life of the lease. Amusement machine royalties are recognised in the accounting period to which the income relates.

Share-based payments

The Company has applied the transitional provisions of IFRS 2 'Share Based Payments' and applied its requirements to those awards granted after 7 November 2002 that were not vested at 1 January 2005.

The Company operates a number of equity-settled share-based payment schemes for employees. Share-based payments are measured at fair value at the date of award and this value is subsequently updated at each balance sheet date for management's best estimate of the effect of non-market based vesting conditions on the number of equity instruments that will ultimately vest. The fair value is recognised as an expense over the vesting period by calculating the cumulative expense and recognising the movement in the cumulative expense in the Income Statement. A corresponding entry is made to equity. The fair value of share options is measured using valuation models.

Dividends

Final dividends are recognised as a liability when they have been approved by shareholders at the Annual General Meeting. Interim dividends are recognised when they are paid.

New standards and interpretations

The Company has elected to adopt early IFRS 7 'Financial Instruments: Disclosure' which is not yet mandatory for adoption.

During the year, a number of other new standards and interpretations were issued with an effective date after the date of these financial statements. The following standards which are relevant to the Company are not expected to have a material impact on the financial statements although the Amendment to IAS 1 may require some additional disclosure. The effective dates below represent the latest date that the Company will be required to implement the standard:

- Amendment to IAS 1 — Capital Disclosures — effective from 1 October 2007
- Amendment to IAS 23 — Borrowing Costs — effective from 1 January 2009
- IFRIC 11 — Group and Treasury Share Transactions — effective from 1 October 2007
- IFRS 8 — Operating Segments — effective from 1 January 2009
- IFRIC 14 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction — effective 1 October 2008

Use of accounting estimates and judgements

The Company makes estimates and assumptions during the preparation of the financial statements. Actual results may differ from these estimates under different assumptions and conditions. The estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements are discussed below:

Notes to the Company Accounts

at 30 September 2007

1. Accounting Policies (continued)

a) Property, Plant and Equipment

Properties are valued annually at open market value in accordance with the Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors ('RICS'). The valuation is based on market observations and estimates the amount that would be paid by a willing buyer to a willing seller in an arm's length transaction after proper marketing. Non-current assets held for sale are valued at the lower of their carrying value and their market value less any costs that may be incurred to sell the pub. Further information about the valuation of the pub estate is provided in note 4 of these accounts.

The Company estimates the useful economic life and residual value of property, plant and equipment (PPE) and these estimates influence the depreciation charged each year. For details of these estimates, see the detailed accounting policy for PPE.

b) Valuation of interest rate swaps

The Company measures interest rate swaps at fair value at each balance sheet date. The swap valuation rates are derived from the mid point of the zero coupon prevailing at the close of business on the balance sheet date. The fair value represents the net present value of the difference between the projected cash flows at the swap contract rate and the valuation rate for the period from the balance sheet date to the contracted expiry date. The calculation therefore uses estimates of present values and future interest rates.

c) Taxation

Judgement is required when determining the provision for taxes as the tax treatment of some transactions cannot be finally determined until a formal resolution has been reached with the tax authorities. Tax benefits are not recognised unless it is probable that the benefit will be obtained. Tax provisions are made if it is expected that a liability will arise. The Company reviews each significant tax liability or benefit to assess the appropriate accounting treatment.

d) Other

The Group also makes estimations and judgements in the valuation of share-based payments and the pension liability. However, the value of these items is such that any variation in the estimates used is unlikely to have a significant effect on the amounts recognised in the financial statements.

Share buy-backs in close period

In accordance with IAS 32 'Financial Instruments: Disclosure and Presentation' a financial liability has been recognised as the Company has entered into a contingent agreement with a third party which required the Company to purchase shares acquired during the close period.

At 30 September 2006 a financial liability of £74 million was estimated to have existed. This has been recognised in the balance sheet and has resulted in a decrease in shareholders' funds of £74 million. There was no effect on the income statement for the year ended 30 September 2006.

Notes to the Company Accounts

at 30 September 2007

2. Investments

	Subsidiary undertakings £m	Other Investment £m	Total £m
Cost or valuation:			
At 1 October 2005	1,102	—	1,102
Additions	1,450	2	1,452
Realisation of investment through dividends received	(170)	—	(170)
At 1 October 2006	2,382	2	2,384
Disposals	—	(2)	(2)
Realisation of investment through dividends received	(9)	—	(9)
At 30 September 2007	2,373	—	2,373
Provision			
At 1 October 2005, 1 October 2006 and 30 September 2007	(23)	—	(23)
Net book value			
At 30 September 2007	2,350	—	2,350
At 30 September 2006	2,359	2	2,361

On 6 September 2006, the Company disposed of 511 pubs to Admiral Taverns. Part of the consideration received for this disposal was £2 million preference shares in Admiral Taverns. These preference shares were redeemed during the year.

The Company's principal subsidiaries are listed in the following table.

Company	Country of Incorporation	Holding	Proportion of voting rights and shares held	Nature of business
<i>Indirectly held by Enterprise Inns plc:</i>				
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 property
		Cumulative Redeemable Preference Shares	100%	
Voyager Pub Group Limited	England	Ordinary shares	100%	Ownership of licensed properties

Notes to the Company Accounts

at 30 September 2007

3. Intangible assets: operating lease premiums

	2007 £m	2006 £m
Cost:		
At 1 October	10	11
Transfer to non-current assets held for sale	(1)	(1)
At 30 September	9	10
Amortisation:		
At 1 October	2	2
Provided during the year	—	—
At 30 September	2	2
Net book value:		
At 30 September	7	8
At 1 October	8	9

Lease premiums are amortised on a straight-line basis over the remaining life of the lease.

4. Property, plant and equipment

	Licensed land and buildings £m	Landlords' fixtures and fittings £m	Other assets £m	Total £m
Cost or valuation				
At 1 October 2005	2,621	97	19	2,737
Additions	85	26	7	118
Revaluation	148	—	—	148
Write-down to fair value less costs to sell	(2)	—	—	(2)
Net transfers to non-current assets held for sale	(162)	(11)	—	(173)
Disposals	—	—	(1)	(1)
At 1 October 2006	2,690	112	25	2,827
Additions	95	26	4	125
Revaluation	163	—	—	163
Write-down to fair value less costs to sell	(2)	—	(1)	(3)
Net transfers to non-current assets held for sale	(33)	(2)	—	(35)
At 30 September 2007	2,913	136	28	3,077
Depreciation				
At 1 October 2005	36	5	3	44
Net transfers to non-current assets held for sale	(4)	(1)	—	(5)
Charge for the year	1	2	1	4
Revaluation	(31)	—	—	(31)
At 1 October 2006	2	6	4	12
Charge for the year	—	2	2	4
At 30 September 2007	2	8	6	16
Net book value				
At 30 September 2007	2,911	128	22	3,061
At 30 September 2006	2,688	106	21	2,815
At 1 October 2005	2,585	92	16	2,693

Notes to the Company Accounts

at 30 September 2007

4. Property, plant and equipment (continued)

Revaluation of property, plant and equipment

With the exception of properties identified for disposal, the Company's licensed land and buildings were revalued as at 30 September 2007 by Humberts Leisure Limited, independent Chartered Surveyors, and by the internal Head of Estates, Simon Millar MRICS, Chartered Surveyor.

The land and buildings were valued at market value (as defined within RICS Appraisal and Valuation Standards 'Red Book'), reflecting the current and future rent and other income streams which are expected to be generated by each property capitalised at an appropriate yield. The valuation also takes account of the terms of the leases or tenancies under which the properties are let. Market value is influenced by factors such as income, location, pub quality and tenure. The valuations are made by reference to market transactions within the UK pub sector.

The pubs used as security for the secured bonds and debenture in Enterprise Inns plc have been valued by Humberts Leisure Limited. The balance of the estate held in Enterprise Inns plc have been valued by the Head of Estates. The results of this internal valuation have been compared to that of the external valuers. This review ensured that the results are consistent.

Pubs identified for disposal which are classified in the balance sheet as 'non-current assets held for sale' are held at the lower of carrying amount and fair value less costs to sell. This fair value is based on the estimated net realisable disposal proceeds (ERV) which are provided by third party property agents who have been engaged to sell the properties.

If licensed land and buildings had been measured using the cost model, the carrying amounts would be as follows:

	Licensed land and buildings £m
At 30 September 2007	
Cost	1,962
Accumulated depreciation	(34)
Net book value	1,928
At 30 September 2006	
Cost	1,893
Accumulated depreciation	(34)
Net book value	1,859

The carrying value of property held under finance leases at 30 September 2007 was £113m (2006 – £105 million). Additions during the year include £4 million of property held under finance leases (2006 – £2 million).

At 30 September 2007, the Company had entered into contractual commitments to purchase £20 million (2006 – £6 million) of property, plant and equipment.

Notes to the Company Accounts

at 30 September 2007

5. Current assets held for sale

	2007 £m	2006 £m
Fixtures and fittings and stock purchased from tenants		
Cost		
At 1 October	7	7
Additions	7	9
Disposals	(6)	(9)
At 30 September	8	7
Provision		
At 1 October	2	2
Charge for the year	(1)	(1)
Utilised during the year	1	1
At 30 September	2	2
Net realisable value	6	5

6. Trade and other receivables

	2007 £m	Reanalysed 2006 £m
Trade receivables	60	63
Amounts owed by subsidiary undertakings	212	186
Prepayments and accrued income	10	7
Other receivables	5	6
	287	262

2006 has been reanalysed to show receivables that related to commission income in trade receivables instead of accrued income as these amounts are now invoiced.

7. Non-current assets held for sale

	2007 £m	2006 £m
At 1 October	7	21
Net transfer from property, plant and equipment (note 4)	35	168
Net transfer from intangible assets: operating lease premiums (note 3)	1	1
Disposals	(36)	(183)
At 30 September	7	7
Representing:		
Property, plant and equipment	7	7
Intangible assets: operating lease premiums	—	—
	7	7

Non-current assets held for sale comprises both freehold and leasehold licensed and unlicensed properties that have been identified by the Company for disposal as part of the continued improvement in quality of its property portfolio. Non-current assets held for sale will usually be sold unlicensed for alternative use. The sale of all assets within this category is expected to be completed within one year of the balance sheet date.

A balance of £1 million (2006 — £1 million) in relation to these pubs is held within the revaluation reserve representing revaluation surpluses.

Notes to the Company Accounts

at 30 September 2007

8. Trade and other payables

	2007 £m	2006 £m
Trade payables	17	17
Amounts due to subsidiary undertakings	721	698
Accruals and deferred income	117	126
Other payables	32	34
	887	875

9. Financial assets and liabilities

	2007 £m	Restated* 2006 £m
Financial assets		
Current		
Interest rate swap	4	1
Non-current		
Interest rate swap	4	1
Amounts owed by subsidiary undertakings	87	68
	91	69
Total financial assets	95	70
Financial liabilities		
Current		
Overdraft	10	16
Unsecured bank facility	35	—
Interest rate swaps	12	22
Provision for the share buy backs	21	74
	78	112
Non-current		
Syndicated bank borrowings	997	421
Corporate bonds	1,181	1,181
Amounts owed to subsidiary undertakings	19	155
Finance lease payables	2	3
	2,199	1,760
Total financial liabilities	2,277	1,872
Total financial assets and liabilities	2,182	1,802

* See note 1.

Notes to the Company Accounts

at 30 September 2007

9. Financial assets and liabilities (continued)

Fair values

Bank borrowings, the debenture, bonds and interest rate swaps were valued at fair value as at 30 September by J C Rathbone, independent valuers. Fair value is calculated by discounting future cash flows using prevailing interest rates. The finance lease payables are valued by calculating the present value of the future minimum lease payments.

The book and fair values of financial assets and liabilities have been analysed into categories as below:

		2007	2007	2007	2006	Restated*	2006
	Interest rate	Nominal	Book value	Fair value	Nominal	Book value	Fair value
		value	£m	£m	value	£m	£m
		£m	£m	£m	£m	£m	£m
Overdraft	6.75%	10	10	10	16	16	16
Syndicated bank borrowings	LIBOR + 0.6%	1,000	997	1,000	425	421	425
Unsecured bank facility	LIBOR + 0.9%	35	35	35	—	—	—
Corporate bonds:							
Debenture — issued 3 February 1999	6%	60	59	60	60	59	61
Secured bond — issued 9 May 2000	6.875%	125	124	136	125	124	144
Secured bond — issued 15 February 2001	6.875%	125	124	134	125	124	140
Secured bond — issued 26 February 2002	6.375%	275	272	291	275	272	310
Secured bond — issued 3 March 2003	6.5%	600	602	614	600	602	647
		1,185	1,181	1,235	1,185	1,181	1,302
Interest rate swaps:							
£275m swap expiring 1 June 2012	6.662%	—	12	12	—	22	22
£350m swap expiring 30 September 2011	4.887%	—	(8)	(8)	—	(2)	(2)
		—	4	4	—	20	20
		2,230	2,227	2,284	1,626	1,638	1,763
Provision for share buy-backs		—	21	21	—	74	74
Finance lease payables (note 10)		—	2	2	—	3	3
Intercompany:							
Amounts owed by subsidiary undertakings		—	(87)	(87)	—	(68)	(68)
Amounts owed to subsidiary undertakings		—	19	19	—	155	155
Total debt		2,230	2,182	2,239	1,626	1,802	1,927
Cash		(6)	(6)	(6)	(6)	(6)	(6)
Underlying net debt/net debt		2,224	2,176		1,620	1,796	

* See note 1.

Bank borrowings, the unsecured bank facility, the corporate bonds and the amounts owed by and to subsidiary undertakings are held at amortised cost. Interest rate swaps are held at fair value and finance lease payables represents the present value of future minimum lease payments. The liability for close-period share buy-back contracts represents an estimate of the amount that may be incurred on share buy-backs during the period from 1 October to the date of the preliminary announcement of results. There is no difference between the book value and the fair value of this provision. Other categories of financial instruments include trade receivables and trade payables; however, there is no difference between the book value and fair value of these items.

Notes to the Company Accounts

at 30 September 2007

9. Financial assets and liabilities (continued)

Interest rate swaps

On 29 September 2006 the Company designated the £350 million swap that expires in September 2011 as an effective cash flow hedge under IAS 39. This cash flow hedge is hedging future movements in interest rates until September 2011. As a result, changes in the fair value of the effective portion of this swap are recognised directly in equity instead of in the Income Statement. Changes in the fair value of the ineffective portion of the hedge are recognised in the Income Statement.

Both of the Company's swaps are in place to hedge cash payments made on floating rate debt.

The movement in the fair value of interest rate swaps has been accounted for as follows:

	2007 £m	2006 £m
At 30 September	20	67
Cash payment	—	(25)
Fair value movements:		
— ineffective portion and swaps not designated as effective hedges recognised in Income Statement	(10)	(22)
— effective portion recognised in Cash Flow Hedge Reserve	(6)	—
At 30 September	4	20

Financial instruments and risk

The Company's financial instruments, other than derivatives, comprise overdrafts, bank loans, a debenture, secured bonds and cash. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company also enters into derivative transactions, specifically interest rate swaps and contracts to purchase shares in a close period. The purpose of such transactions is to manage the interest rate risk arising from the Company's sources of finance and meet the objective of the Company's share buy-back strategy.

The main risks arising from the Company'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 as follows.

Liquidity risk

The Company has exposure to liquidity risk, being the risk that payments cannot be made when they fall due. The Company's objective is to maintain a balance between the continuity of funding and flexibility through the use of overdrafts, bank loans and debentures.

This objective is achieved through the following processes:

- Regular cash flow forecasting and reporting through the treasury function
- Regular review of the Company debt portfolio including maturities and repayment profile
- Maintenance of undrawn committed borrowings
- Management of share buy-back programme

Notes to the Company Accounts

at 30 September 2007

9. Financial assets and liabilities (continued)

At 30 September 2007, the nominal value of the Company's borrowings (excluding interest rate swaps, liability for share buy-back contracts, finance lease payables and amounts owed by and to subsidiary undertakings) comprised:

	2007	2006
Overdraft	—%	1%
Syndicated and other bank borrowings	47%	26%
Corporate bonds	53%	73%

The maturity of the Company's debt, including interest rate swap liabilities, is set out below:

	2007	2006
	£m	£m
In more than five years	1,181	1,184
In more than two years but not more than five years	1,002	435
In more than one year but not more than two years	2	4
In one year or less or on demand	42	20
	2,227	1,643

The table above shows the contractual, undiscounted cash flows due in future periods to settle the Company's debt. The book value of Company debt includes the fair value of the interest rate swaps which is based on discounted cash flow, this means that the total amount payable shown above in 2006 differs from the total book value of Company debt. The undiscounted value of swaps due in each period nets to the same number as the discounted value in 2007 and this anomaly therefore does not occur in 2007. The contractual maturity of trade and other payables is within one year. An analysis of minimum lease payments due under finance leases is set out in note 10. The liability for close-period share buy-backs will be reversed within one year.

The Company's bank borrowings, secured bonds and securitised bonds are repayable as follows:

Syndicated bank borrowings	2011
Unsecured bank facility*	2008
Corporate bonds	
£60 million 6% Debenture	2014
£125 million 6.875% bond	2025
£125 million 6.875% bond	2021
£275 million 6.375% bond	2031
£600 million 6.5% bond	2018

* The unsecured bank facility is uncommitted and can be cancelled by the bank by providing 30 days' notice.

Details of undrawn borrowing facilities available at 30 September are as follows:

	2007	2006
	£m	£m
Expiring in		
In more than five years	—	—
In more than two years but not more than five years	—	575
In more than one year but not more than two years	—	—
In one year or less or on demand	65	—
	65	575

The undrawn facility in 2007 relates to the undrawn element of the uncommitted bank facility. The undrawn facility in 2006 relates to the undrawn element of the syndicated bank facility.

Notes to the Company Accounts

at 30 September 2007

9. Financial assets and liabilities (continued)

Interest rate risk

The Company borrows its debenture and bonds at a fixed rate. Bank debt is borrowed at, and cash balances attract interest at, a floating rate. The Company's objective is to manage exposure to changes in interest rates. This exposure is managed using interest rate swaps acquired with Group companies. At 30 September 2007, the Company's borrowings were 82% fixed (after including the impact of interest rate swaps) with an average interest rate of 6.5% for 10 years (2006 – 100% fixed at an average rate of 6.5% for 12 years).

Cash flows associated with cash deposits, debt and interest rate swaps and the fair value of these instruments fluctuates with changes in interest rates. The effect on the profit for the year would have been as follows if interest rates had been 50 basis points higher or lower during the period.

	Interest receivable £m	Interest payable £m	Movement in fair value of interest rate swap £m
As reported in Income Statement	17	(127)	10
Effect if interest rates increased by 50 basis points (0.5%)	—	—	6
Difference	17	(127)	16
As reported in Income Statement	17	(127)	10
Effect if interest rates decreased by 50 basis points (0.5%)	—	—	(6)
Difference	17	(127)	4

Credit risk

There are no significant concentrations of credit risk within the Company. The Company is exposed to a small amount of credit risk that is primarily attributable to trade receivables and cash balances. The Company's objective is to minimise this risk by dealing with third parties with high credit ratings and carrying out credit checks where appropriate. The amount of trade and other receivables included in the Balance Sheet are net of a bad debt provision which has been estimated by management following a review of individual receivable accounts and is based on prior experience and known factors at the balance sheet date after taking into account collateral held in the form of cash deposits. Receivables are written off against the bad debt provision when management considers that the debt is no longer recoverable. At 30 September 2007 the value of collateral is £25 million (2006 – £24 million). This balance is held on the balance sheet in 'other payables'.

An analysis of the provision held against trade receivables is set out below. This provision relates to trade receivables which are primarily represented by licensees.

	2007 £m	2006 £m
Allowance as at 1 October	3	4
Increase in provision during the year	2	3
Provision utilised during the year	(1)	(1)
Provision released during the year	(3)	(3)
Allowance as at 30 September	1	3

There are no trade receivables that are past due at the balance sheet date that have not been provided against. There are no indications as at 30 September 2007 that debtors will not meet their payment obligations in respect of the amount of trade receivables recognised in the balance sheet that are neither past due nor impaired. The maximum amount of exposure to credit risk is the carrying value of trade receivables and the fair value of interest rate swaps classified as financial assets. The Company's credit risk on liquid funds is limited because the Company only invests with banks and financial institutions with high credit ratings.

Notes to the Company Accounts

at 30 September 2007

9. Financial assets and liabilities (continued)

Security

Senior debt finance is secured by a security deed entered into by substantially all of the companies which comprise the Group, excluding Enterprise Inns Holding Company Limited and its subsidiaries and Unique Pubs Limited and its subsidiaries. The lenders have a floating charge over all of the assets and undertakings of such Group companies. The floating charge ranks subsequent to the fixed charges created by the debenture and secured bonds. The value of assets secured by way of a fixed or floating charge as at 30 September 2007 is — Property, Plant and Equipment £3,039 million (2006 — £2,794 million), operating lease premiums £7 million (2006 — £8 million) and pubs held for sale £7 million (2006 — £7 million).

10. Leases

The Company as lessee

The Company leases a proportion of its licensed estate from landlords under finance leases and operating leases. These leases have varying terms, escalation clauses and renewal rights.

Finance leases

	2007 £m	2006 £m
Future minimum lease payments due under finance leases:		
within one year	—	—
after one year but not more than five years	1	1
in more than five years	12	13
	13	14
Future finance lease interest	(11)	(11)
Present value of future minimum lease payments	2	3

The present value of future minimum lease payments is due in more than five years (2006 — more than five years).

Pubs that are leased from landlords under finance leases are let to tenants. Future minimum rentals receivable from non-cancellable operating sub-leases on the above properties are £39 million (2006 — £41 million).

Operating leases

	2007 £m	2006 £m
Operating lease rentals recognised as an expense in the year	2	2
	2007 £m	2006 £m
Future minimum lease payments due under operating leases:		
within one year	2	2
after one year but not more than five years	8	7
in more than five years	30	29
	40	38

Pubs that are leased from landlords under operating leases are let to tenants. Future minimum rentals receivable from non-cancellable sub-leases on the above properties are £13 million (2006 — £12 million).

Notes to the Company Accounts

at 30 September 2007

10. Leases (continued)

The Company as lessor

The Company leases its licensed estate and other non-licensed properties to tenants. The majority of lease agreements have terms of between 6 months and 30 years and are classified for accounting purposes as operating leases. Most of the leases with terms of over 3 years include provision for rent reviews on either a 3 or 5 year basis.

The present value of future minimum lease rentals receivable under non-cancellable operating leases is as follows:

	2007 £m	2006 £m
Future minimum lease rentals receivable under operating leases:		
within one year	126	126
after one year but not more than five years	430	455
in more than five years	556	595
	1,112	1,176

11. Provisions

	2007 £m	2006 £m
At 1 October:		
Non-current	3	3
	3	3
Movement during the year:		
Utilisation	(1)	(2)
Transfer from Group company	1	2
	—	—
At 30 September:		
Non-current	3	3
	3	3

The provision relates to future commitments under onerous lease agreements. The provision is expected to be utilised as the pubs are disposed of. The remaining lease terms vary from 2 to 64 years.

12. Deferred tax

The deferred tax in the Company Balance Sheet relates to the following:

	2007 £m	2006 £m
Unrealised surplus on revaluation of property	210	190
Rolled over gains	63	63
Accelerated capital allowances	65	76
Fair value of interest rate swaps	(1)	(6)
Share-based payments	(6)	(8)
Pension scheme	1	—
Other temporary differences	2	10
	334	325

The Company has not provided deferred tax in relation to temporary differences associated with undistributed earnings of subsidiaries on the basis that under current enacted law, no tax is payable on dividends payable and receivable within the Group.

Notes to the Company Accounts

at 30 September 2007

13. Pension scheme

Please see note 26 of the Group financial statements for details of the pension asset.

14. Share capital

Authorised:	2007		2006	
	No.	£m	No.	£m
Ordinary shares of 0.25p each	1,000,000,000	25	1,000,000,000‡	25
Allotted, called up and fully paid:	No.	£m	No.	£m
Ordinary shares of 0.25p each				
At 1 October	664,329,150	16	699,010,780‡	17
Cancelled	(102,862,096)	(2)	(34,681,630)‡	(1)
At 30 September	561,467,054	14	664,329,150‡	16

Ordinary shares carry no right to fixed income. Holders of ordinary shares are entitled to vote at meetings.

On 17 January 2007 each of the Company's issued and unissued existing ordinary shares of 5 pence each were sub-divided into two new ordinary shares of 2.5 pence each.

At 30 September 2007, the Company owned 50 million (2006 — 50 million‡) of its own shares as treasury shares with a nominal value of £1 million (2006 — £1 million) and a market value of £293 million (2006 — £264 million).

In addition, at 30 September 2007 the Company held 10,027,700 shares with a nominal value of £0.3 million and a market value of £59 million (2006 — 13,740,506‡ shares, nominal value £0.3 million, market value £72 million). These shares are held by the Employee Benefit Trust and Enterprise Inns Quest Trustees Limited and are shares used to satisfy awards made under the Enterprise Inns Incentive Plans and other share option schemes (see note 28 of Group financial statements).

During the year the Company made on market purchases totalling 103 million (2006 — 84 million‡) of its own ordinary shares for an aggregate consideration of £658 million (2006 — £393 million) (excluding costs). These shares were cancelled. Transaction costs of £3 million (2006 — £3 million) have been accounted for directly in equity in the profit and loss reserve.

‡ Restated for the sub-division of shares from 5 pence to 2.5 pence per share on 17 January 2007.

Notes to the Company Accounts

at 30 September 2007

15. Statement of changes in equity

	Share Capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Treasury share reserve £m	Cash flow hedge reserve £m	Other reserve £m	Profit and loss account £m	Total £m
At 1 October 2005	17	486	513	8	—	—	12	300	1,336
Total recognised income and expense for the year	—	—	106	—	—	—	500	1,010	1,616
Transfer of realised revaluation surplus	—	—	(42)	—	—	—	—	42	—
Realisation of investment through dividends received	—	—	—	—	—	—	(170)	170	—
Equity dividends paid (note 18)	—	—	—	—	—	—	—	(70)	(70)
Consideration paid for purchase of own shares	—	—	—	—	(227)	—	—	(3)	(230)
Cancellation of ordinary shares	(1)	—	—	1	—	—	—	(166)	(166)
Change in provision for share buy-backs	—	—	—	—	—	—	—	(74)	(74)
Employee share option entitlements exercised in the year	—	—	—	—	—	—	11	(7)	4
Directors' share option entitlements exercised in the year	—	—	—	—	—	—	3	(3)	—
Share-based expense recognised in operating profit	—	—	—	—	—	—	—	3	3
At 1 October 2006	16	486	577	9	(227)	—	356	1,202	2,419
Total recognised income and expense for the year	—	—	140	—	—	4	—	390	534
Transfer of realised revaluation surplus	—	—	(7)	—	—	—	—	7	—
Realisation of investment through dividends received	—	—	—	—	—	—	(9)	9	—
Equity dividends paid (note 18)	—	—	—	—	—	—	—	(79)	(79)
Cancellation of ordinary shares	(2)	—	—	2	—	—	—	(661)	(661)
Change in provision for share buy-backs	—	—	—	—	—	—	—	53	53
Employee share option entitlements exercised in the year	—	—	—	—	—	—	7	(2)	5
Directors' share option entitlements exercised in the year	—	—	—	—	—	—	4	(4)	—
Share-based expense recognised in operating profit	—	—	—	—	—	—	—	3	3
At 30 September 2007	14	486	710	11	(227)	4	358	918	2,274

Notes to the Company Accounts

at 30 September 2007

15. Statement of changes in equity (continued)

Share premium account

This reserve represents the amount of proceeds received for shares in excess of their nominal value.

Revaluation reserve

This reserve shows the surplus generated on revaluation of the estate less deferred tax. It represents the amount by which the fair value of the estate exceeds its historic cost.

Capital redemption reserve

This reserve arose on the repurchase and cancellation of own shares in 1995/96, 2005/06 and 2006/07.

Treasury share reserve

This reserve shows the cost of own shares purchased by the Company and held as treasury shares. These shares can be cancelled or reissued.

Other reserves

This comprises the cost of shares in the Company that are held by employee benefit trusts. These shares are used to satisfy awards made under share incentive plans (note 19). The reserve also includes the increase in value of subsidiaries acquired at fair value under IAS 27.

16. Profit earned for ordinary shareholders

The Profit and Loss Account is not included in the Company's accounts by virtue of the exemption granted by section 230 of the Companies Act 1985. Profit after tax during the year amounted to £386 million (2006 — £1,005 million as restated for the adoption of IFRS — see note 21).

Remuneration paid to the auditors in the year was as follows. This note is shown rounded to the nearest thousand.

	2007	2006
	£000	£000
Group audit fees	159	154
Tax fees	295	120
All other services	37	36
	491	310

Notes to the Company Accounts

at 30 September 2007

17. Staff costs

	2007 £m	2006 £m
Wages and salaries	22	24
Social security costs	3	3
Other pension costs	2	2
	27	29

Included in wages and salaries is a total expense relating to share-based payments of £3 million (2006 — £3 million). All of this expense arises from transactions accounted for as equity-settled share-based payments.

Other pension costs represents payments made into employees' individual defined contribution plans.

The average monthly number of employees comprised:

	2007 No.	2006 No.
Operations staff	220	244
Administration staff	290	283
	510	527

Directors' emoluments are summarised below to the nearest £'000 with full detail given in the Directors' Remuneration Report.

	2007 £'000	2006 £'000
Directors emoluments*	2,320	2,478
Share-based payments†	1,828	2,078
Aggregate gains made on exercise of share options	4,400	5,499

* Comprises fees, salary, benefits and performance-related cash bonus.

† Fair value of share-based payments charged to the Income Statement during the year.

18. Dividends paid and proposed

	2007 £m	2006 £m
Paid during the year		
Equity dividends on ordinary shares:		
Final dividend relating to prior year 9 pence (2006 — 6.2 pence*)	52	42
Interim dividend for current year 5.2 pence (2006 — 4.5 pence*)	27	28
	79	70
Proposed for approval by shareholders at the AGM		
Final dividend for current year 10.4 pence (2006 — 9.0 pence*)	52	52

Proposed dividends are not accounted for until they are approved at the AGM.

The dividends relating to shares held by the Employee Benefit Trust and shares held in treasury have been waived. No dividend is due on shares held in treasury.

* Restated for the sub-division of shares from 5 pence to 2.5 pence per share on 17 January 2007.

Notes to the Company Accounts

at 30 September 2007

19. Share-based payments

The Company operates share-based payment schemes for both directors and other employees. Details of the Short-Term Incentive Plan (STIP) and Long-Term Incentive Plan (LTIP) which form part of the remuneration of the executive directors are given in the Director's Remuneration Report on pages 30 to 39.

The Company also operates an Employee Share Option Scheme (ESOS), a Savings Related Share Option Scheme (SAYE) and a Share Incentive Plan (SIP).

Please refer to note 28 of the Group financial statements section for more details of share-based payments.

20. Related parties

Compensation of key management personnel	2007	2006
	£000	£000
Short-term employee benefits	2,320	2,478
Post-employment benefits	310	346
Share-based payment	1,828	2,078
	4,458	4,902

Key management personnel comprises both executive and non-executive directors. Key management of the Company are the same as the key management personnel of the Group. Short-term employee benefits comprises fees, salaries, benefits and performance related bonus as reported in the Directors' Remuneration Report. Post-employment benefits comprise payments made to the directors' own personal pension schemes and salary supplements in lieu of a contribution to a personal pension scheme. Share-based payment comprises the fair value of STIP and LTIP awards charged in the year. Further information about the remuneration of individual directors is available in the Directors' Remuneration Report on pages 30 to 39.

Transactions with subsidiary undertakings

The Company enters into loans with its subsidiary undertakings which attract interest at varying levels. Interest receivable on these loans was £16 million (2006 — £9 million).

The following loans were outstanding at the year end:

	2007	2006
	£m	£m
Loans due from subsidiary undertakings	87	68
Loans due to subsidiary undertakings	(19)	(155)
	68	(87)

The Company enters into other trading transactions with its subsidiary undertakings of £102 million (2006 — £108 million).

The following balances were outstanding at the year end:

	2007	2006
	£m	£m
Amounts due from subsidiary undertakings	212	186
Amounts due to subsidiary undertakings	(721)	(698)
	(509)	(512)

Notes to the Company Accounts

at 30 September 2007

21. Transition to IFRS

These are the first financial statements that the Company has prepared using IFRS. Comparatives for the year to 30 September 2006 have been restated from UK GAAP into IFRS to allow proper comparison. Reconciliations of the opening equity at 1 October 2005 and of equity and profit for the year ending 30 September 2006 are shown below along with details of the significant decisions made by the Company on transition to IFRS.

IFRS 1 – First-time adoption decisions

IFRS 1 'First-time adoption of International Financial Reporting Standards' provides certain exemptions on transition to IFRS. The significant decisions made by the Company under IFRS 1 are set out below:

Valuation of properties

IFRS 1 provides the option to use a previous revaluation of property, plant and equipment as 'deemed cost' at the date of transition to IFRS. The Company has decided not to take this option and will also continue to revalue properties under IAS 16 'Property, Plant and Equipment'. This treatment is consistent with that adopted under UK GAAP. The Board considers it is appropriate to continue to adopt this treatment under IFRS to enable the accounts to reflect an up-to-date valuation of the pub estate.

Employee benefits

The Company has elected to recognise all cumulative actuarial gains and losses in relation to its defined benefit pension scheme on transition to IFRS. Actuarial gains and losses arising after the date of transition will also be recognised in full in accordance with the Amendment to IAS 19 'Employee Benefits'. This treatment is consistent with that adopted under UK GAAP (FRS 17). This scheme is now closed to new members and for the future accrual of benefits.

Share-based payment transactions

The Company has elected to apply IFRS 2 'Share-based payments' to awards granted after 7 November 2002 but not vested at 1 October 2005.

Adjustments made to Profit

1. Depreciation (IAS 16)

Under UK GAAP, no depreciation was charged on any element of the pub estate on the grounds of materiality. Instead an annual impairment test was carried out on the estate. IAS 16 'Property, Plant and Equipment' ('PPE') contains no provision allowing non-depreciation on the grounds of materiality. Each part of PPE that has a cost that is significant in relation to the total cost must be depreciated separately.

The Company has concluded that a depreciation charge should be incurred under IAS 16 in relation to landlords' fixtures and fittings and certain improvements made to buildings. No depreciation is charged on land. Freehold buildings are depreciated to write off the difference between their carrying value and residual value over their useful economic life of 50 years. However, no depreciation charge arises in respect of 2005/06 as the residual value of freehold properties is at least equal to their carrying value.

Notes to the Company Accounts

at 30 September 2007

21. Transition to IFRS (continued)

2. Pub revaluations (IAS 16/IFRS 5)

Under UK GAAP, all revaluation uplifts were credited to the revaluation reserve. If a pub fell in value the revaluation deficit was debited to the revaluation reserve to the extent that there was a revaluation credit in relation to that pub and thereafter if it could be shown that the value in use exceeded the valuation.

Under IAS 16, any revaluation that causes the book value of a pub to fall below historic cost will lead to a charge in the Income Statement. The charge will represent the amount by which the pub falls below depreciated historic cost. If this same pub later recovers in value so that its book value exceeds depreciated historic cost, the increase in value is credited to the Income Statement to the extent that a debit was previously recognised in the Income Statement.

Under UK GAAP, pubs held for disposal were valued at the lower of their carrying value and expected sales proceeds net of selling costs. The amount of any write-down was recognised in the profit and loss account as a 'provision for loss on sale' and shown within 'net profit on disposal of tangible fixed assets'.

Under IFRS, when pubs are classified as held for sale under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', they are valued at the lower of book value and fair value less costs to sell. Any write-down in value as a result of this treatment is first recognised in the Revaluation Reserve to the extent of any existing surplus for that asset. It is then recognised in the Income Statement. The amount of any write-down recognised in the Income Statement is also shown in the line 'movements from revaluation of pub estate'.

3. Dividends

IAS 27 'Consolidated and Separate Financial Statements' requires that, when investments are recognised at cost, any dividends paid from pre-acquisition profits are used to reduce the carrying amount of the investment and not recognised as revenue in the Income Statement. Therefore, dividends that had been paid to Enterprise Inns plc from the pre-acquisition profits of subsidiaries have been removed from profit reported under UK GAAP and instead have been credited to the cost of investment. The same amount has been recognised as a realisation of the capital reserve created on transition to IFRS and transferred to distributable profits.

Adjustments made to the equity

1. Deferred tax on revaluations and rolled over gains (IAS 12)

Under UK GAAP, no deferred tax was recognised in respect of the unrealised surplus on the revaluation of tangible fixed assets unless there was a binding commitment to sell the properties at the balance sheet date. In addition, no provision was included for capital gains on the disposal of properties where the gain was deferred through the application of capital gains rollover relief as no liability was expected to crystallise.

IAS 12 'Income Taxes' states that deferred tax must be provided on all temporary differences between the tax base cost and carrying value of assets except to the extent that the difference arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and does not affect accounting profit or loss. As a result, a deferred tax liability has been recognised, subject to these exemptions, relating to the revaluation of the pub estate and gains previously rolled over, or due to be rolled over, into other assets. It should be noted that this liability is not expected to crystallise in the foreseeable future.

2. Leases (IAS 17)

The Company leases a number of pubs from landlords. Under UK GAAP, the Company accounted for all leases as operating leases and rent was charged to the Profit and Loss Account as incurred. Leasehold assets were held on the balance sheet within tangible fixed assets at valuation.

Under IAS 17 'Leases', most leases have been reclassified as finance leases. The finance lease payable, representing the present value of future minimum lease payments, has been reclassified and is shown on the balance sheet under 'financial liabilities'. The book value of these properties has been increased by the same amount so that they are now held at fair value.

The remaining leasehold pubs have been classified as held under operating leases. The amount held on the balance sheet in relation to these pubs has been reclassified from tangible fixed assets to intangible assets: operating lease premiums. The revaluation surplus relating to these properties has been reversed as IAS 17 does not permit the revaluation of assets held under operating leases.

Notes to the Company Accounts

at 30 September 2007

21. Transition to IFRS (continued)

3. Investments (IAS 27)

Under UK GAAP, the Company had applied s131 of the Companies Act and recorded the cost of investment as the nominal value of shares issued plus costs in respect on one acquisition, that of Century Inns Limited. In addition, the Company had accounted for the acquisition of a subsidiary company following a Group reorganisation at book value. Under IAS 27, investments in subsidiaries have been initially recorded at fair value. A corresponding adjustment has been made to 'other reserves' to recognise this change. Investments are not subsequently revalued. This has resulted in an increase in the cost of investments.

IAS 27 Consolidated and Separate Financial Statements, requires that, when investments are recognised at cost, any dividends paid from pre-acquisition profits are used to reduce the carrying amount of the investment and not recognised as revenue in the Income Statement. Therefore, dividends that had been paid to Enterprise Inns plc from the pre-acquisition profits of subsidiaries have been removed from profit reported under UK GAAP and instead have been credited to the cost of investment. The same amount has been recognised as a realisation of the capital reserve created on transition to IFRS and transferred to distributable profits.

4. Tax (IAS 12)

An adjustment is made to reflect the tax impact of the other IFRS adjustments where relevant.

Reconciliation of Company Profit for the year ended 30 September 2006	£m
Profit under UK GAAP	1,175
1. Depreciation — IAS 16	(3)
2. Revaluations — IAS 16	3
3. Dividends — IAS 27	(170)
Profit as restated for IFRS	1,005
Reconciliation of Company Equity as at 30 September 2006	
Equity under UK GAAP (as restated — see note 1)	2,263
1. Deferred tax	(253)
2. Leases	(3)
3. Investments	398
4. Tax	14
Equity as restated for IFRS	2,419
Reconciliation of Company Equity as at 30 September 2005	
Equity under UK GAAP	1,440
1. Deferred tax	(182)
2. Leases	(3)
3. Investments	68
4. Tax	13
Equity as restated for IFRS	1,336

Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, 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 financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent Auditors' Report to the Members of Enterprise Inns plc

We have audited the parent company financial statements of Enterprise Inns plc for the year ended 30 September 2007 which comprise the Statement of Recognised Income and Expense, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 21. These parent Company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of Enterprise Inns plc for the year ended 30 September 2007.

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' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent Company financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent Company 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 whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, 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 regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Financial Highlights, the Chairman's Statement, the Chief Executive's Review (incorporating the Business Review), the Corporate Responsibility Report, Directors and Advisers and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company 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 parent company financial statements, and of whether the accounting policies are appropriate to the Company'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 parent company 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

Independent Auditors' Report to the Members of Enterprise Inns plc

the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 30 September 2007;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

Ernst & Young LLP

Registered Auditor

Birmingham

19 November 2007

Note:

The maintenance and integrity of the Enterprise Inns plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Analysis of Ordinary Shareholders

at 30 September 2007

Range	Number of Shareholders	%	Shares Held	%
1–1,000	775	27.9	399,850	0.1
1,001–10,000	1,198	43.2	4,431,462	0.8
10,001–50,000	362	13.0	8,344,939	1.5
50,001–100,000	106	3.8	7,876,667	1.4
100,001–150,000	56	2.0	6,927,050	1.2
150,001–500,000	133	4.8	36,973,554	6.6
500,001–1,000,000	58	2.1	42,732,132	7.6
1,000,001–5,000,000	69	2.5	139,652,762	24.9
5,000,001 and over	19	0.7	314,128,638	55.9
	2,776	100.0	561,467,054	100.0

The total numbers of shares held above includes 50,000,000 shares held in treasury and 10,027,700 shares held in Employee Benefit Trusts.

Financial Calendar

2007

Preliminary announcement of annual results to 30 September 2007	20 November
Final dividend – ordinary shares: ex dividend date	24 December
Final dividend – ordinary shares: record date	28 December

2008

Annual General Meeting	17 January
Final dividend – ordinary shares: payment date	21 January
Announcement of interim results	13 May
Interim dividend – ordinary shares: record date	6 June
Interim dividend – ordinary shares: payment date	4 July
Preliminary announcement of annual results to 30 September 2008	18 November

Shareholder Information

Shareholder Enquiries



The Company's Registrars, Computershare Investor Services PLC, keep the Company's register of Shareholders up to date, distribute statutory documents and administer the payment of dividends. If you have a query regarding your shareholding please contact them direct by using the dedicated telephone enquiry line 0870 889 4080.

You can also use the Registrar's website to check your shareholding and maintain your records. Details can be found at www.computershare.com/uk/investor/etp

Electronic Communications



The Company has introduced innovative ways of communicating with Shareholders electronically via eTree an environmental incentive programme. For every Shareholder who signs up to receive electronic communications we will donate a sapling to the Woodland Trust, the UK's leading woodland conservation charity. All saplings will be planted through the Trust's 'Tree for All' campaign, a national tree planting and education programme, working with schools and communities to plant 12 million trees. For details and to register to receive future communications electronically, please visit www.etreuk.com/enterpriseinns

Share Dealing Service

The Registrars also offer a share dealing service which allows you to buy and sell the Company's shares if you are a UK resident. You can deal in your shares on the Internet or by phone. Log onto www.computershare.com/dealing/uk or call 0870 703 0084 between 8.00 am and 4.30 pm, Monday to Friday, for more information about this service and details of the rates.

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 889 4080. You can also register online or download a printable mandate form at www.computershare.com/uk/investor/etp

Notice of Annual General Meeting

This notice is important and requires your immediate attention. If you are in any doubt about the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000.

The 2008 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 17 January 2008 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 2007 and the auditors' report on the accounts.
2. To approve the directors' remuneration report for the year ended 30 September 2007.
3. To declare a final dividend of 10.4 pence per ordinary share of the Company for the year ended 30 September 2007, which shall be payable to shareholders who are on the register of members as at the close of business on 28 December 2007.
4. To reappoint Mr G E Tuppen as a director.
5. To reappoint Mr D C George as a director.
6. To reappoint Mr A J Stewart as a director.
7. To reappoint Mrs S E Murray as a director.
8. To reappoint Ernst & Young LLP as auditors of the Company, to hold office until the conclusion of the next Annual General Meeting of the Company.
9. To authorise the directors to determine Ernst & Young LLP's remuneration as auditors of the Company.
10. THAT the directors be generally and unconditionally authorised (in substitution for all subsisting authorities to the extent unused) to exercise all powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Companies Act 1985) up to an aggregate nominal amount of £4,232,721.98. This

authority shall expire (unless previously varied, revoked or renewed 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 2009, except that the Company may before such expiry make an 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 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:

11. THAT, subject to the passing of resolution 10, 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 10 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

Notice of Annual General Meeting

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 £697,471.78.

This authority shall expire, unless previously renewed, revoked or varied by the Company in general meeting, at such time as the general authority conferred on the directors by resolution 10 expires, except that the Company may before such expiry make an 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 offer or agreement as if the power conferred by this resolution had not expired.

12. 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 2½ pence each provided that:

- (i) the maximum number of ordinary shares that may be acquired is 76,145,817;
- (ii) the minimum price per ordinary share that may be paid for any such share (excluding expenses) is 2½ pence; and
- (iii) the maximum price (exclusive of expenses) which may be paid for each ordinary share shall not be more than the higher of:
 - (A) 105% of the average of the market values of such ordinary shares (as derived from the Daily Official List of the London Stock Exchange) for the five business days immediately preceding the date on which the purchase is made; and
 - (B) that stipulated by Article 5 (1) of the Buy-back and Stabilisation Regulation (EC 2273/2003).

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 2009, except that the Company may,

at any time before the expiry of this authority, enter into a contract or contracts to purchase ordinary shares which would or might be completed 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.

13. THAT the Articles of Association of the Company contained in the document produced to the Meeting and signed by the Chairman for the purposes of identification be approved and adopted as the new Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association, with effect from the conclusion of the 2008 Annual General Meeting.

The directors believe that the proposals in resolutions 1 to 13 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

6 December 2007

Registered office:

3 Monkspath Hall Road
Solihull
West Midlands
B90 4SJ

Registered in England and Wales No. 2562808

Notice of Annual General Meeting

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, speak and vote instead of him. A proxy does not need to be a shareholder of the Company. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, you will need to complete a separate proxy form in relation to each appointment. To request additional proxy forms, please contact the Company's registrars. You will need to state clearly on each proxy form the number of shares in relation to which the proxy is appointed. A failure to specify the number of shares each proxy appointment relates to or specifying a number of shares in excess of those held by the member will result in the proxy appointment being invalid.
2. A personalised 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 personalised form of proxy and believe that you should, please contact the Company's registrars, Computershare Investor Services PLC, on 0870 889 4080 or at Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS13 8FB. Completion and return of a form of proxy will not preclude a shareholder from attending and voting at the Annual General Meeting. Addresses (including electronic addresses) in this document are included strictly for the purposes specified and not for any other purpose.
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, BS13 8FB; 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 15 January 2008.
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 Euroclear UK & Ireland 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 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 Euroclear UK & Ireland 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))

Notice of Annual General Meeting

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. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company gives notice that only those shareholders included in the register of members of the Company at 6.00 p.m. on 15 January 2007 or, if the meeting is adjourned, in the register of members at 6.00 p.m. on the day which is two days before the day of any adjourned meeting, will be entitled to attend and to vote at the Annual General Meeting 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 15 January 2007 or, if the meeting is adjourned, in the register of members at 6.00 p.m. on the day which is two days before the day of any adjourned meeting, will be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting.
6. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
7. Arrangements will be put in place at the meeting so that, on a poll, if more than one corporate representative for the same shareholder inputs instructions into an electronic voting handset or completes a poll card then one of those corporate representatives is treated as the designated corporate representative to cast (or withhold) votes on the poll and the other corporate representatives for that member give directions to that designated corporate representative as to how the votes are to be cast (or withheld).
8. Copies of the directors' service contracts or letters of appointment and of the directors' remuneration report 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.
9. If you have sold or otherwise transferred all your ordinary shares in the Company, please forward this document 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.
10. As at 9.00 a.m. on 30 November 2007, the Company's issued share capital comprised 557,977,435 ordinary shares of 2½ pence each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 9.00 a.m. on 30 November 2007 is 557,977,435.

Explanatory Notes to the Notice of Annual General Meeting

The notice of the Annual General Meeting of the Company to be held on Thursday, 17 January 2008 is set out on pages 116 to 119 of the annual report and accounts. 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 10 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 directors are required by the Companies Act 1985 (the "1985 Act") to present to the shareholders of the Company at a general meeting the reports of the directors and auditors, and the audited accounts of the Company, for the year ended 30 September 2007. The report of the directors and the audited accounts have been approved by the directors, and the report of the auditors has been approved by the auditors, and a copy of each of these documents may be found in the annual report and accounts, starting at page 1.

Resolution 2 – Remuneration Report

The 1985 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, starting at page 30. If shareholders vote against the report the directors will still be paid, but the Remuneration Committee will reconsider its policy.

Resolution 3 – Declaration of a Final Dividend

An interim dividend of 5.2 pence (net) has already been paid in respect of the 2006/2007 financial year. The directors are recommending a final dividend of 10.4 pence (net) per ordinary share of 2½ pence, payable on 21 January 2008 to holders on the register as at 6.00 p.m. on 28 December 2007. The final dividend will not be paid without shareholder approval and its amount may not exceed the amount recommended by the directors.

Resolutions 4, 5, 6 and 7 – Reappointment of Mr G E Tuppen, Mr D C George, Mr A J Stewart and Mrs S E Murray

The Company's articles of association 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. Mr G E Tuppen, Mr D C

George, Mr A J Stewart and Mrs S E Murray are retiring and seeking reappointment. Biographical information for Mr G E Tuppen, Mr D C George, Mr A J Stewart and Mrs S E Murray is shown on pages 13 and 14 of the annual report and accounts. Details of why the Board believes they should be re-elected are included in the directors' report in the annual report and accounts, starting at page 15.

Resolution 8 – Auditors' appointment

The 1985 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 seeks shareholder approval for the reappointment of Ernst & Young LLP. 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 on page 24. After considering relevant information the Audit Committee recommended to the Board of directors that Ernst & Young LLP be reappointed.

Resolution 9 – Auditors' remuneration

This resolution gives the directors the authority to determine the remuneration of the auditors for the audit work to be carried out by them in the next financial year. The amount of the remuneration paid to the auditors for the next financial year will be disclosed in the next audited accounts of the Company.

Resolution 10 – Authority to the directors to allot shares

Under the 1985 Act the directors may only allot shares if authorised by shareholders to do so. If passed, this resolution will authorise the directors to allot and issue new shares up to an aggregate nominal value of £4,232,721.98 (up to 169,308,879 new ordinary shares of 2½ pence each), which is equal to approximately one-third (33.33%) of the issued share capital of the Company (excluding treasury shares) as at 30 November 2007, being the latest practicable date prior to the publication of the notice. 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 2009.

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

As at 30 November 2007, the latest practicable date prior to the publication of the notice, the Company had 557,977,435 ordinary shares of 2½ pence each in issue and held 50,000,000 treasury shares, which is equal to approximately 9.84% of the issued share capital of the Company (excluding treasury shares) as at that date.

Resolutions 11, 12, and 13 are special resolutions. These resolutions will be passed if not less than 75% of the votes cast for and against are in favour.

Resolution 11 – 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 30 November 2007, the latest practicable date prior to the publication of the notice (up to 27,898,871 new ordinary shares of 2½ pence). The resolution complies with investor protection guidelines, which limit any issue to 5% of issued share capital in any one year. The authority will expire at the same time as the authority to allot shares given pursuant to resolution 10.

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 the resolution.

Resolution 12 – 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 30 November 2007, the latest

practicable date prior to the publication of the notice. The price per ordinary share that the Company may pay is set at a minimum amount (excluding expenses) of 2½ pence per ordinary share and a maximum amount (excluding expenses) of the higher of: (i) 5% over the average of the previous five days' middle market prices; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out. This authority will only be exercised if market conditions make it advantageous to do so.

On 20 November 2007 the Company announced its intention to continue its 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 and the Chief Executive's Review in the annual report and accounts, starting at page 2.

The directors' present intention is that shares purchased pursuant to this authority will be cancelled immediately on purchase. Alternatively, the shares may be held in treasury (provided any treasury shares held do not exceed 10% of the Company's issued share capital), sold for cash or (provided Listing Rule requirements are met) transferred to an employee share scheme. 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 (whether or not under the rolling share buy-back programme) if they believe that to do so would result in an increased earnings per share and would be in the interests of shareholders generally.

As at 30 November 2007, the latest practicable date prior to the publication of the notice, options were outstanding over 8,876,496 ordinary shares of 2½ pence each in the Company, representing approximately 1.75% of the issued share capital of the Company (excluding treasury shares) at that date. If the proposed market purchase authority were used in full, shares over which options were outstanding would, as at that date, represent approximately 2.06% of the Company's issued share capital (excluding treasury shares).

Explanatory Notes to the Notice of Annual General Meeting

Resolution 13 – Adoption of new Articles

It is proposed in resolution 13 to adopt new articles of association (the “New Articles”) in order to update the Company’s current articles of association (the “Current Articles”), primarily to take account of changes in English company law brought about by the Companies Act 2006 (the “2006 Act”).

The principal changes introduced in the New Articles are summarised below. Other changes, which are of a minor, technical or clarifying nature, and also some more minor changes which merely reflect changes made by the 2006 Act, have not been noted below.

A copy of the Current and New Articles will be available for inspection during normal business hours on Monday to Friday (public holidays excepted) at the registered office of the Company from the date of posting of this document up to and including the date of the Annual General Meeting, and will also be available at the place of the Annual General Meeting for at least 15 minutes before, and during, the meeting.

The New Articles will permit the Company to use electronic communications for all notices, documents and information to be sent to shareholders, in accordance with individual shareholder preference. In addition, the New Articles will enable the Company to use website communication with shareholders as the default position.

In order to take advantage of these changes introduced by the 2006 Act, and subject to the passing of this resolution at the Annual General Meeting, the Company is asking each individual shareholder for their consent to receive communications from the Company via the Company’s website. We have enclosed with this document a Shareholder Communications Election Form, which outlines the options available to you with regard to receiving further communications from the Company. Please read the notes on the Shareholder Communications Election Form carefully before deciding which option to choose.

A shareholder who has received a document electronically will be able to ask for a hard copy at any time and shareholders will be able to revoke their consent to receive electronic communications at any time.

Electronic Shareholder Communications

If you wish to continue receiving the Company’s shareholder information (e.g. Annual Report, Annual Review, Notice of Meeting, Form of Proxy and Circulars) in hard copy, please complete the Shareholder Communications Election Form by selecting option B. This Form should be returned to the registrars in the envelope provided by no later than 28 February 2008. Please read the notes on the Form carefully before deciding which option to choose. If you do not return your Form by this date then, subject to the passing of resolution 13, you will be deemed to have consented to receive such information via the Company’s website and you will be notified by post (or, where you have previously registered online at www.computershare.com/investor, electronically) whenever documentation is available. If you would prefer to be notified electronically (and you have not previously registered online at www.computershare.com/investor) please read option A on the Shareholder Communications Election Form and register online at www.computershare.com/investor and we shall send you an email notifying you whenever a document has been made available on the website.

Shareholders may amend their instructions or provide new instructions at any time by notice in writing to Computershare Investors Services PLC, The Pavilions, Bridgwater Road, Bristol, BS13 8FB.

Summary of Principal Changes to the Current Articles

1. Articles which duplicate statutory provisions

Provisions in the Current Articles that replicate provisions contained in the 2006 Act are in the main to be amended to bring them into line with the 2006 Act. Certain examples of such provisions include provisions as to the form of resolutions, the variation of class rights, the requirement to keep accounting records and provisions regarding the period of notice required to convene general meetings. The main changes made to reflect this approach are detailed below.

2. Form of resolution

The Current Articles contain a provision that, where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also

Explanatory Notes to the Notice of Annual General Meeting

effective. This provision is being amended, as the concept of extraordinary resolutions has not been retained under the 2006 Act.

The Current Articles enable members to act by written resolution. Under the 2006 Act public companies can no longer pass written resolutions. These provisions have therefore been removed in the New Articles.

3. Change of name

Currently, a company can only change its name by special resolution. Under the 2006 Act a company will be able to change its name by other means provided for by its articles. To take advantage of this provision, the New Articles will enable the directors to pass a resolution to change the Company's name once the relevant provisions in the 2006 Act are in force.

4. Redeemable shares and consolidation, division or sub-division

At present, if a company wishes to issue redeemable shares it must include in its articles the terms and manner of redemption. The 2006 Act will enable directors to determine such matters instead provided they are so authorised by the articles. The New Articles contain such an authorisation that will take effect once the relevant provisions in the 2006 Act are in force. The Company has no plans to issue redeemable shares but if it did so the directors would need shareholders' authority to issue new shares in the usual way. In addition, the New Articles permit the Company to retain for its own benefit the net proceeds up to £5 of selling fractional entitlements arising on a consolidation, division or sub-division of its shares. The increase from £3 reflects the relevant Listing Rule.

5. Convening extraordinary and annual general meetings

The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being removed in the New Articles because the relevant matters are provided for in the 2006 Act. In particular, an extraordinary general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required and the chairman of a general meeting no longer has a casting vote.

6. Votes of members

Under the 2006 Act proxies are entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. The New Articles reflect these new provisions.

7. Age of directors on appointment

The Current Articles contain a provision requiring a director's age to be disclosed if he has attained the age of 70 years or more in the notice convening a meeting at which the director is proposed to be elected or re-elected. Such provision could now fall foul of the Employment Equality (Age) Regulations 2006 and so has been removed from the New Articles.

8. Directors' interests

The 2006 Act sets out directors' general duties. The provisions largely codify the existing law, but with some changes. Under provisions in the 2006 Act, that are not yet in force, a director will have to avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The 2006 Act will allow directors of public companies to authorise conflicts and potential conflicts where the articles of association contain a provision to this effect. The 2006 Act will also allow the articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The New Articles will include provisions authorising the directors to approve such situations, and other provisions allowing conflicts of interest to be dealt with in a similar way to the current position, once the relevant provisions in the 2006 Act are in force.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only independent directors (i.e. those who have no interest in the matter being considered) will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the

Explanatory Notes to the Notice of Annual General Meeting

Company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

The New Articles also contain provisions relating to confidential information, attendance at Board meetings and availability of Board papers to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will take effect when the new conflicts provisions of the 2006 Act come into force and will only apply where the position giving rise to the potential conflict has previously been authorised by the directors.

It is not clear what best practice will be when the new conflicts provisions in the 2006 Act do come into force. The directors have decided that the New Articles should contain the provisions outlined above in case the 2006 Act provisions come into force before the next opportunity to amend the New Articles. The directors believe that these provisions will not prevent them from complying with best practice as it emerges in relation to the authorisation of conflicts of interest which is what they intend to do.

9. Electronic and web communications

Provisions of the 2006 Act which came into force in 2007 enable companies to communicate with members by electronic and/or website communications. The New Articles continue to allow communications to members in electronic form and, in addition, they also permit the Company to take advantage of the new provisions relating to website communications. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

10. Directors' indemnities and loans to fund expenditure

The existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings has been widened to cover regulatory proceedings and applies also to associated companies.

The existing authority to indemnify the Company's auditor has been deleted and accordingly the directors will not approve the granting of any such indemnity by the Company.



Church House



George Inn

CHURCH HOUSE INN, BOLLINGTON
WINNER – Community Pub of the Year

Morning Advertiser Awards 2007

In the ultimate demonstration of community spirit, a group of villagers decided to take over the Church House Inn at Bollington. The consortium of 12 members has been successfully running the pub since February 2006 to make the Church House Inn a true community pub in every sense.

GEORGE INN, FROCESTER
WINNER – Pub of the Year 2007
(Stroud & Gloucester) CAMRA

Licensee Jane Pain's success at this traditional Cotswold Inn is down to the George's place at the centre of village life, including participating in the annual Frocester Beer Festival.



Castle Inn Caldicot

CASTLE INN, CALDICOT
REGIONAL WINNER – Wales
 Morning Advertiser Awards 2007

Since taking the lease in February 2005 Stephen and Judith Gribble have spent £100,000 on restoring the interior and turning an overgrown area into two play areas for children (photo on back cover), transforming the Castle Inn into a great place for families.

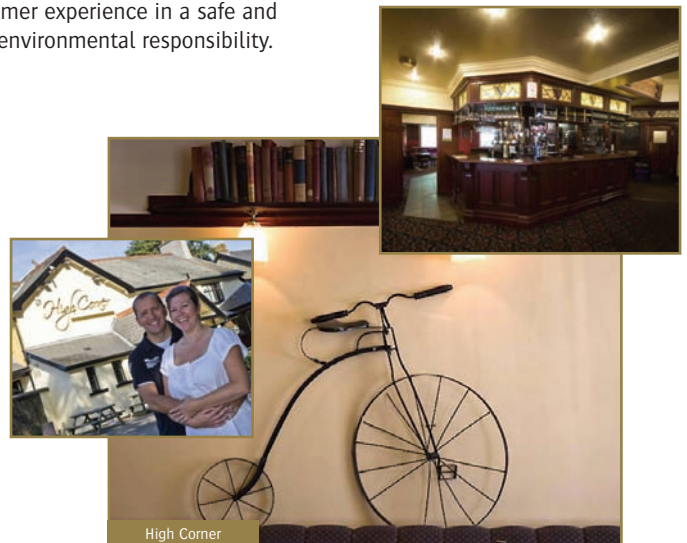
BEST BAR NONE AWARDS 2007

These awards recognise licensees for their ability to provide an excellent customer experience in a safe and secure environment, whilst demonstrating the highest standards of social and environmental responsibility.



Glamorgan Hotel

GLAMORGAN HOTEL, WILLIAMSTOWN
WINNER – Best Pub 2007 Best Bar None Awards
 Darran Whitelock and Mark Easthope



High Corner

HIGH CORNER, LLANHARAN
WINNER – Best Bar 2007 Best Bar None Awards
 Tracey Knight and Colin Ddrop

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