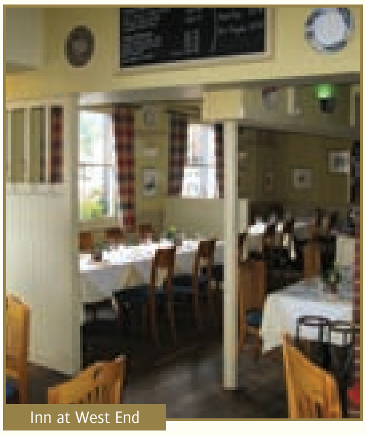
Enterprise Inns plc Annual Report and Accounts 2008

ENTERPRISE INNS

Annual Report and Accounts 2008

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

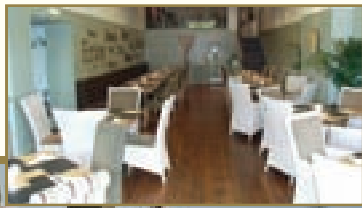

Inn at West End

INN AT WEST END, SURREY

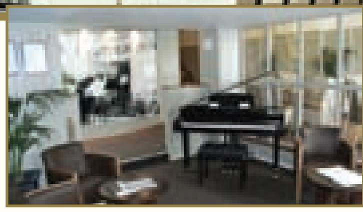
Morning Advertiser Great British Pub Awards 2008

Winner – Best UK Gastropub

The Inn at West End has been transformed into a highly successful gastropub by Gerry and Ann Price. Their emphasis on exceptional standards and local sourcing has ensured that the pub has been recognised in the Michelin Blue and Red Guides, as well as the Good Pub Guide.




Cutter Inn



CUTTER INN, ELY

Morning Advertiser Great British Pub Awards 2008

Winner – Best Tenanted pub in East Anglia

Winner – Best Pub Food in East Anglia

Jo Drain and Steve Haslam may be relatively new to the licensed trade, but their vision and innovation at the Cutter has brought them success and widespread recognition. Their next move is to install a pontoon over the River Ouse, which runs alongside the pub, to add alfresco dining.

The Monkton

THE MONKTON, WEST MONKTON, SOMERSET

Morning Advertiser Great British Pub Awards 2008

Winner – Tenanted / Leased Pub of the Year

Almost 2 years ago, Eddie Street and Guy Arnold recognised the opportunity to transform this 1970s time-warp into the award-winning pub it is today, featuring a continually changing menu of freshly prepared, locally sourced dishes. According to a recent customer survey, 92% of customers are "delighted" with their experience.

Contents

Pictures

(front cover)
Rock Inn Hotel, Halifax
Black Bear, Clifton
Goodbarns Yard, Boston
Kaye Arms, Grange Moor

(back cover)
Rock Inn Hotel, Halifax
Albert Hotel, Llandudno
Dog and Crook, Brambridge

Financial Highlights

	2008	2007	Change
Pro-forma EBITDA	£512m	£526m#	(2.7%)
EBITDA*	£512m	£528m	(3.0%)
Profit before tax and exceptional items	£263m	£301m	(12.6%)
Adjusted earnings per share†	39.2p	39.6p	(1.0%)
Dividends	16.2p	15.6p	3.8%

Adjusted for the effect of the disposal of the Scottish estate of 137 pubs in December 2006.

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

† Excludes exceptional items.

- At 30 September 2008 the estate comprised 7,763 pubs valued at £5.9 billion.
- The quality of the pub estate has been improved through the acquisition and disposal of pubs and capital expenditure of £68 million.

Chairman's Statement

In the year to 30 September 2008, EBITDA before exceptional items fell by 3.0% to £512 million and profit before tax and exceptional items fell by 12.6% to £263 million. However, adjusted earnings per share were 39.2 pence, a decrease of only 1% over the prior year due to a reduction in the weighted average number of shares in issue.

Trading throughout the year has been difficult and became progressively more challenging during the second half when we would normally have seen an increase in profits compared to the first six months. This year however, pro forma EBITDA was the same in both half-year periods as consumers responded to the economic pressures by reducing their expenditure on discretionary items.

At the interim stage we increased the dividend by 12% to 5.8 pence per share and the Board is now recommending an unchanged final dividend of 10.4 pence per share, giving a total for the year of 16.2 pence per share, an increase of 3.8% over the prior year. Dividend cover based on adjusted earnings is 2.4 times and the final dividend of 10.4 pence will be payable on 26 January 2009 to shareholders on the register on 5 January 2009.

During the year, we have witnessed increasingly difficult economic conditions and turbulent financial markets, which have prompted a comprehensive review of our business plans and financial structure. Our operational focus, as always, is to optimise trading profit and during the period we remain in recession we will invest both in our pubs and in support of our licensees whilst disposing of those outlets which no longer have a viable economic future as a pub. Financially, we enjoy strong cash flows and secure long-term debt with no refinancing requirement until 2011, in preparation for which we will take opportunities to reduce debt levels.

In July 2008, we announced the appointment of David Maloney as an independent non-executive director of the Company. His expertise, knowledge and experience gained from senior roles in UK and international based service industries will further strengthen the Board and be of great benefit to the Company. It is intended that at the conclusion of the Annual General Meeting in January 2009 David Maloney will succeed David Harding as Chairman of the Audit Committee and Susan Murray will succeed Jo Stewart as Chairman of the Remuneration Committee. Both David Harding and Jo Stewart will continue as members of the Board and Jo Stewart will remain as Senior Independent Director.

Given the current economic climate we are likely to see some further decline in trading profit until economic conditions and consumer confidence improve. Nevertheless, the quality of our pub estate in which we are continuing to invest alongside our licensees will ensure that we meet the challenges of reduced and changing consumer demand from a strong platform and be well positioned to benefit from economic recovery when this occurs.

Hubert Reid

Chairman

17 November 2008

Chief Executive's Review
(Incorporating the Business Review)

RESULTS
This has been a very difficult year for the pub industry. In addition to the first full year impact of the ban on smoking in public places, our licensees have had to endure a serious deterioration in consumer spending and confidence brought about through rising costs and taxes, the virtual collapse of the banking system and a UK economy sliding further into recession.

As a result, the year to 30 September 2008 has presented many challenges to the Enterprise team and our licensees. EBITDA decreased by 3% to £512 million and profit before tax and exceptional items fell to £263 million, giving adjusted earnings per share of 39.2 pence, a decrease of 1% over the prior year.

Nevertheless, the majority of our pubs continue to trade successfully, albeit with licensees having to work much smarter and harder simply to stand still in terms of profitability. Whilst average EBITDA per pub for the whole estate decreased by 3% to £66,000 during the year, those pubs which are let on long-term substantive lease or tenancy agreements, representing some 82% of our estate, actually grew EBITDA by 2% to an average of £73,000.

Free cash flow remained strong at £62 million for the year, based upon operating cash inflow of £536 million after deduction of mandatory payments in respect of net interest and taxation (£323 million) and discretionary payments in respect of capital expenditure and dividends (£151 million).

At the interim stage, we increased the dividend by 12% to 5.8 pence per share and the Board is recommending an unchanged final dividend of 10.4 pence, giving a total for the year of 16.2 pence per share, an increase of 3.8% over the prior year. Dividend cover based on adjusted earnings is 2.4 times. The final dividend will be payable on 26 January 2009 to shareholders on the register on 5 January 2009.

TEAM
The Enterprise team has worked with great commitment to provide a top quality service to our licensees in these difficult times, with the entire organisation structured in such a way as to allow our field-based operations and property teams to maximise the time spent with licensees.

Effective training remains a key focus and we are delighted that our award-winning Associate Regional Manager programme continues to attract top quality candidates to the business. Furthermore, we have this year introduced a key skills certification programme, to ensure that everyone maintains the highest standards of technical ability and professionalism in all dealings with our licensees. We are proud that six of the team reached the finals of the annual ALMR operations manager awards with Joe Smith, our Regional Manager for North Tyneside, winning the overall title.

LICENSEES
Through these testing times, the fairness and resilience of the leased and tenanted partnership has seen Enterprise providing unprecedented support to licensees. During the year, rent concessions and special discount schemes costing more than £9 million were provided to a total of 1,453 licensees. Such schemes are designed to help a licensee trade out of difficulty and we are heartened by the enthusiastic response of licensees and the level of success achieved. At 30 September some 855 licensees were receiving these special concessions, a level which has now reduced as some greater stability is achieved in the estate.

Based upon our annual review of the pub estate, we estimate that the average level of potential licensee profitability has fallen by around 4% to £45,000. Whilst the growth in food revenues has to some extent offset declining beer sales, overhead costs have increased. There are of course wide variations in performance, depending upon the retail profile of each outlet. Not surprisingly, smaller, wet-led outlets have suffered most, with some becoming unviable in the face of the smoking ban and aggressive pricing of alcohol in the off trade.

Chief Executive's Review

(Incorporating the Business Review)

The key performance indicators of licensee financial health have worsened during this period of difficult trading but most remain robust despite the challenging conditions:

- During the year, there was a small increase in the number of formal applications to take a pub with Enterprise, with the number relatively stable at around 130 per month. There are currently 577 fully funded applicants on our database.
- With 82% of the estate let on substantive leases and tenancies, many licensee changes take the form of lease assignments. There have been fewer assignments during the year, down from 790 in 2007 to 483 in 2008, with the average premium, excluding fixtures and fittings, down 9% to an average of £63,000 (£79,000 including tenants' fixtures and fittings).
- Rent concessions for the year ended 30 September 2008 amounted to £2.7 million. In addition, the cost of special discount schemes granted during the year amounted to £6.4 million. At 30 September 2008 the combined cost of rent concessions and special discount schemes was running at a monthly rate of £1.3 million.
- 915 rent reviews were completed during the year, with an average rental increase of 2.2% per annum.
- Overdue balances have increased during the year but still stand at less than 1% of turnover. Bad debt costs have similarly increased but remain low at 0.1% of turnover.

Whilst the majority of licensees comply with the terms of their agreements and work closely with the Enterprise team to develop trade and improve profitability, there are some who fail to meet agreed payment terms or who blatantly and consistently breach their obligations under the tie. We have taken a straightforward stance in these circumstances, preferring to terminate agreements and remove the offending licensees. This has led to an increase in the number of closed and holding over pubs, the latter where the licensee remains in occupation without paying rent or buying beer pending settlement or eviction. The number of closed and holding over pubs has reduced since the year end and we expect this trend to continue.

ESTATE

During the year, Enterprise invested £68 million into the estate, working alongside licensees to improve facilities in more than 1,587 pubs. Having enjoyed two years of increased investment to deal with issues arising from the ban on smoking, we now expect to return to a normal level of capital investment, at around £45 million per year.

The estates team purchased 58 top quality pubs at an average cost of £828,000 during the year. We also disposed of 58 underperforming and high alternative use value outlets, plus various other plots of land, achieving sale proceeds of £30 million and a profit above book value of £2 million. During the coming year, the team will focus on disposing of underperforming outlets, predominantly for alternative use. Although the market is subdued as a result of the lack of credit available to developers, we remain confident that the disposal programme will deliver a significant amount of cash and a profit above book value. We have already this year exchanged or completed on sales amounting to £13 million and have a further £23 million of transactions agreed and in the hands of solicitors.

The annual valuation of the estate, carried out on a basis consistent with previous years, resulted in a 1% revaluation uplift to £5.9 billion, equivalent to an average value of £755,000 per pub. The estate is valued on a pub by pub basis and, as one would expect with an estate of our size and variety, there are significant variations underlying the increase in valuation. Overall, some 4,900 pubs increased in value, 2,500 fell in value and the balance remained the same.

Chief Executive's Review
(Incorporating the Business Review)

GROUP FINANCING
Debt facilities
The Group has a flexible financing structure in place, including bank facilities, corporate bonds and securitised bonds. At 30 September 2008, underlying net debt was £3,704 million compared to £3,716 million at the start of the year. At the year end the Group's borrowings were 89% fixed for an average period of 10 years at an average interest rate of 6.5%.

The five year bank facility of £1 billion expires in May 2011 with no amortisation schedule. A programme has been introduced to reduce the level of borrowings under this facility prior to commencing refinancing discussions with the banks.

The corporate bonds mature between 2014 and 2031 and the securitised bonds fully amortise by 2032, with the next mandatory repayment of £2 million due in June 2010.

Liquidity and Financial Covenants
At the year end, committed bank facilities of £69 million were undrawn and the bank facility agreement permits the arrangement of up to a further £100 million of additional borrowings. A liquidity facility of £190 million is in place in respect of the securitised bonds.

All debt facilities have financial covenants which are tested on a periodic basis. The covenant tests confirmed that appropriate headroom was maintained throughout the year. Financial forecasts are prepared on a regular basis and reviewed by the Board to ensure ongoing compliance with all covenants.

TAX CHARGE
The pre-exceptional tax charge of 26% is lower than was expected to apply at the interim stage as most enquiries relating to 2004 and 2005 have now been closed and no enquiries have been received in respect of 2006. It is expected that the corporation tax rate of 28% will apply in 2009.

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 specifically 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 item in the year is the movement arising from the revaluation of the pub estate of £53 million. This is the charge taken to the Income Statement in respect of pubs that have been revalued below historic cost. The exceptional tax credit of £48 million includes a £33 million credit in relation to indexation on the tax base cost of certain properties.

REAL ESTATE INVESTMENT TRUSTS (REITs)
The Board remains attracted to the principle and benefits of conversion to a REIT and we have made excellent progress agreeing all technical and valuation methodology issues with HMRC.

However, in light of the current turmoil in the financial markets, the Board does not consider it appropriate to progress matters further at this time. We are therefore adopting a cautious approach to the costs and processes of conversion, continuing to work with our advisers to explore the options and develop a total solution which is demonstrably in the best long-term interests of all stakeholders. We are not working to a particular timetable and will make further announcements as and when appropriate.

Chief Executive's Review
(Incorporating the Business Review)

INDUSTRY ISSUES
Responsible drinking

For the vast majority of pub-goers in the UK, the pub is "the home of responsible drinking", providing a safe and professionally supervised environment for responsible adults to enjoy food, drink and sociable good company. It is a tragedy that such an important part of the fabric of British life is under attack from a Government too often influenced by exaggerated media coverage and the voices of unrepresentative minorities. Whilst doing nothing to curb the off trade sale of cut price alcohol into an unsupervised environment, ministers seek to appease the lobbyists with talk of ever greater regulation and control. There will of course always be a few rogue operators who encourage irresponsible behaviour but it is reassuring to learn that the Association of Chief Police Officers considers that the police have sufficient powers in the existing Licensing Act to regulate pubs, their spokesman on licensing saying "I'm comfortable with the amount of legislation that we have at the moment". The industry does not need more regulation, it needs robust and consistent enforcement of the laws that already exist.

Business and Enterprise Committee (BEC) inquiry

The forthcoming review by the BEC into how the pub companies have responded to the recommendations of the 2004 Trade and Industry Select Committee (TISC) will provide Enterprise with an opportunity to demonstrate how it has led the way in ensuring clarity, transparency and fairness in all its dealings with licensees. With small businesses under pressure and with more than 30 pubs per week reported to be closing permanently, this is a time when the support that can be offered by pub companies under the leased and tenanted model provides welcome relief for many struggling licensees. It should come as no surprise that the rate of pub closures is materially higher in the free trade, where the business partner is most likely a bank manager with a remit to control or reduce credit limits, rather than a Regional Manager whose first priority is to support a deserving licensee.

CONCLUSION AND OUTLOOK

In very difficult circumstances, the Enterprise team has worked tirelessly to deliver solid results. The quality of the estate has improved as a result of successful investment. The vast majority of licensees remain profitable and comply with the terms of their leases and tenancies. Financially, we enjoy strong cash flows and secure long-term debt with no refinancing requirement until 2011, in preparation for which we will take opportunities to reduce debt levels.

The coming year will present further challenges and we must expect to offer support through rent concessions and special discounts to licensees who find themselves in difficulty. Equally, we must anticipate that consumer discretionary spending will remain under pressure and beer sales will go on declining as the UK moves further into recession. However, if falling interest rates and lower inflation begin to engender a sense of greater confidence amongst consumers, Enterprise will be well placed to return to a position of delivering solid growth in shareholder value.

Ted Tuppen

Chief Executive

17 November 2008

Directors and Advisers

H V REID #

Chairman

Appointed to the Board 21/01/97

Hubert Reid, 67, 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, 56, 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, 59, 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.

* Member of the Audit and Remuneration Committees

Member of the Nominations Committee

D A HARDING *#

Independent Non-Executive Director

Appointed to the Board 06/11/03

David Harding, 61, is Chairman of Coventry Building Society and a non-executive director of the Royal Mint. 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 Chartered Institute of Management Accountants and a local magistrate.

S E MURRAY *#

Independent Non-Executive Director

Appointed to the Board 03/11/04

Susan Murray, 51, 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, 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, a non-executive director of Aberdeen Asset Management PLC and SSL International plc and was a member of the Independent Complaints Panel of the Portman Group from 1998 to 2004.

D O MALONEY *#

Independent Non-Executive Director

Appointed to the Board 10/07/08

David Maloney, 53, is currently non-executive chairman of Hoseasons Holidays Limited and a non-executive director of Cineworld Group Plc, Ludorum Plc, Micro Focus International Plc and Carillion Plc. He was previously a non-executive director of Virgin Mobile Holdings (UK) plc and Chief Financial Officer of Meridien Services Company plc (the holding company for the global hotel group Le Meridien Hotels & Resorts), Thomson Travel Group and Preussag Airlines and Group Finance Director of Avis Europe plc. He is a fellow of the Chartered Institute of Management Accountants and has a degree in economics from Heriot-Watt University, Edinburgh. He is also Chairman of the Board of trustees of the Make A Wish Foundation.

Directors and Advisers

D C GEORGE

Chief Financial Officer

Appointed to the Board 08/07/91

David George, 57, 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, 46, 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. He is currently Chairman of the Communications Group pf the British Beer and Pub Association.

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

Registrars
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 2008.

Accounts and dividends

The Group profit for the year, after taxation, amounted to £189 million (2007 — £291 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 (2007 — 10.4 pence) per ordinary share to be approved at the Annual General Meeting on 22 January 2009. The final dividend will be paid on 26 January 2009 to members on the register on 5 January 2009. When added to the interim dividend of 5.8 pence (2007 — 5.2 pence), this produces a total dividend for the year of 16.2 pence (2007 — 15.6 pence) 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 6.

Directors and their interests

The names of the current directors together with related biographical information are set out on pages 7 and 8. All directors served throughout the year other than Mr D O Maloney who was appointed on 10 July 2008. All directors 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 18. In addition, further details of the workings of the Nominations Committee are set out on page 20.

In accordance with the Articles of Association of the Company, Mr Reid retires from the Board at the Annual General Meeting by rotation and offers himself for reappointment. The Board believes that Mr Reid's performance continues to be effective, that he demonstrates commitment to his role and has a range of skills and experience relevant to the direction and control of the Company. In addition, Mr Reid considers that he has sufficient time to commit to the Company's affairs notwithstanding his other business commitments and has no conflicting interests. Having been appointed since the last Annual General Meeting, the reappointment of Mr Maloney is also being proposed.

Other than employment contracts, 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 2008**(i)	30 September 2007
H V Reid	Beneficial	**245,000**	245,000
G E Tuppen	Beneficial	**2,180,533**	2,138,964
	As Trustee	**430,800**	415,800
D C George	Beneficial	**1,994,640**	2,095,450
	As Trustee	**40,000**	—
W S Townsend	Beneficial	**327,024**	390,928
A J Stewart	Beneficial	**28,000**	28,000
D A Harding	Beneficial	**3,000**	3,000
S E Murray	Beneficial	**4,000**	4,000
D O Maloney	Beneficial	**—**	—

Directors' Report

(i) These shares include the number of Partnership and Matching Shares the executive directors hold in the Enterprise Inns 2005 Share Incentive Plan purchased on 17 December 2007 at 482 pence per share as follows:

	At 1 October 2007	Partnership Shares	Matching Shares	**At 30 September 2008**
G E Tuppen	1,096	311	311	**1,718**
D C George	1,096	311	311	**1,718**
W S Townsend	1,096	311	311	**1,718**

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 114 to 115.

Notifiable interests in shares

As at 17 November 2008 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	49,598,372	9.8
UBS AG	40,047,045	7.9
Prudential plc	37,738,212	7.4
HSBC Holdings plc	35,168,497	6.9
Deutsche Bank AG	30,446,213	6.0
Credit Suisse Securities (Europe) Limited	25,944,666	5.1
Legal & General Group plc	23,020,757	4.5
Viking Global Investors LP	18,918,649	3.7
ING Bank NV	16,837,609	3.3

Share Capital

As at 17 November 2008, 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 28 to the accounts on page 67. 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 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

Directors' Report

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 and entitled to vote, and every proxy duly appointed by a member 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 pages 22 to 23 and in the explanatory notes to the notice of the Annual General Meeting on pages 114 to 115. 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 the 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 certain 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 on voting rights.

Own shares acquired by the Company

At the Annual General Meeting held on 17 January 2008, the Company was given authority to purchase up to 76,145,817 of its ordinary shares during the next 18 months or until the date of its next Annual General Meeting. During the financial year the Company, utilising this authority and the authority given at the Annual General Meeting on 16 January 2007, made on market purchases totalling 5,489,619 of its own ordinary shares of 2.5 pence each, representing 1.07% of the issued share capital (excluding treasury shares) at the beginning of the year, for an aggregate consideration of £29.3 million (excluding costs). These shares were cancelled. As at 30 September 2008 50,000,000 shares were held in treasury. The maximum number of shares held in treasury during the year ended 30 September 2008 was 50,000,000 on 1 October 2007 for a period of 365 days, representing 8.9% 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 22 January 2009. The directors will be seeking a new authority for the Company to purchase its ordinary shares which will only be exercised if market conditions make it advantageous to do so. It is expected that any shares purchased pursuant to a 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 the Annual General Meeting on pages 114 to 115.

Shares held by Employee Share Trusts

The Company has established an employee benefit trust ('EBT'), the trustee of which is Halifax EES Trustees International Limited. As at 30 September 2008 the trustee held 8,768,087 shares, representing 1.73% of the total called up share capital excluding treasury shares at that date, 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 executive directors as employees of the Company are potential beneficiaries of shares held by the EBT.

Directors' Report

The Company had also established a Quest Trust to hold shares to satisfy awards made under the Save As You Earn share option scheme, the trustee of which is Enterprise Inns Quest Trustees Limited. The Quest Trust was terminated on 8 August 2008 and therefore as at 30 September 2008 this trustee held no shares. Before the Quest was terminated, the executive directors as employees of the Company were potential beneficiaries of shares held by the Quest. During the year, the Quest Trust purchased 119,488 of the Company's shares. These shares were purchased for a consideration of £0.5 million (net of expenses) and had a nominal value of £2,987.

The maximum number of shares held by the EBT and Quest Trust during the year ended 30 September 2008 was 10,027,700 on 1 October 2007, representing 1.96% of total called up share capital excluding treasury shares at that time.

During the year, 1,819,637 shares with a nominal value of £45,491 were disposed of by the EBT and Quest Trust by way of the exercise of share options under the share schemes. Of these, a total of 816,501 shares were disposed of through the long-term incentive schemes for a consideration of £10 and a total of 390,456 shares were disposed of through the Quest Trust for a consideration of £0.5 million.

Articles of Association

The Company's Articles of Association (adopted by special resolution on 17 January 2008) may only be amended by special resolution at a general meeting of the shareholders.

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; and
- 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 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.

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 24 to 33.

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

Directors' Report

Act 2006) 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 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, including conducting an employee satisfaction survey, regular briefings and team meetings through its management structure which allows a free flow of information and ideas via publications such as the 'Innsider' 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 which 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.

Directors' Report

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 241 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; and
- the Share Incentive Plan in which 294 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 2007 the Company won the ifsProshare award for 'Best overall performance in fostering Employee Share Ownership'. This award demonstrates the Company's continued commitment to encouraging employee share ownership and reward.

Community, environment and corporate responsibility

The Group recognises its responsibilities to achieve good environmental practice and to continue to strive for improvement in areas of environmental impact. Our approach is to work through education, communication and direct action wherever possible. In addition the Group believes that the interests of responsible, entrepreneurial pub businesses need to be aligned to the interests of local communities and consumers. We therefore seek to ensure that our pubs provide a friendly, safe and controlled environment, and to promote the positive contribution that pubs make to their local communities.

We work to ensure that we provide the right resources, energy and focus to meet the expectations of our licensees and other stakeholders in this area. We have made good progress during the year which has been recognised by our inclusion in the FTSE4Good index.

Full details of our responsibility policies and initiatives can be found on our website, www.enterpriseinns.com.

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 agree terms and conditions for their 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 43 days' purchases outstanding in trade creditors.

Financial Instruments

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

Directors' Report

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.

Statement of directors' responsibilities in relation to the Group financial statements

The directors are responsible for preparing the Annual Report and the Group 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Annual General Meeting

The Annual General Meeting will be held on 22 January 2009 at 11.00 a.m. The notice convening the Annual General Meeting and an explanation of the resolutions proposed are set out on pages 110 to 115.

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

17 November 2008

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 2006 (the "Combined Code").

The Company is committed to maintaining high standards of corporate governance as set out in the Combined Code provisions, the Turnbull Guidance 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 2008 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 that obligations to its shareholders are safeguarded.

Composition

As at 30 September 2008 the Board comprised the Chairman, three executive directors and four independent non-executive directors. The roles 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. Other than the appointment of Mr D O Maloney as a non-executive director on 10 July 2008 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 their wide variety of skills allows effective leadership across the Company's business activities.

Corporate Governance

Mr Reid is seeking re-election at the Annual General Meeting on 22 January 2009. The Board is satisfied that Mr Reid continues to perform effectively and demonstrates commitment and time to his role and duties and has a range of skills and experience relevant to his continued appointment as Chairman. In addition, Mr Reid considers he has sufficient time to commit to the Company's affairs notwithstanding his other business commitments and has no conflicting interests. Newly appointed directors are required to submit themselves for re-election at the first Annual General Meeting following appointment to the Board. Mr Maloney is therefore seeking re-election at the Annual General Meeting. Details of the resolutions to be proposed at the Annual General Meeting on 22 January 2009 can be found in the Notice and Explanatory Notes of the meeting on pages 110 to 115.

Biographical details of the Board members are set out on pages 7 and 8.

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.

Members' attendance during the year ended 30 September 2008	Board meetings	Nominations committee	Remuneration committee	Audit committee
Number of meetings held	6	3	6	3
Non-Executive Directors				
H V Reid	6	3	–	–
A J Stewart	6	3	6	3
D A Harding	5	3	6	3
S E Murray	6	3	6	3
D O Maloney (i)	2	2	2	1
Executive Directors				
G E Tuppen	6	3	–	–
D C George	6	–	–	–
W S Townsend	6	–	–	–

(i) D O Maloney was appointed to the Board and the Nomination, Remuneration and Audit Committees on 10 July 2008 and has attended all meetings since his appointment.

Corporate Governance

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, Mr A J Stewart, 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.

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 again 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, 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 conflict of interest provisions in the Companies Act 2006.

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 each director shall retire from office at the Annual General Meeting unless they were appointed or reappointed as a director at either of the last two Annual General Meetings before that meeting. 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

Corporate Governance

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 7 and 8.

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, Mrs S E Murray and Mr D O Maloney. 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. 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 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;
- agreed the annual audit plan and 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;
- has monitored and reviewed the effectiveness of the Group's internal audit function;
- reviewed and monitored the independence and objectivity of external auditors; 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

Corporate Governance

- 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 Board's 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 four non-executive directors Mr A J Stewart, Mr D A Harding, Mrs S E Murray and Mr D O Maloney.

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 three times during the year. 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;
- reviewed the composition of the Audit and Nominations Committees
- sought the advice of external recruitment consultants regarding the appointment of Mr D O Maloney;
- reviewed and recommended to the Board the appointment of Mr D O Maloney; 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 three other non-executive directors Mr D A Harding, Mrs S E Murray and Mr D O Maloney. 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 six occasions during the year.

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 24 to 33.

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 2005;
- 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.

Executive Committee
The Board delegates day-to-day management of the Group to the Executive Committee which comprises the three executive directors and is chaired by the Chief Executive. The Executive Committee generally meets weekly and other members of the Group's Executive Management and Senior Management Teams attend as necessary to provide input and to facilitate communication of the Executive Committee's decisions to the rest of the Group.

Finance Committee, Disclosure Committee and 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 the rules of the UK Listing Authority including a policy based on the Model Code which covers 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.

Corporate Governance

Board performance evaluation
The process was led by the Chairman and all directors completed a questionnaire in which they were asked to score a number of performance criteria. The results of 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, in light of difficult economic and market conditions, continued to be effective and appropriate for the needs of the business. In addition, the Strategic Business Reviews provide valuable input into future business development and a focus on operational performance with positive engagement and contributions from Board members.

Board Committee performance evaluation
For the Board Committee performance evaluation processes each Committee Chairman and Committee member completed a questionnaire in which they were asked to score a number of performance criteria. The results of 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 and the needs of the business, encouraged open and candid discussions between members, were robust and continued to be of the right size.

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 directed to ensuring a mutual understanding of its objectives and has a continuing dialogue with institutional investors to discuss the progress of the business and deal with a wide range of enquiries. This includes 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 22 January 2009 can be found in the Notice of the meeting on pages 110 to 113. The Notice is sent by first class post to shareholders entitled to receive a copy 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 substantive issue. 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, in accordance with the provisions introduced in the Companies Act 2006, has given shareholders the opportunity to receive shareholder communications, such as the annual report and accounts, the interim report and notices of meetings, electronically via the Internet rather than in paper form through the post.

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 109.

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 which, 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.
- An annual review by the Board of corporate strategy which includes a review of risks facing the business, and how these risks are monitored and managed on an ongoing basis within the organisation. This process is regularly reviewed by the Board.
- An established organisational structure with clearly defined lines of responsibility and delegation of authority.
- 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 consideration, as appropriate, by the Audit Committee of significant financial control matters.

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, Mrs S E Murray and Mr D O Maloney. 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 Hewitt New Bridge Street (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.

In line with the Association of British Insurers' Guidelines on responsible investment disclosure, the Committee will ensure that the incentive structure for the executive directors and senior management will not raise environmental, social or governance ("ESG") risks by inadvertently motivating irresponsible behaviour. More generally, with regard to the overall remuneration structure, there is no restriction on the Committee which prevents it from taking into account ESG matters or, indeed, any other operational/financial risks that relate to the Company's business.

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 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.

Directors' Remuneration Report

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 interests of shareholders. Share-based awards are satisfied by the use of existing shares held by an Employee Benefit Trust.

The executive directors may accept outside appointments provided that such outside appointments do not in any way prejudice their ability to perform their duties as executive directors of the Company. The extent to which any executive director is allowed to retain any fees payable in respect of such outside appointments, or whether such fees are remitted to the Company, will be assessed on a case-by-case basis.

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 include car allowances or the use of a motor car, fuel, private medical insurances and professional fees. In determining the basic salary for the executive directors the Committee takes account of the changes (if any) to the executive director's responsibilities, benchmark data received from its remuneration advisers and current market and economic conditions.

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 is not included in any bonus and 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 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 cash 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 125% of salary. For the other executive directors the maximum award level was 100% of salary.

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). For the financial year ending 30 September 2007 the executive directors by agreement with the Committee elected to be awarded their entire bonus as a Deferred Share Award with no cash bonus paid (details are set out in the table on page 31). 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 six 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 29.

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 three 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%.

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:

Directors' Remuneration Report

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 six 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 above market returns to shareholders.

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.

Directors' Remuneration Report

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

Executive Directors	Date of Agreement	Effective Date	Notice Period
G E Tuppen	25 October 1995	1 October 1995	12 months
D C George	25 October 1995	1 October 1995	12 months
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, Mrs S E Murray and Mr D O Maloney reflect best practice. Their respective appointments shall continue on an annual basis from Annual General Meeting to Annual General Meeting, 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
D O Maloney	10 July 2008	Terminable on 6 months' notice

Biographical details of all directors can be found on pages 7 and 8.

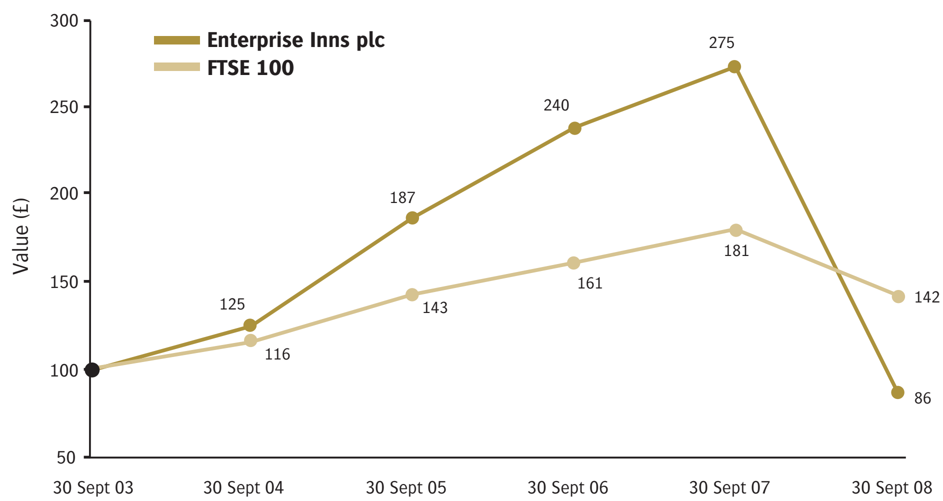
Forward-looking statement

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 2003 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.

Enterprise Inns plc TSR Chart



Directors´ Remuneration Report

The FTSE 100 Index was selected as it represents a broad equity market index in which the Company was a constituent member for the majority of the five year period.

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 2008	Total 2007 (c)
H V Reid	225	—	—	—	**225**	210
A J Stewart	64	—	—	—	**64**	60
D A Harding	59	—	—	—	**59**	55
S E Murray	53	—	—	—	**53**	50
D O Maloney (d)	12	—	—	—	**12**	—
Executive Directors						
G E Tuppen (e)	—	610	24	—	**634**	943
D C George	—	366	22	26	**414**	521
W S Townsend	—	350	22	25	**397**	481
	413	1,326	68	51	**1,858**	2,320

(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 2008. The EPS target for these awards was not met and consequently G E Tuppen received no cash bonus or Deferred Share Award under the 2005 Plan. The bonus disclosed for D C George and W S Townsend reflects the part achievement of challenging personal objectives during the year which have been measured objectively by the Committee and which were set with the primary aim of encouraging delivery of long-term returns for shareholders. Details of the Deferred Share awards made under the 2005 Plan are shown separately in this report.

(c) The 2007 totals for the executive directors included the cash bonus awarded under the 2005 Plan for the year ended 30 September 2007. The executive directors subsequent to the publication of last year's report elected, with the approval of the Committee, to be awarded this cash bonus as a Deferred Share Award, details of which are set out in the table on page 31.

(d) D O Maloney was appointed on 10 July 2008. Fees paid during the financial year reflect a pro rata adjustment of the annual fee payable on appointment of £53,000 per annum.

(e) In addition, for the year under review, G E Tuppen was paid a salary supplement of £153,000 in lieu of a contribution to his personal pension scheme.

In light of the remuneration review by the Committee, the base salaries for the Chief Executive, Chief Financial Officer and Chief Operating Officer were increased to reflect the view to move the base salaries closer to that of the comparable levels of peers in the marketplace, to ensure competitiveness and to reflect the nature of each of the roles.

Directors' Remuneration Report

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

Executive Directors	2008 £'000	2007 £'000
G E Tuppen	**153**	144
D C George	**92**	86
W S Townsend	**88**	80
	333	310

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. Options granted under this scheme 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 2007	Exercised	Lapsed	Granted	At 30 Sept 2008	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	3.535	1,820	—	—	—	**1,820**(i)	—	—
	4.670	2,102	—	—	—	**2,102**(ii)	—	—
		3,922	—	—	—	**3,922**	—	—

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 Plan are set out in the table below:

Name/Scheme	Date of grant	At 1 Oct 2007	Granted	Exercised	**At 30 Sept 2008**	Market price at exercise £	Aggregate gain £'000	Market value £'000 (iv)	Exercisable From	To
G E Tuppen										
2005 Plan	17/11/2005	43,610(i)	–	–	**43,610**	–	–	78	17/11/2008	17/05/2009
2005 Plan	14/11/2006	35,134(ii)	–	–	**35,134**	–	–	63	14/11/2009	14/05/2010
2005 Plan	28/11/2007	106,010(iii)	–	–	**106,010**	–	–	189	28/11/2010	28/05/2011
2005 Plan	13/11/2008	–	–	–	**–**	–	–	–	–	–
		184,754	–	–	**184,754**		–	330		
D C George										
2005 Plan	17/11/2005	19,624(i)	–	–	**19,624**	–	–	35	17/11/2008	17/05/2009
2005 Plan	14/11/2006	15,810(ii)	–	–	**15,810**	–	–	28	14/11/2009	14/05/2010
2005 Plan	28/11/2007	47,704(iii)	–	–	**47,704**	–	–	85	28/11/2010	28/05/2011
2005 Plan	13/11/2008	–	9,842(v)	–	**9,842**	–	–	18(vi)	13/11/2011	13/05/2012
		83,138	9,842	–	**92,980**		–	166		
W S Townsend										
2005 Plan	17/11/2005	15,918(i)	–	–	**15,918**	–	–	28	17/11/2008	17/05/2009
2005 Plan	14/11/2006	13,190(ii)	–	–	**13,190**	–	–	24	14/11/2009	14/05/2010
2005 Plan	28/11/2007	43,067(iii)	–	–	**43,067**	–	–	77	28/11/2010	28/05/2011
2005 Plan	13/11/2008	–	9,411(v)	–	**9,411**	–	–	17(vi)	13/11/2011	13/05/2012
		72,175	9,411	–	**81,586**		–	146		

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) 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 2007/08 under the 2005 Plan, details of which are set out below. These shares represented the deferral of the entire bonus payable under the 2005 Plan for the year 2006/07.

(iv) Market value is calculated using the mid market price of the ordinary shares at 30 September 2008 being £1.785.

(v) 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 awarded for the financial year 2007/08 is therefore estimated using the mid market price of the ordinary shares at 30 September 2008 being £1.785.

(vi) Market value is based on a percentage of basic salary earned as a result of part achievement of performance objectives for the year 2007/08. 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 2008/09 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. The performance conditions applicable for these long-term awards are as set out on pages 26 to 27.

Name/ Scheme	Date of grant	At 1 Oct 2007	Awarded Performance Shares	Awarded Matching Shares	Exercised	Lapsed	At 30 Sept 2008	Market price at exercise £	Aggregate gain £'000	Market value £'000 (vii)	Exercisable From	To
G E Tuppen												
2002 Plan	22/12/2003(i)	209,470	–	–	–	–	**209,470**	–	–	374	01/10/2008	22/12/2017
2005 Plan	04/02/2005(ii)	280,740	–	–	(80,947)(vi)	(37,900)	**161,893**	4.09	331	289	04/02/2009	04/08/2010
2005 Plan	19/12/2005(iii)	238,498	–	–	–	–	**238,498**	–	–	426	19/12/2008	19/06/2011
2005 Plan	15/12/2006(iv)	192,402	–	–	–	–	**192,402**	–	–	344	15/12/2009	15/06/2012
2005 Plan	04/12/2007(v)	–	168,694	56,230	–	–	**224,924**	–	–	401	04/12/2010	04/12/2013
		921,110	168,694	56,230	(80,947)	(37,900)	**1,027,187**		331	1,834		
D C George												
2002 Plan	22/12/2003(i)	125,682	–	–	–	–	**125,682**	–	–	224	01/10/2008	22/12/2017
2005 Plan	04/02/2005(ii)	168,442	–	–	(48,568)(vi)	(22,740)	**97,134**	4.09	199	173	04/02/2009	04/08/2010
2005 Plan	19/12/2005(iii)	143,098	–	–	–	–	**143,098**	–	–	255	19/12/2008	19/06/2011
2005 Plan	15/12/2006(iv)	115,440	–	–	–	–	**115,440**	–	–	206	15/12/2009	15/06/2012
2005 Plan	04/12/2007(v)	–	101,216	33,738	–	–	**134,954**	–	–	241	04/12/2010	04/12/2013
		552,662	101,216	33,738	(48,568)	(22,740)	**616,308**		199	1,099		
W S Townsend												
2002 Plan	22/12/2003(i)	105,384	–	–	–	–	**105,384**	–	–	188	01/10/2008	22/12/2017
2005 Plan	04/02/2005(ii)	140,370	–	–	(40,474)(vi)	(18,950)	**80,946**	4.09	166	145	04/02/2009	04/08/2010
2005 Plan	19/12/2005(iii)	122,656	–	–	–	–	**122,656**	–	–	219	19/12/2008	19/06/2011
2005 Plan	15/12/2006(iv)	107,074	–	–	–	–	**107,074**	–	–	191	15/12/2009	15/06/2012
2005 Plan	04/12/2007(v)	–	96,792	32,264	–	–	**129,056**	–	–	230	04/12/2010	04/12/2013
		475,484	96,792	32,264	(40,474)	(18,950)	**545,116**		166	973		

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).

(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).

(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). The EPS condition for this award has been tested by Hewitt New Bridge Street and agreed by the remuneration committee at the date of this report and resulted in 53.1% of the award subject to the EPS condition vesting. The TSR condition will be measured at the conclusion of the TSR performance period on 19 December 2008.

(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).

Directors' Remuneration Report

(v) 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 2006/07 (541.4 pence).

(vi) The number of shares exercised is in respect of the first tranche of shares which have vested for this award.

(vii) Market value is calculated using the mid market price of the ordinary shares at 30 September 2008 being £1.785 per share.

The high and low share prices during the year were £6.49 and £1.5725 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 29 to the accounts on page 68.

Shareholders are invited to approve this report at the Annual General Meeting on 22 January 2009, details of which are set out on pages 110 to 113.

On behalf of the Board

A J Stewart

Chairman of the Remuneration Committee

17 November 2008

Group Income Statement

for the year ended 30 September 2008

		2008			2007		
	Notes	Pre-exceptional items £m	Exceptional items £m	Total £m	Pre-exceptional items £m	Exceptional items £m	Total £m
Revenue	2	880	–	880	921	–	921
Cost of sales	3	(336)	–	(336)	(359)	–	(359)
Gross profit		544	–	544	562	–	562
Administrative expenses		(32)	(2)	(34)	(34)	–	(34)
EBITDA†	4	512	(2)	510	528	–	528
Depreciation and amortisation		(8)	–	(8)	(7)	–	(7)
Operating profit	5	504	(2)	502	521	–	521
Net profit on sale of property, plant and equipment	7	–	2	2	–	22	22
Movements from revaluation of pub estate	8	–	(53)	(53)	–	(2)	(2)
Interest receivable		7	–	7	8	–	8
Interest payable	10	(248)	–	(248)	(228)	–	(228)
Movement in fair value of financial instruments	10	–	(1)	(1)	–	16	16
Total finance costs	10	(248)	(1)	(249)	(228)	16	(212)
Profit before tax		263	(54)	209	301	36	337
Taxation	11	(68)	48	(20)	(85)	39	(46)
Profit after tax attributable to members of the Parent Company		195	(6)	189	216	75	291
Earnings per share							
Basic	12			38.0p			53.4p
Basic diluted	12			37.9p			53.0p
Adjusted*	12	39.2p			39.6p		
Adjusted diluted*	12	39.1p			39.3p		
Dividends							
Dividends paid per share in respect of the year	13			5.8p			5.2p
Dividends proposed per share in respect of the year	13			10.4p			10.4p
				16.2p			15.6p

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

Group Statement of Recognised Income and Expense

for the year ended 30 September 2008

	2008 £m	2007 £m
Unrealised surplus on revaluation of licensed estate	**121**	312
Movement in deferred tax liability related to revaluation of pub estate	**(15)**	(75)
Write down of assets held for sale	**(4)**	—
Tax related to share schemes recognised directly in equity	**(5)**	3
(Losses)/gains on cash flow hedges	**(5)**	6
Deferred tax relating to movements on cash flow hedges	**1**	(2)
Actuarial (loss)/gain on defined benefit pension scheme	**(4)**	2
Deferred tax relating to movement on defined benefit pension scheme	**1**	(1)
Restatement of deferred tax for change in UK tax rate	**—**	24
Net income recognised directly in equity	**90**	269
Profit for the year	**189**	291
Total recognised income and expense for the year attributable to members of the Parent Company	**279**	560

Group Balance Sheet

at 30 September 2008

	Notes	2008 £m	Restated* 2007 £m
Non-current assets			
Goodwill	14	**417**	417
Intangible assets: operating lease premiums	16	**18**	19
Property, plant and equipment	17	**5,859**	5,710
Pension scheme	27	**—**	2
Financial assets	22	**2**	4
		6,296	6,152
Current assets			
Assets held for sale	18	**11**	8
Trade and other receivables	19	**77**	91
Cash		**98**	90
Financial assets	22	**1**	4
		187	193
Non-current assets held for sale	20	**11**	11
Total assets		**6,494**	6,356
Current liabilities			
Trade and other payables	21	**(209)**	(200)
Current tax payable		**(41)**	(59)
Financial liabilities	22	**(36)**	(59)
		(286)	(318)
Non-current liabilities			
Financial liabilities	22	**(3,832)**	(3,837)
Accruals and deferred income		**(4)**	(4)
Provisions	25	**(3)**	(3)
Deferred tax	26	**(690)**	(711)
Pension scheme	27	**(1)**	—
		(4,530)	(4,555)
Total liabilities		**(4,816)**	(4,873)
Net assets		**1,678**	1,483
Equity			
Called up share capital	28	**14**	14
Share premium account	30	**486**	486
Revaluation reserve	30	**1,195**	1,096
Capital redemption reserve	30	**11**	11
Merger reserve	30	**77**	77
Treasury share reserve	30	**(227)**	(227)
Other reserve	30	**(28)**	(31)
Cash flow hedge reserve	30	**—**	4
Profit and loss account	30	**150**	53
Enterprise Inns shareholders' equity	30	**1,678**	1,483

* See note 1.

Approved by the Board on 17 November 2008 and signed on its behalf by:

G E Tuppen
D C George

Group Cash Flow Statement

for the year ended 30 September 2008

	2008 £m	2007 £m
Cash flow from operating activities		
Operating profit	**502**	521
Depreciation and amortisation	**8**	7
Share-based expense recognised in profit	**2**	3
Decrease in receivables	**8**	6
Increase/(decrease) in payables	**19**	(10)
Decrease in provisions	**—**	(2)
Increase in current assets held for sale	**(3)**	(2)
	536	523
Tax paid	**(77)**	(71)
Net cash flows from operating activities	**459**	452
Cash flows from investing activities		
Payments to acquire public houses	**(48)**	(91)
Payments made on improvements to public houses	**(68)**	(75)
Payments to acquire other property, plant and equipment	**(2)**	(3)
Receipts from sale of property, plant and equipment	**30**	128
Receipts from sale of investments	**—**	1
Net cash flows from investing activities	**(88)**	(40)
Cash flows from financing activities		
Interest paid	**(253)**	(228)
Interest received	**7**	8
Issue costs of long-term loans	**(1)**	—
Equity dividends paid	**(81)**	(79)
Payments to acquire own shares	**(33)**	(667)
Receipts from exercise of share options	**2**	5
Restructuring of interest rate swaps	**—**	(1)
Debt due in less than one year — new short-term loans	**202**	75
Debt due in less than one year — repayment of short-term loans	**(237)**	(40)
Debt due beyond one year — new long-term loans	**448**	685
Debt due beyond one year — repayment of long-term loans	**(417)**	(191)
Net cash flows from financing activities	**(363)**	(433)
Net increase/(decrease) in cash	**8**	(21)
Cash at start of year	**90**	111
Cash at year end	**98**	90

Notes to the Group Accounts

at 30 September 2008

1. Accounting Policies

The consolidated financial statements of Enterprise Inns plc for the year ended 30 September 2008 were authorised for issue by the Board on 17 November 2008. 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.

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, 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.

Landlord' fixtures and fittings are held at cost less accumulated depreciation. The useful economic life of additions to landlord' 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 Group Accounts

at 30 September 2008

1. Accounting Policies (continued)

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 taken 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 intangible assets 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 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.

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.

1. **Accounting Policies (continued)**

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 Called up 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 off set 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.

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.

1. Accounting Policies (continued)

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 licensees. 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 taken advantage of the exception in IFRS 1 in respect of equity-settled awards so as to apply IFRS 2 only 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 net profit on sale of property, plant and equipment, movements from revaluation of pub estate, interest, 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:

a) Exceptional administrative expenses

The operating exceptional item shown within administrative expenses relates to legal, accountancy, professional and advisory fees in respect of the ongoing review of REIT restructuring.

b) Net profit on sale of property, plant and equipment

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

c) Movements from revaluation of pub estate

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', the associated 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 2008

1. **Accounting Policies (continued)**

d) Movement in fair value of financial instruments

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

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

During the year the Group has adopted the capital disclosure requirements of IAS 1 'Presentation of Financial Statements'.

A number of 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 result in some changes to the presentation of the financial statements. The effective dates below represent the latest date that the Company will be required to implement the standard:

- Amendment to IAS 23 — Borrowing Costs — effective from 1 January 2009.
- 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.
- Amendment to IAS 1 — Presentation of Financial Statements — effective 1 October 2009.
- Amendment to IAS 27 — Consolidated and Separate Financial Statements — effective 1 October 2009.
- Amendment to IFRS 3 — Business Combinations — effective 1 July 2009.
- Amendment to IFRS 2 — Vesting Conditions and Cancellations — effective 1 September 2009.
- Amendment to IAS 39 — Eligible Hedged Items — effective 1 July 2009.

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.

Notes to the Group Accounts
at 30 September 2008

1. Accounting Policies (continued)

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.

b) Testing goodwill for impairment

The Group annually tests whether goodwill has been impaired. Management makes judgements to allocate goodwill to the Group of cash generating units ("CGUs") that benefits from the synergy of acquisitions and reflects the level at which goodwill is monitored. 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

In accordance with IAS 32 'Financial Instruments: Presentation' a financial liability has been recognised when the Group enters into a contingent agreement with a third party which require the Group to purchase shares during the close period. No contingent agreement had been entered into by the Group at 30 September 2008.

Presentation of interest rate swaps

The 2007 balance sheet has been adjusted in respect of the presentation of interest rate swap fair values. An amendment to IAS 1 requires financial liabilities not held for trading to be presented as current or non-current on the basis of settlement date. Previously, all interest rate swaps that were not designated as part of an effective hedging relationship were presented as current liabilities. This has resulted in a reduction in current liabilities of £18 million with a corresponding increase in non-current liabilities.

2. Revenue

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

Revenue is derived as follows:

	2008	2007
	£m	£m
Beer and cider sales	**568**	602
Wines, spirits and minerals sales	**32**	33
Rents receivable	**258**	261
Income from amusement and other machines	**22**	25
	880	921

Notes to the Group Accounts

at 30 September 2008

3. Cost of sales

	2008 £m	2007 £m
Beer and cider cost of sales	**305**	326
Wines, spirits and minerals cost of sales	**25**	26
Leasehold charges	**2**	3
Repairs and maintenance	**4**	4
	336	359

4. EBITDA — impact of disposal of pubs

The Group disposed of 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.

An analysis of the impact of these disposals on EBITDA in 2007 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**

5. Operating profit

Operating profit is stated after charging:

	2008 £m	2007 £m
Depreciation		
Relating to cost of sales	**7**	6
	7	6
Amortisation		
Relating to cost of sales	**1**	1
Depreciation and amortisation	**8**	7

Notes to the Group Accounts

at 30 September 2008

6. Auditors' remuneration

This note is shown rounded to the nearest £'000.

	2008 £'000	2007 £'000
Group audit fees	**195**	230
Audit fees in respect of subsidiaries	**33**	45
Other fees pursuant to legislation	**13**	22
Tax fees	**674**	318
All other services	**45**	41
	960	656

Tax fees includes fees incurred in respect of advice on REITs of £566,000 (2007 — £180,000).

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

	2008 £m	2007 £m
Profits on sale of property, plant and equipment	**11**	24
Losses on sale of property, plant and equipment	**(9)**	(2)
	2	22

There is no current tax expense associated with the profit on sale of property, plant and equipment. No deferred tax charge (2007 — £7 million) arises as a result of the disposal of these properties.

8. Movements from revaluation of pub estate

	2008 £m	2007 £m
Movements from revaluation of pub estate	**(51)**	(1)
Write-down of non-current assets held for sale to fair value less costs to sell	**(2)**	(1)
	(53)	(2)

There is no current tax expense associated with these movements. A deferred tax credit of £14 million (2007 — £1 million) arises as a result of the revaluation and write-down of these properties.

Notes to the Group Accounts

at 30 September 2008

9. Staff costs

	2008 £m	2007 £m
Wages and salaries	**21**	22
Social security costs	**1**	3
Other pension costs	**2**	2
	24	27

Included in wages and salaries is an expense relating to share-based payments of £2 million (2007 — £3 million). All of this expense arises from transactions accounted for as equity-settled share-based payments (see note 29).

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

The average monthly number of employees comprised:

	2008 No.	2007 No.
Operations staff	**215**	220
Administration staff	**300**	290
	515	510

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

	2008 £'000	2007 £'000
Directors emoluments*	**1,858**	2,320
Share-based payments†	**793**	1,828
Aggregate gains made on exercise of share options	**696**	4,400

* 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

	2008 £m	2007 £m
Bank loans and overdrafts	**68**	49
Debentures/secured bonds/securitised bonds	**176**	177
Other interest payable and finance costs	**4**	2
Interest payable	**248**	228
Exceptional finance costs:		
Movement in fair value of interest rate swaps (note 22)	**1**	(19)
Movement in fair value of liability for share buy-backs	**—**	3
	1	(16)
Total finance costs	**249**	212

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 £248 million (2007 — £228 million).

Notes to the Group Accounts

at 30 September 2008

11. Taxation

a) Total tax expense recognised in the Group Income Statement

	2008			2007		
Current tax	**Pre-exceptional items £m**	**Exceptional items £m**	**Total £m**	Pre-exceptional items £m	Exceptional items £m	Total £m
UK corporation tax	**70**	**(1)**	**69**	79	—	79
Adjustments in respect of prior years	**(9)**	—	**(9)**	4	—	4
Total current tax	**61**	**(1)**	**60**	83	—	83
Deferred tax						
Origination and reversal of temporary differences (note 11c)	**7**	**(47)**	**(40)**	11	(39)	(28)
Adjustments in respect of prior years	—	—	—	(9)	—	(9)
Total deferred tax	**7**	**(47)**	**(40)**	2	(39)	(37)
Taxation (note 11b)	**68**	**(48)**	**20**	85	(39)	46

The current tax adjustment in respect of prior years of £9 million relates to a release of provisions following settlement of HMRC enquiries for 2004 and 2005 for the majority of companies. In addition, no enquiries have been received for 2006.

b) Tax charge reconciliation

	2008			2007		
	Pre-exceptional items £m	**Exceptional items £m**	**Total £m**	Pre-exceptional items £m	Exceptional items £m	Total £m
Profit before tax	**263**	**(54)**	**209**	301	36	337
Profit on ordinary activities before tax at 29% (2007 — 30%) (i)	**76**	**(15)**	**61**	90	11	101
Effects of:						
Expenses not deductible for tax purposes	**1**	—	**1**	1	1	2
Indexation on property disposals (ii)	—	**(1)**	**(1)**	—	(4)	(4)
Reduction in deferred tax liability for retained properties due to indexation (ii)	—	**(32)**	**(32)**	—	(24)	(24)
Adjustments in respect of prior years	**(9)**	—	**(9)**	(5)	—	(5)
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	**68**	**(48)**	**20**	85	(39)	46

Notes to the Group Accounts

at 30 September 2008

11. Taxation (continued)

(i) The statutory corporation tax rate changed from 30% to 28% on 1 April 2008. Therefore, the applicable tax rate in the note above is 29% for the year ended 30 September 2008, being six months of the year at 30% and six months of the year at 28%.

(ii) On transition to IFRS under IAS 12, a deferred tax liability was recognised on the balance sheet relating to the revaluation of the pub estate and gains previously rolled over, or due to be rolled over into other assets. The deferred tax liability that would have been in place at the time of business combinations that have occured since 1 January 1999 resulted in the recognition of additional goodwill of £330 million as the fair value of the net assets acquired had been reduced. As this pre-acquisition liability reduces due to capital gains indexation relief, a credit is recognised in the Income Statement. This has been classed 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. The exceptional indexation credit for the year ended 30 September 2008 is £33 million in total (£1 million for property disposals and £32 million for retained properties) compared with £28 million in 2007 (£4 million for property disposals and £24 million for retained properties). Indexation is calculated with reference to the movement in the Retail Price Index during the year and the calculation is as follows:

	2008 £m	2007 £m
Base cost of restated acquisitions	**2,470**	2,447
Retail Price Index movement in the year	**4.8%**	4.1%
Capital gains indexation relief	**119**	100
Tax effect at 28%	**33**	28

c) Deferred tax recognised in the Group Income Statement

	2008			2007		
	Pre-exceptional items £m	**Exceptional items £m**	**Total £m**	Pre-exceptional items £m	Exceptional items £m	Total £m
Accelerated capital allowances (i)	**8**	**—**	**8**	9	—	9
Deferred tax on movement in fair value of interest rate swaps	**—**	**—**	**—**	—	6	6
Temporary differences	**—**	**—**	**—**	3	—	3
Deferred tax on share schemes	**(1)**	**—**	**(1)**	(1)	—	(1)
Deferred tax on profit on sale of property	**—**	**—**	**—**	—	7	7
Deferred tax on movement from revaluation of pub estate (ii)	**—**	**(14)**	**(14)**	—	(1)	(1)
Reduction in deferred tax liability due to indexation (bii)	**—**	**(33)**	**(33)**	—	(28)	(28)
Restatement of deferred tax balances for change in UK tax rate	**—**	**—**	**—**	—	(23)	(23)
	7	**(47)**	**(40)**	11	(39)	(28)

(i) The £8 million deferred tax charge (2007 — £9 million) relates to capital allowances claimed in the Group's tax computations in advance of depreciation. See note 26 for further details.

(ii) The £14 million deferred tax credit on movements from the revaluation of the pub estate is the tax effect (at 28%) of the £53 million exceptional revaluation movement in the Income Statement as detailed in note 8. In 2007 the revaluation movement was £2 million, giving rise to a £1 million tax credit.

Notes to the Group Accounts

at 30 September 2008

11. Taxation (continued)

d) Tax recognised directly in equity

	2008 £m	2007 £m
Increase in deferred tax liability related to revaluation of property and rolled over gains (i)	**15**	75
Deferred tax relating to share schemes recognised directly in equity	**5**	(3)
Movement in deferred tax relating to (loss)/gain on cash flow hedges	**(1)**	2
Deferred tax relating to movement on defined benefit pension scheme	**(1)**	1
Restatement of deferred tax balances for change in UK tax rate (ii)	—	(24)
Tax charge in the Statement of Recognised Income and Expense	**18**	51

(i) The movement in the deferred tax liability relating to revaluation of property and rolled over gains is calculated as follows:	2008 £m	2007 £m
Tax effect of unrealised surplus on revaluation of property — £121 million at 28% (2007 — £312 million at 28%)	**34**	87
Tax effect of transfer of realised revaluation surplus (see note 30) — £7 million at 28% (2007 — £10 million at 28%)	**(2)**	(3)
Movement in indexation during the year not credited to the Income Statement	**(17)**	(9)
Total movement as above	**15**	75

(ii) The rate change adjustment in 2007 reflects the impact of the change in the UK corporation tax rate from 30% to 28% on the deferred tax liability related to the revaluation of property and rolled over gains. This was a one-off adjustment and therefore no charge has arisen in 2008.

Notes to the Group Accounts

at 30 September 2008

12. Earnings per Ordinary share

The calculation of basic earnings per share is based on earnings of £189 million (2007 — £291 million) and on 497.4 million (2007 — 545.0 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 £195 million (2007 — £216 million) and on 497.4 million (2007 — 545.0 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:

	2008 £m	2007 £m
Profit after tax	**189**	291
Exceptional finance costs:		
Movement in fair value of interest rate swaps	**1**	(19)
Movement in fair value of liability for share buy-backs	—	3
Other exceptional items:		
Net profit on disposal of property, plant and equipment	**(2)**	(22)
Movements from revaluation of pub estate	**53**	2
Restructuring costs	**2**	—
Tax impact of exceptional items listed above	**(15)**	12
Deferred tax relating to change in UK Corporation Tax rate	—	(23)
Reduction in deferred tax liability due to indexation	**(33)**	(28)
Adjusted earnings	**195**	216

Diluted earnings per share is based on profit for the year of £189 million (2007 — £291 million) and adjusted profit of £195 million (2007 — £216 million) and on 498.4 million (2007 — 549.1 million) ordinary shares calculated as follows:

	2008 million	2007 million
Basic weighted average number of shares	**497.4**	545.0
Executive share option scheme	**0.4**	1.6
Enterprise Inns Quest share save scheme	**0.2**	0.7
Long-term and short-term incentive plans	**0.4**	1.8
Diluted weighted average number of shares	**498.4**	549.1

Notes to the Group Accounts

at 30 September 2008

13. Dividends paid and proposed

Paid during the year	2008 £m	2007 £m
Equity dividends on ordinary shares:		
Final dividend relating to prior year 10.4 pence (2007 — 9 pence)	**52**	52
Interim dividend for current year 5.8 pence (2007 — 5.2 pence)	**29**	27
	81	79
Proposed for approval by shareholders at the Annual General Meeting		
Final dividend for current year 10.4 pence (2007 — 10.4 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.

14. Goodwill

	2008 £m	2007 £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 recoverable amount is the higher of fair value less costs to sell and value in use. The impairment test compares the recoverable amount of the cash generating unit with its carrying amount. At the year ended 30 September 2008 the recoverable amount is determined from value in use calculations.

Value in use is calculated using budgeted EBITDA using forecasts of cash flow over a five year period. The cash flows have been risk adjusted from prior year to include the impacts of the smoking ban together with the reduction in consumer spending as a result of the difficult economic conditions. The key assumptions in these estimates have been reviewed by the Board of directors and are believed to be reasonable. Cash flows beyond five years are extrapolated using a 3% growth rate (2007 — 3%). The key driver to maintaining the growth rate is managements focus on an ongoing commitment to improve the quality of the estate through churn and capital expenditure whilst remaining focused on meeting the challenges of changing consumer demand.

The discount rate is based on the Group weighted average cost of capital ("WACC") which has been risk adjusted to reflect current market factors which have not already been captured within the cash flow. In making this adjustment to the Group WACC, management have risk adjusted by using the highest level of Market Risk premium and Company beta obtained from indepedent sources at the year end date to reflect the risk of the Group relative to the market as a whole. The pre-tax risk adjusted discount rate used in the testing at 30 September 2008 was 8% (2007 — 8%).

As of 30 September 2008, the estimated value in use of the Group's pub estate exceeded carrying amount by £163 million and based on the risk adjusted cash flows as described above the pre-tax adjusted discount rate could increase to 8.2% before any impairment would be required. Management have considered the volatility within the current economic climate within the risk adjusted cash flow and a reduction of 0.5% in the growth rate of cash flows would result in no impairment.

There is no impairment to goodwill in the period.

Notes to the Group Accounts

at 30 September 2008

15. Investments

	2008 £m	2007 £m
Cost and net book value:		
At 1 October	—	2
Disposals	—	(2)
At 30 September	—	—

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 ended 30 September 2007.

16. Intangible assets: operating lease premiums

	2008 £m	2007 £m
Cost		
At 1 October	**23**	27
Transfer to non-current assets held for sale	—	(4)
At 30 September	**23**	23
Amortisation		
At 1 October	**4**	3
Provided during the year	**1**	1
At 30 September	**5**	4
Net book value		
At 30 September	**18**	19
At 1 October	**19**	24

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'. The remaining operating lease terms vary from 1 to 107 years.

Notes to the Group Accounts

at 30 September 2008

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 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 1 October 2007	5,537	161	32	5,730
Additions	78	35	3	116
Revaluation	72	—	—	72
Write-down to fair value less costs to sell	(9)	—	(1)	(10)
Net transfers to non-current assets held for sale	(21)	(1)	—	(22)
Disposals	—	—	(1)	(1)
At 30 September 2008	5,657	195	33	5,885
Depreciation				
At 1 October 2006	4	7	4	15
Charge for the year	2	2	2	6
Disposals	—	—	(1)	(1)
At 1 October 2007	6	9	5	20
Charge for the year	2	3	2	7
Disposals	—	—	(1)	(1)
At 30 September 2008	8	12	6	26
Net book value				
At 30 September 2008	**5,649**	**183**	**27**	**5,859**
At 30 September 2007	5,531	152	27	5,710

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 2008 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 with consideration given to market transactions within the UK pub sector.

17. Property, plant and equipment (continued)

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 those 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 method 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.

During the year Christie & Co. included a Red Book Guidance Note 5 disclosure in their valuation, which requires the valuer to draw attention to uncertainty in the market which may have a material effect on the valuation. Christie & Co. state they have used valuer judgement to interpret the most recent available evidence and current market sentiments to arrive at their valuation, but caution that in the present economic circumstances the shelf life of any valuation report is reduced.

Pubs identified for disposal which are classified in the balance sheet as 'non-current assets held for sale' are held at fair value less costs to sell. This value is based on the net estimated 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 2008	
Cost	4,204
Accumulated depreciation	(39)
Net book value	4,165
At 30 September 2007	
Cost	4,118
Accumulated depreciation	(38)
Net book value	4,080

The carrying value of property held under finance leases at 30 September 2008 was £257 million (2007 — £248 million). Additions during the year include £3 million of property held under finance leases (2007 — £5 million).

At 30 September 2008, the Group had entered into contractual commitments to purchase £8 million (2007: £26 million) of property, plant and equipment.

18. Current assets held for sale

Fixtures and fittings purchased from tenants	**2008 £m**	2007 £m
Cost		
At 1 October	**12**	10
Additions	**12**	12
Disposals	**(9)**	(10)
At 30 September	**15**	12
Provision		
At 1 October	**4**	4
Charge for the year	**1**	1
Utilised during the year	**(1)**	(1)
At 30 September	**4**	4
Net realisable value	**11**	8

Notes to the Group Accounts

at 30 September 2008

19. Trade and other receivables

	2008 £m	2007 £m
Trade receivables	**67**	75
Prepayments and accrued income	**5**	11
Other receivables	**5**	5
	77	91

The ageing of trade receivables at 30 September 2008 was as follows:	**£m**
Current	**59**
Up to 30 days overdue	**3**
31–60 days overdue	**2**
61–90 days overdue	**1**
More than 90 days overdue	**2**
	67

20. Non-current assets held for sale

	2008 £m	2007 £m
At 1 October	**11**	10
Net transfer from property, plant and equipment (note 17)	**22**	105
Net transfer from intangible assets: operating lease premiums (note 16)	**—**	4
Disposals	**(22)**	(108)
At 30 September	**11**	11
Representing:		
Property, plant and equipment	**11**	10
Intangible assets: operating lease premiums	**—**	1
	11	11

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 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 (2007 — £1 million) in relation to these pubs is held within the revaluation reserve representing revaluation surpluses.

21. Trade and other payables

	2008 £m	2007 £m
Trade payables	**71**	17
Accruals and deferred income	**91**	142
Other payables	**47**	41
	209	200

Notes to the Group Accounts

at 30 September 2008

22. Financial assets and liabilities

Financial assets	2008 £m	2007 £m
Current		
Interest rate swap	**1**	4
Non-current		
Interest rate swap	**2**	4
Total financial assets	**3**	8

Financial liabilities	2008 £m	Restated* 2007 £m
Current		
Secured bank facility	**30**	—
Unsecured bank facility	—	35
Interest rate swaps	**6**	3
Provision for close period share buy-back contracts	—	21
	36	59
Non-current		
Syndicated bank borrowings	**998**	997
Corporate bonds	**1,181**	1,181
Securitised bonds	**1,633**	1,637
Interest rate swaps	**16**	18
Finance lease payables	**4**	4
	3,832	3,837
Total financial liabilities	**3,868**	3,896
Total financial assets and liabilities	**3,865**	3,888

* See note 1.

22. Financial assets and liabilities (continued)

Fair values

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:

	Interest rate	2008 Nominal value £m	2008 Book value £m	2008 Fair value £m	2007 Nominal value £m	2007 Book value £m	2007 Fair value £m
Bank borrowings	LIBOR + 0.8%	1,000	998	1,000	1,000	997	1,000
Secured bank facility	LIBOR + 1.25%	31	30	31	—	—	—
Unsecured bank facility	LIBOR + 0.9%	—	—	—	35	35	35
Corporate bonds:							
Debenture — issued 3 February 1999	6%	60	59	54	60	59	60
Secured bond — issued 9 May 2000	6.875%	125	124	124	125	124	136
Secured bond — issued 15 February 2001	6.875%	125	124	125	125	124	134
Secured bond — issued 26 February 2002	6.375%	275	272	191	275	272	291
Secured bond — issued 3 March 2003	6.5%	600	602	467	600	602	614
		1,185	1,181	961	1,185	1,181	1,235
Securitised bonds:							
A2N — issued 25 February 2005	LIBOR + 0.16%	201	201	201	201	201	201
A3 — issued 30 March 1999	6.542%	435	454	392	435	456	454
A4 — issued 20 September 2002	5.659%	535	536	430	535	536	523
M — issued 30 March 1999	7.395%	225	245	186	225	247	254
N — issued 20 September 2002	6.464%	190	197	132	190	197	199
		1,586	1,633	1,341	1,586	1,637	1,631
Interest rate swaps:							
£275m swap expiring 1 June 2012	6.662%	—	13	13	—	12	12
£350m swap expiring 30 September 2011	4.887%	—	(3)	(3)	—	(8)	(8)
£39m swap expiring 30 December 2012	7.873%	—	3	3	—	3	3
£53m swap expiring 30 December 2012	7.873%	—	2	2	—	3	3
£109m swap expiring 30 September 2013	6.079%	—	4	4	—	3	3
		—	19	19	—	13	13
		3,802	3,861	3,352	3,806	3,863	3,914
Finance lease payables (note 24)		—	4	4	—	4	4
Provision for close period share buy-back contracts		—	—	—	—	21	21
Total debt		3,802	3,865	3,356	3,806	3,888	3,939
Cash*		(98)	(98)		(90)	(90)	—
Underlying net debt/net debt (note 31)		3,704	3,767		3,716	3,798	

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.

* Cash balances include £65 million held within a securitised Reserve Account. Withdrawals can only be made from this account with the consent of the securitised Trustee.

Notes to the Group Accounts

at 30 September 2008

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 with 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:

	2008 £m	2007 £m
At 1 October	13	39
Cash payment made	—	(1)
Fair value movements:		
— ineffective portion and swaps not designated as effective hedges recognised in Income Statement	1	(19)
— effective portion recognised in Cash Flow Hedge Reserve	5	(6)
At 30 September	19	13

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 share buy-back strategy.

In the year to 30 September 2008 the Group repaid and cancelled £35 million of a £100 million uncommitted, unsecured bank facility with the Royal Bank of Scotland plc and utilised £31 million of a £100 million committed, secured bank facility with HBOS plc.

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 2008, the nominal value of the Company's borrowings (excluding interest rate swaps, liability for share buy-back contracts and finance lease payables) comprised:

	2008	2007
Syndicated and other bank borrowings	27%	27%
Corporate bonds	31%	31%
Securitised bonds	42%	42%

22. Financial assets and liabilities (continued)

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

	2008			2007		
	Debt £m	Interest £m	Total £m	Debt £m	Interest £m	Total £m
In more than five years	**2,601**	**1,428**	**4,029**	2,676	1,530	4,206
In more than two years but not more than five years	**1,210**	**184**	**1,394**	1,150	217	1,367
In more than one year but not more than two years	**46**	**193**	**239**	5	200	205
In one year or less or on demand	**6**	**195**	**201**	34	201	235
	3,863	**2,000**	**5,863**	3,865	2,148	6,013

The table above shows the contractual, undiscounted cash flows due in future periods to settle the Group's debt and interest payments, including interest rate swaps. The total amount of debt payable shown above differs from the total book value of Group debt of £3,861 million as the book value of Group debt includes the fair value of interest rate swaps which is based on discounted cash flows. 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 24.

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

Syndicated and other bank borrowings	2011
Secured bank facility	2009
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

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

Expiring:	2008 £m	2007 £m
In more than five years	**190**	190
In more than two years but not more than five years	**—**	—
In more than one year but not more than two years	**69**	—
In one year or less or on demand	**—**	65
	259	255

22. Financial assets and liabilities (continued)

The undrawn facilities relate to:

	2008 £m	2007 £m
Undrawn liquidity facility*	**190**	190
Undrawn element of committed bank facility	**69**	—
Undrawn element of uncommitted bank facility	**—**	65

* The Liquidity Facility is in respect of the Unique securitisation and is a renewable committed facility of £190 million for a term of 364 days. The Liquidity Facility is available to meet certain payment obligations falling due in the Unique securitisation to the extent that insufficient funds are received to meet such payments. The Liquidity Facility is due for renewal on 30 September 2009.

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 by Group companies. At 30 September 2008, the Group's borrowings were 89% fixed (after including the impact of interest rate swaps) with an average interest rate of 6.5% for 10 years (2007 — 89% fixed at an average rate of 6.5% for 11 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	7	(248)	(1)
Effect if interest rates increased by 50 basis points (0.5%)	8	(250)	7
Difference	1	(2)	8
As reported in Income Statement	7	(248)	(1)
Effect if interest rates decreased by 50 basis points (0.5%)	6	(245)	(10)
Difference	(1)	3	(9)

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 is net of a bad debt provision which has been determined 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 2008 the value of collateral is £31 million (2007 — £30 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 owed by licensees.

	2008 £m	2007 £m
Provision as at 1 October	**3**	4
Increase in provision during the year	**3**	3
Provision utilised during the year	**(1)**	(1)
Provision released during the year	**(2)**	(3)
Provision as at 30 September	**3**	3

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at 30 September 2008

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 2008 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 2008 is: Property, Plant and Equipment £5,832 million (2007 — £5,683 million), operating lease premiums £18 million (2007 — £19 million) and pubs held for sale £11 million (2007 — £11 million).

23. Capital disclosures and analysis of changes in net debt

The Group defines capital as total equity. The capital structure is managed to support the Group's objective of maximising long-term shareholder value through ready access to debt and capital markets, cost-effective borrowing and flexibility to fund buisness and acquisition opportunities whilst maintaining appropriate leverage to optimise the cost of capital.

The capital structure of the Group is based upon management's judgement of the appropriate balancing of all key elements of its financial strategy in order to meet the Group's operational and strategic requirements. The overall financing strategy of the Group is presented to the Board annually for approval.

The Group monitors capital on the basis of a net debt ratio, being net debt divided by net debt plus equity. Net debt is defined as the book value of the Group's debt less cash (note 22). Equity is defined as total shareholders' funds.

	2008 **£m**	2007 £m
Total debt	**3,865**	3,888
Cash	**(98)**	(90)
Net debt	**3,767**	3,798
Equity	**1,678**	1,483
Net debt ratio	**69%**	72%

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at 30 September 2008

24. 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

	2008 £m	2007 £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	27	26
	29	28
Future finance lease interest	(25)	(24)
Present value of future minimum lease payments	4	4

The present value of future minimum lease payments is due in more than five years (2007 — 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 £115 million (2007 — £133 million).

Operating leases

	2008 £m	2007 £m
Operating lease rentals recognised as an expense in the year	3	3

	2008 £m	2007 £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	56	57
	71	72

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 £25 million (2007 — £30 million).

Notes to the Group Accounts

at 30 September 2008

24. Leases (continued)

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 six months and 30 years and are classified for accounting purposes as operating leases. Most of the leases with terms of over three years include provision for rent reviews on either a 3 or five year basis.

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

	2008 £m	2007 £m
Future minimum lease rentals receivable under operating leases:		
within one year	**223**	249
after one year but not more than five years	**768**	884
in more than five years*	**1,585**	1,865
	2,576	2,998

* Leases with future minimum lease rentals receivable under operating leases in more than five years have an average term of 14.5 years remaining on their agreements.

25. Provisions

	2008 £m	2007 £m
At 1 October:		
Current	**—**	1
Non-current	**3**	4
	3	5
Movement during the year:		
Release of provision during the year	**—**	(1)
Utilisation	**—**	(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 63 years.

26. Deferred tax

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

	2008 £m	2007 £m
Unrealised surplus on revaluation of property (a)	**518**	550
Rolled over gains (a)	**71**	71
Accelerated capital allowances (b)	**110**	102
Fair value of interest rate swaps	**(5)**	(4)
Share-based payments	**(1)**	(6)
Pension scheme	—	1
Other temporary differences	**(3)**	(3)
	690	711

(a) The deferred tax provision for the unrealised surplus on the revaluation of property is £518 million at 30 September 2008 (2007 — £550 million) and for rolled over gains is £71 million (2007 — £71 million). This results in a total provision in relation to the revaluation of the property of £589 million at 30 September 2008 (2007 — £621 million). This has moved during the year as follows:

	Revaluation of pub estate £m	Rolled over gains £m	2008 £m
Opening provision at 30 September 2007	550	71	**621**
Reduction in deferred tax liability due to indexation credited to Income Statement	(32)	(1)	**(33)**
Reduction in deferred tax liability due to movements from revaluation of property	(14)	—	**(14)**
Increase in deferred tax liability recognised directly in equity	14	1	**15**
Closing provision at 30 September 2008	518	71	**589**

(b) Deferred tax provided in respect of Accelerated Capital Allowances (ACAs) has increased by £8 million during 2008, from £102 million to £110 million, being the ACA tax charge detailed in note 11c. The increase is calculated as follows:

	Net Book Value in excess of Tax Written Down Value £m	Tax at 28% £m
Opening balance at 30 September 2007	364	102
Depreciation	(5)	(1)
Capital allowances	33	9
Closing balance at 30 September 2008	392	110

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.

Notes to the Group Accounts

at 30 September 2008

27. Pension

The Group makes defined contribution payments to employees' own pension plans and 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. The most recent full actuarial valuation of the defined benefit section of the plan was at 5 April 2008. This has been updated to 30 September 2008. The valuation was carried out by Mercer, independent professionally qualified actuaries, using the projected unit credit method.

Assets and liabilities of the plan

	2008 £m	2007 £m
Fair value of plan assets:		
Equities	10	13
Bonds	6	6
	16	19
Present value of plan liabilities	(17)	(17)
Net pension (deficit)/surplus	(1)	2

The present value of plan liabilities relates to funded plans.

Movement in surplus during the year

	2008 £m	2007 £m
Net surplus at the start of the year	2	—
Actuarial (loss)/gain	(3)	2
Net (deficit)/surplus at the end of the year	(1)	2

Analysis of amounts recognised in the Income Statement

	2008 £m	2007 £m
Interest cost on plan liabilities	(1)	(1)
Expected return on plan assets	1	1
	—	—

The amounts above are recognised within other interest payable and finance costs.

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

	2008 £m	2007 £m
Actual return on plan assets	(3)	1
Less expected return on plan assets	(1)	(1)
	(4)	—
Other actuarial gains and losses	—	2
	(4)	2

Notes to the Group Accounts

at 30 September 2008

27. Pension (continued)

Changes in the fair value of plan assets

	2008 £m	2007 £m
Fair value of plan assets at the start of the year	**19**	19
Expected return on plan assets	**1**	1
Actuarial loss on plan assets	**(4)**	—
Benefits paid	—	(1)
Fair value of plan assets at the end of the year	**16**	19

Changes in the present value of scheme liabilities

	2008 £m	2007 £m
Present value of plan liabilities at the start of the year	**(17)**	(19)
Interest cost	**(1)**	(1)
Benefits paid	**1**	1
Actuarial gain on plan liabilities	—	2
Present value of plan liabilities at the end of the year	**(17)**	(17)

The principal assumptions made by the actuaries were:

	2008 %	2007 %
Rate of increase in pension payments	**3.90**	3.60
Rate of increase of pensions in deferment	**3.70**	3.40
Discount rate	**6.20**	5.70
Inflation assumption	**3.70**	3.40
Expected return on plan assets:		
Equities	**7.45**	7.60
Bonds	**4.55**	4.50
Longevity at age 65 for current pensioners		
Men	**23 years**	22 years
Women	**26 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 2008 are after a deduction for plan expenses of 0.75% p.a. (2007: 0.75%).

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

Notes to the Group Accounts

at 30 September 2008

27. Pension (continued)

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

	2008 £m	2007 £m	2006 £m	2005 £m	2004* £m
Fair value of plan assets	**16**	19	19	17	13
Present value of plan liabilities	**(17)**	(17)	(19)	(17)	(16)
Net (deficit)/surplus	**(1)**	2	—	—	(3)
Experience adjustments on plan assets	**(4)**	—	1	1	—
Experience adjustments on plan liabilities	—	2	(1)	—	1

* Six month period ended 30 September 2004.

Total contributions to the defined benefit scheme during the year to 30 September 2009 is expected to be £nil subject to review following the conclusion of the 2008 triennial valuation by the Trustees of the Plan.

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 a loss of £1 million (2007 — £3 million gain).

28. Share capital

Authorised:	2008 No.	2008 £m	2007 No.	2007 £m
Ordinary shares of 2.5p each	**1,000,000,000**	**25**	1,000,000,000	25

Allotted, called up and fully paid:	2008 No.	2008 £m	2007 No.	2007 £m
Ordinary shares of 2.5p each				
At 1 October	**561,467,054**	**14**	664,329,150	16
Cancelled	**(5,489,619)**	—	(102,862,096)	(2)
At 30 September	**555,977,435**	**14**	561,467,054	14

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 were sub-divided into two new ordinary shares of 2.5 pence each.

At 30 September 2008, the Group owned 50 million (2007 — 50 million) of its own shares as treasury shares with a nominal value of £1 million (2007 — £1 million) and a market value of £89 million (2007 — £293 million).

In addition, at 30 September 2008 the Group held 8,768,087 shares with a nominal value of £0.2 million and a market value of £16 million (2007 — 10,027,700 shares, nominal value £0.3 million, market value £59 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 29).

During the year the Group made on market purchases totalling 5 million (2007 — 103 million) of its own ordinary shares for an aggregate consideration of £29 million (2007 — £658 million) (excluding costs). These shares were cancelled. Transaction costs of £0.2 million (2007 — £3 million) have been accounted for directly in equity in the profit and loss reserve.

Notes to the Group Accounts

at 30 September 2008

29. 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 24 to 33.

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 £2 million (2007 — £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, 2007 and 2008.

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:

	2008	2007
Outstanding at beginning of year	**115,172**	84,670
Granted	**51,511**	46,532
Vested	**(3,110)**	(11,888)
Forfeited/expired	**(11,202)**	(4,142)
Outstanding at end of year	**152,371**	115,172
Weighted average remaining contractual life	**1.1 years**	1.6 years

Employee Share Option Scheme

The ESOS 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 three years if an employee remains in service and if EPS growth targets are met. For options granted during the years ended 30 September 2006, 2007 and 2008 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 seven 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:

	2008		2007	
	Number of share options	**Weighted average exercise price £**	Number of share options	Weighted average exercise price £
Outstanding at beginning of year	5,078,832	4.01	6,632,268	3.22
Granted	1,039,800	5.07	896,110	6.18
Exercised	(539,228)	2.78	(2,198,166)	2.47
Forfeited/expired	(362,099)	5.05	(251,380)	4.54
Outstanding at end of year‡	5,217,305	4.27	5,078,832	4.01
Weighted average remaining contractual life		6.3 years		6.5 years

‡ Included in this balance are 100,343 options (2007 — 228,231) 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.

29. Share-based payments (continued)

Options outstanding at 30 September 2008 comprise the following:

Exercise date	Number of share options	Exercise price £
Exercisable:		
11/12/04–11/12/11	100,343	1.29
16/12/05–16/12/12	212,772	1.40
08/12/06–08/12/13	237,617	2.45
07/12/07–07/12/14	1,097,556	3.51
18/05/08–18/05/15	499,926	3.79
	2,148,214	
Not yet exercisable:		
06/12/08–06/12/15	1,354,097	4.45
04/12/09–04/12/16	746,956	6.18
03/12/10–03/12/17	968,038	5.07
	3,069,091	
	5,217,305	

The weighted average fair value of options granted during the year under the ESOS was £0.91 (2007 — £0.96).

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:

	2008		2007	
	Number of share options	**Weighted average exercise price £**	Number of share options	Weighted average exercise price £
Outstanding at beginning of year	**1,320,378**	**2.23**	1,555,734	1.83
Granted	**145,615**	**4.25**	142,838	4.67
Exercised	**(463,908)**	**1.18**	(274,561)	1.07
Forfeited/expired	**(171,791)**	**3.65**	(103,633)	2.62
Outstanding at end of year‡	**830,294**	**2.89**	1,320,378	2.23
Weighted average remaining contractual life		**2.5 years**		2.7 years

‡ Included in this balance are 28,776 options (2007 — 43,078) 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'.

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29. Share-based payments (continued)

Options outstanding at 30 September 2008 comprise the following:

Exercise date	Number of share options	Exercise price £
Exercisable:		
01/02/07–01/08/09	28,776	1.05
	28,776	
Not yet exercisable:		
01/02/08–01/08/10	53,852	1.16
01/02/09–01/08/11	226,200	1.86
01/02/10–01/08/12	170,216	2.73
01/02/11–01/08/13	155,602	3.54
01/02/12–01/08/14	88,594	4.67
01/02/13–01/08/15	107,054	4.25
	801,518	
	830,294	

The weighted average fair value of options granted during the year under the SAYE scheme was £1.32 (2007 — £1.73).

STIP and LTIP

Executive directors are eligible to participate in an 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 24 to 33.

Other members of the executive management team are also eligble to participate in an 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.

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

	2008		2007	
	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	**2,155,232**	**365,187**	2,897,114	266,408
Granted†	**488,938**	**380,432**	414,916	221,901
Exercised	**(816,501)**	—	(1,156,798)	(123,122)
Forfeited/not achieved	**(79,584)**	—	—	—
Outstanding at end of year	**1,748,085**	**745,619**	2,155,232	365,187
Weighted average remaining contractual life	**2.6 years**	**2.5 years**	4.0 years	2.9 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 2008 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 maximum number of STIP shares granted during the year is therefore estimated using the closing share price on 30 September 2008. The number of shares granted in 2007 has been amended to show the actual number granted in 2007.

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29. Share-based payments (continued)

The weighted average fair value of shares granted during the year under the STIP was £5.30 (2007 — £5.25 restated for actual number of shares granted in 2007) and under the LTIP was £2.86 (2007 — £5.08).

The weighted average share price on exercise of shares and share options under all schemes during the year was £4.53 (2007 — £6.53).

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:

	ESOS		SAYE	
Weighted average:	**2008**	2007	**2008**	2007
Share price (£)	**5.07**	6.18	**4.84**	5.84
Exercise price (£)	**5.07**	6.18	**4.25**	4.67
Dividend yield	**2.4%**	2.9%	**2.4%**	2.9%
Expected volatility	**23%**	20%	**24%**	21%
Risk-free interest rate	**4.46%**	4.76%	**4.29%**	5.17%
Expected life of option (years)	**3.3**	3.3	**5 or 7**	5 or 7

	STIP		LTIP	
Weighted average:	**2008**	2007†	**2008**	2007
Share price (£)	**5.76**	5.76	**4.90**	6.77
Exercise price (£)	**—**	—	**—**	—
Dividend yield	**2.4%**	2.9%	**2.4%**	2.9%
Expected volatility	**22%**	20%	**23%**	20%
Risk-free interest rate	**4.69%**	4.82%	**4.4%**	4.9%
Expected life of option (years)	**2–4 years§**	2–4 years§	**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 have 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.

† 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 maximum number of STIP shares granted during the year is therefore estimated using the closing share price on 30 September 2008. The 2007 weighted averages have been amended to reflect the actual number of shares granted in 2007.

§ Two STIP schemes are in place. One vests equally after two and three years and the other vests after four years.

‡ The LTIP vests in three equal tranches after three, four and five years.

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30. 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	Profit and loss account £m	Total £m
At 1 October 2006	16	486	845	9	77	(227)	(42)	–	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
Total recognised income and expense for the year	–	–	102	–	–	–	–	(4)	181	279
Transfer of realised revaluation surplus	–	–	(3)	–	–	–	–	–	3	–
Equity dividends paid (note 13)	–	–	–	–	–	–	–	–	(81)	(81)
Cancellation of ordinary shares	–	–	–	–	–	–	–	–	(29)	(29)
Change in provision for share buy-backs	–	–	–	–	–	–	–	–	21	21
Employee share option entitlements exercised in the year	–	–	–	–	–	–	2	–	–	2
Directors' share option entitlements exercised in the year	–	–	–	–	–	–	1	–	–	1
Share-based expense recognised in operating profit	–	–	–	–	–	–	–	–	2	2
At 30 September 2008	**14**	**486**	**1,195**	**11**	**77**	**(227)**	**(28)**	**–**	**150**	**1,678**

30. 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 of 5 pence per share.

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, 2006/07 and 2007/08.

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 29).

31. Additional cash flow information

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

	2008 £m	2007 £m
Increase/(decrease) in cash in the year	8	(21)
Cash outflow/(inflow) from change in debt	4	(529)
Issue costs of new long-term loans	1	—
Change in net debt resulting from cash flows	13	(550)
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	(6)	26
Change in provision for share buy-backs	21	53
Change in finance lease payables	—	1
Movement in net debt in the year	31	(467)
Net debt at start of year	(3,798)	(3,331)
Net debt at end of year	**(3,767)**	(3,798)

Notes to the Group Accounts

at 30 September 2008

31. Additional cash flow information (continued)

b) Analysis of net debt

	2008 £m	Restated* 2007 £m
Corporate bonds	**(1,185)**	(1,185)
Syndicated and other bank borrowings	**(1,031)**	(1,035)
Securitised bonds	**(1,586)**	(1,586)
Gross debt	**(3,802)**	(3,806)
Cash	**98**	90
Underlying net debt (note 22)	**(3,704)**	(3,716)
Capitalised debt issue costs	**17**	18
Fair value adjustments on acquisition of bonds	**(57)**	(62)
Fair value of interest rate swaps	**(19)**	(13)
Provision for share buy-backs in close period	**—**	(21)
Finance lease payables	**(4)**	(4)
Net debt (note 22)	**(3,767)**	(3,798)
Balance sheet:		
Current financial assets	**1**	4
Non-current financial assets	**2**	4
Current financial liabilities	**(36)**	(59)
Non-current financial liabilities	**(3,832)**	(3,837)
Cash	**98**	90
Net debt	**(3,767)**	(3,798)

* See note 1.

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

32. Related party transactions

Compensation of key management personnel

	2008 £m	2007 £m
Short-term employee benefits	**1,858**	2,320
Post-employment benefits	**333**	310
Share-based payment	**793**	1,828
	2,984	4,458

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

Short-term employee benefits comprise 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. 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 24 to 33.

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
Indirectly held by Enterprise Inns plc:				
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%	Borrower of secured bank facility

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 2008 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 32. 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 2008 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 2006 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), Directors and Advisers, the Corporate Governance Statement, 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 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 2008 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

17 November 2008

Five Year Record

Year ended 30 September

	2008 IFRS £m	2007 IFRS £m	2006 IFRS £m	2005 IFRS £m	2005 UK GAAP £m	2004 UK GAAP £m
Revenue	**880**	921	970	952	920	713
Operating Profit	**502**	521	537	518	520	369
Profit before tax and exceptionals	**263**	301	315	290	306	231
Profit after tax	**189**	291	325	209	212	148
Adjusted earnings per share (pence)*	**39.2**	39.6	34.2	29.2	31.6	23.8

* 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

	2008 IFRS £m	2007 IFRS £m	2006 IFRS £m	2005 IFRS £m	2005 UK GAAP £m	2004 UK GAAP £m
Non-current assets	**6,296**	6,152	5,787	5,601	5,293	5,012
Current assets†	**198**	204	222	220	184	237
Current liabilities*	**(286)**	(318)	(391)	(386)	(331)	(309)
Non-current liabilities*	**(4,530)**	(4,555)	(4,016)	(3,862)	(3,405)	(3,586)
Net assets	**1,678**	1,483	1,602	1,573	1,741	1,354

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

* The 2007 balance sheet has been adjusted in respect of the presentation of interest rate swap fair values. An amendment to IAS 1 requires financial liabilities not held for trading to be presented as current or non-current on the basis of settlement date. Previously, all interest rate swaps that were not hedge accounted for were presented as current.

Enterprise Inns plc
Company Accounts 2007/08

Statement of Recognised Income and Expense

for the year ended 30 September 2008

	2008 £m	2007 £m
Unrealised surplus on revaluation of licensed estate	**52**	160
Movement in deferred tax liability related to revaluation of pub estate	**5**	(37)
Write-down of assets held for sale	**(3)**	—
Tax related to share schemes recognised directly in equity	**(5)**	3
(Losses)/gains on cash flow hedges	**(5)**	6
Deferred tax relating to movements on cash flow hedges	**1**	(2)
Actuarial (loss)/gain on defined benefit pension scheme	**(4)**	2
Deferred tax relating to movement on defined benefit pension scheme	**1**	(1)
Re-statement of deferred tax for change in UK tax rate	**—**	17
Net income recognised directly in equity	**42**	148
Profit for the year*	**173**	386
Total recognised income and expense for the year attributable to members of the Parent Company	**215**	534

* 2007 profit for the year included a £136 million dividend payment by a subsidiary of the Parent Company in respect of a capital reorganisation.

Balance Sheet

at 30 September 2008

	Notes	2008 £m	Restated* 2007 £m
Non-current assets			
Investments	2	**2,345**	2,350
Intangible assets: operating lease premiums	3	**7**	7
Property, plant and equipment	4	**3,161**	3,061
Pension scheme	14	**—**	2
Financial assets	9	**109**	91
		5,622	5,511
Current assets			
Assets held for sale	5	**7**	6
Trade and other receivables	6	**208**	287
Cash		**14**	6
Financial assets	9	**1**	4
		230	303
Non-current assets held for sale	7	**3**	7
Total assets		**5,855**	5,821
Current liabilities			
Trade and other payables	8	**(831)**	(887)
Current tax payable		**(24)**	(42)
Financial liabilities	9	**(3)**	(67)
		(858)	(996)
Non-current liabilities			
Financial liabilities	9	**(2,240)**	(2,210)
Accruals and deferred income		**(4)**	(4)
Provisions	12	**(3)**	(3)
Deferred tax	13	**(344)**	(334)
Pension scheme	14	**(1)**	—
		(2,592)	(2,551)
Total liabilities		**(3,450)**	(3,547)
Net assets		**2,405**	2,274
Equity			
Called up share capital	15	**14**	14
Share premium account	16	**486**	486
Revaluation reserve	16	**762**	710
Capital redemption reserve	16	**11**	11
Treasury share reserve	16	**(227)**	(227)
Other reserve	16	**356**	358
Cash flow hedge reserve	16	**—**	4
Profit and loss account	16	**1,003**	918
Enterprise Inns shareholders' equity	16	**2,405**	2,274

* See note 1.

Approved by the Board on 17 November 2008 and signed on its behalf by:

G E Tuppen
D C George

Cash Flow Statement

for the year ended 30 September 2008

	2008 £m	2007 £m
Cash flow from operating activities		
Operating profit	**296**	306
Depreciation and amortisation	**6**	4
Share-based expense recognised in profit	**2**	3
Decrease/(increase) in receivables	**70**	(40)
(Decrease)/increase in payables	**(20)**	35
(Increase)/decrease in current assets held for sale	**(1)**	(1)
	353	307
Tax paid	**(45)**	(38)
Net cash flows from operating activities	**308**	269
Cash flows from investing activities		
Payments to acquire public houses	**(48)**	(78)
Payments made on improvements to public houses	**(41)**	(44)
Payments to acquire other property, plant and equipment	**(2)**	(7)
Receipts from sale of property, plant and equipment	**19**	43
Dividend from trading investment	**74**	213
Receipts from sale of investments	**—**	2
Net cash flows from investing activities	**2**	129
Cash flows from financing activities		
Interest paid	**(146)**	(126)
Interest received	**1**	1
Equity dividends paid	**(81)**	(79)
Payments to acquire own shares	**(33)**	(667)
Receipts from exercise of share options	**2**	5
Repayment of intercompany loans	**—**	(136)
Debt due in less than one year — new short-term loans	**202**	75
Debt due in less than one year — repayment of short-term loans	**(237)**	(40)
Debt due beyond one year — new long-term loans	**—**	685
Debt due beyond one year — repayment of long-term loans	**—**	(110)
Net cash flows from financing activities	**(292)**	(392)
Net increase in cash	**18**	6
Cash at 1 October	**(4)**	(10)
Cash at 30 September	**14**	(4)

Notes to the Company Accounts

at 30 September 2008

1. Accounting Policies

The financial statements of Enterprise Inns plc for the year ended 30 September 2008 were authorised for issue by the Board on 17 November 2008. 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 .

The Company has taken advantage of the provisions of the exemption provided under section 408 of the Companies Act 2006 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.

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 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 taken as an expense to the Income Statement.

Notes to the Company Accounts

at 30 September 2008

1. Accounting Policies (continued)

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 intangible assets held for sale are not amortised.

Investments

Fixed asset investments are initally 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 comprise 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, debentures and secured bonds are 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.

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.

Notes to the Company Accounts

at 30 September 2008

1. Accounting Policies (continued)

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 Called up 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 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.

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.

Notes to the Company Accounts

at 30 September 2008

1. Accounting Policies (continued)

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 licensees. 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 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

During the year the Company has adopted the capital disclosure requirements of IAS 1 'Presentation of Financial Statements'.

A number of 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 result in some changes to the presentation of the financial statements. The effective dates below represent the latest date that the Company will be required to implement the standard:

- Amendment to IAS 23 — Borrowing Costs — effective from 1 January 2009.
- 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.
- Amendment to IAS 1 — Presentation of Financial Statements — effective 1 October 2009.
- Amendment to IAS 27 — Consolidated and Separate Financial Statements — effective 1 October 2009.
- Amendment to IFRS 3 — Business Combinations — effective 1 July 2009.
- Amendment to IFRS 2 — Vesting Conditions and Cancellations — effective 1 September 2009.
- Amendment to IAS 39 — Eligible Hedged Items — effective 1 July 2009.

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 2008

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 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 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: Presentation' a financial liability has been recognised when the Company enters into a contingent agreement with a third party which require the Company to purchase shares during the close period. No contingent agreement had been entered into by the Company at 30 September 2008.

Presentation of interest rate swaps

The 2007 balance sheet has been adjusted in respect of the presentation of interest rate swap fair values. An amendment to IAS 1 requires financial liabilities not held for trading to be presented as current or non-current on the basis of settlement date. Previously, all interest rate swaps that were not designated as part of an effective hedging relationship were presented as current liabilities. This has resulted in a reduction in current liabilities of £11 million with a corresponding increase in non-current liabilities.

Notes to the Company Accounts

at 30 September 2008

2. Investments

	Subsidiary undertakings £m	Other Investment £m	Total £m
Cost or valuation			
At 1 October 2006	2,382	2	2,384
Disposals	—	(2)	(2)
Realisation of investment through dividends received	(9)	—	(9)
At 1 October 2007	2,373	—	2,373
Realisation of investment through dividends received	(5)	—	(5)
At 30 September 2008	2,368	—	2,368
Provision			
At 1 October 2006, 1 October 2007 and 30 September 2008	(23)	—	(23)
Net book value			
At 30 September 2008	**2,345**	**—**	**2,345**
At 30 September 2007	2,350	—	2,350

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
Indirectly held by Enterprise Inns plc:				
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%	Borrower of secured bank facility

Notes to the Company Accounts

at 30 September 2008

3. Intangible assets: operating lease premiums

	2008 £m	2007 £m
Cost		
At 1 October	**9**	10
Transfer to non-current assets held for sale	—	(1)
At 30 September	**9**	9
Amortisation		
At 1 October	**2**	2
At 30 September	**2**	2
Net book value		
At 30 September	**7**	7
At 1 October	**7**	8

Lease premiums are amortised on a straight-line basis over the remaining life of the lease. The remaining operating lease terms vary from 1 to 103 years.

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 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 1 October 2007	2,913	136	28	3,077
Additions	65	24	2	91
Revaluation	30	—	—	30
Write-down to fair value less costs to sell	(6)	—	(1)	(7)
Net transfers to non-current assets held for sale	(9)	(1)	—	(10)
At 30 September 2008	**2,993**	**159**	**29**	**3,181**
Depreciation				
At 1 October 2006	2	6	4	12
Charge for the year	—	2	2	4
At 1 October 2007	2	8	6	16
Charge for the year	1	3	1	5
Write-off	—	—	(1)	(1)
At 30 September 2008	**3**	**11**	**6**	**20**
Net book value				
At 30 September 2008	**2,990**	**148**	**23**	**3,161**
At 30 September 2007	2,911	128	22	3,061

Notes to the Company Accounts

at 30 September 2008

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 2008 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 with consideration given to market transactions within the UK pub sector.

The pubs used as security for the secured bonds and debenture in the Company have been valued by Humberts Leisure Limited. The balance of the estate held in the Company has been valued by the Head of Estates. The results of this internal valuation have been compared to those 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 fair value less costs to sell. This value is based on the net estimated 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 2008	
Cost	1,996
Accumulated depreciation	(35)
Net book value	1,961
At 30 September 2007	
Cost	1,962
Accumulated depreciation	(34)
Net book value	1,928

The carrying value of property held under finance leases at 30 September 2008 was £123 million (2007 — £113 million). Additions during the year include £2 million of property held under finance leases (2007 — £4 million).

At 30 September 2008, the Company had entered into contractual commitments to purchase £7 million (2007 — £20 million) of property, plant and equipment.

Notes to the Company Accounts

at 30 September 2008

5. Current assets held for sale

Fixtures and fittings purchased from tenants	2008 £m	2007 £m
Cost		
At 1 October	8	7
Additions	8	7
Disposals	(7)	(6)
At 30 September	9	8
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	7	6

6. Trade and other receivables

	2008 £m	2007 £m
Trade receivables	50	60
Amounts owed by subsidiary undertakings	149	212
Prepayments and accrued income	5	10
Other receivables	4	5
	208	287

The ageing of trade receivables at 30 September 2008 was as follows:	£m
Current	45
Up to 30 days overdue	2
31–60 days overdue	1
61–90 days overdue	1
More than 90 days overdue	1
	50

7. Non-current assets held for sale

	2008 £m	2007 £m
At 1 October	7	7
Net transfer from property, plant and equipment (note 4)	10	35
Net transfer from intangible assets: operating lease premiums (note 3)	—	1
Disposals	(14)	(36)
At 30 September	3	7
Representing:		
Property, plant and equipment	3	7
	3	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 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 £nil (2007 — £1 million) in relation to these pubs is held within the revaluation reserve representing revaluation surpluses.

Notes to the Company Accounts
at 30 September 2008

8. Trade and other payables

	2008 £m	2007 £m
Trade payables	**70**	17
Amount due to subsidiary undertakings	**654**	721
Accruals and deferred income	**48**	117
Other payables	**59**	32
	831	887

9. Financial assets and liabilities

Financial assets	2008 £m	2007 £m
Current		
Interest rate swap	**1**	4
Non-current		
Interest rate swap	**2**	4
Amounts owed by subsidiary undertakings	**107**	87
	109	91
Total financial assets	**110**	95

Financial liabilities	2008 £m	Restated* 2007 £m
Current		
Overdraft	—	10
Unsecured bank facility	—	35
Interest rate swaps	**3**	1
Provision for close period share buy-backs	—	21
	3	67
Non-current		
Syndicated bank borrowings	**998**	997
Corporate bonds	**1,181**	1,181
Amounts owed to subsidiary undertakings	**49**	19
Interest rate swaps	**10**	11
Finance lease payables	**2**	2
	2,240	2,210
Total financial liabilities	**2,243**	2,277
Total financial assets and liabilities	**2,133**	2,182

* See note 1.

Notes to the Company Accounts

at 30 September 2008

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:

	Interest rate	2008 Nominal value £m	2008 Book value £m	2008 Fair value £m	2007 Nominal value £m	2007 Book value £m	2007 Fair value £m
Overdraft	6.75%	—	—	—	10	10	10
Syndicated bank borrowings	LIBOR + 0.8%	1,000	998	1,000	1,000	997	1,000
Unsecured bank facility	LIBOR + 0.9%	—	—	—	35	35	35
Corporate bonds:							
Debenture — issued 3 February 1999	6%	60	59	54	60	59	60
Secured bond — issued 9 May 2000	6.875%	125	124	124	125	124	136
Secured bond — issued 15 February 2001	6.875%	125	124	125	125	124	134
Secured bond — issued 26 February 2002	6.375%	275	272	191	275	272	291
Secured bond — issued 3 March 2003	6.5%	600	602	467	600	602	614
		1,185	1,181	961	1,185	1,181	1,235
Interest rate swaps:							
£275m swap expiring 1 June 2012	6.662%	—	13	13	—	12	12
£350m swap expiring 30 September 2011	4.887%	—	(3)	(3)	—	(8)	(8)
		—	10	10	—	4	4
		2,185	2,189	1,971	2,230	2,227	2,284
Provision for close period share buy-back contracts		—	—	—	—	21	21
Finance lease payables (note 11)		—	2	2	—	2	2
Intercompany:							
Amounts owed by subsidiary undertakings		—	(107)	(107)	—	(87)	(87)
Amounts owed to subsidiary undertakings		—	49	49	—	19	19
Total debt		2,185	2,133	1,915	2,230	2,182	2,239
Cash		(14)	(14)		(6)	(6)	
Underlying net debt/net debt		2,171	2,119		2,224	2,176	

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 2008

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 with 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 the floating rate debt.

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

	2008 £m	2007 £m
At 1 October	4	20
Fair value movements:		
— ineffective portion and swaps not designated as effective hedges recognised in Income Statement	1	(10)
— effective portion recognised in Cash Flow Hedge Reserve	5	(6)
At 30 September	10	4

Financial instruments and risk

The Company's financial instruments, other than derivatives, comprise 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.

In the year to 30 September 2008 the Company repaid and cancelled £35 million of a £100 million uncommitted, unsecured bank facility with the Royal Bank of Scotland plc.

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's debt portfolio including maturities and repayment profile
- Maintenance of undrawn overdraft and bank facilities
- Management of share buy-back programme

Notes to the Company Accounts

at 30 September 2008

9. Financial assets and liabilities (continued)

At 30 September 2008, the nominal value of the Company's borrowings (excluding interest rate swaps, liability for share buy-back contracts and finance lease payables) comprised:

	2008	2007*
Syndicated and other bank borrowings	46%	47%
Corporate bonds	54%	53%

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

	2008 Debt £m	2008 Interest £m	2008 Total £m	2007 Debt £m	2007 Interest £m	2007 Total £m
In more than five years	1,181	683	1,864	1,181	756	1,937
In more than two years but not more than five years	1,004	94	1,098	1,002	125	1,127
In more than one year but not more than two years	3	104	107	2	108	110
In one year or less or on demand	3	104	107	42	108	150
	2,191	985	3,176	2,227	1,097	3,324

The table above shows the contractual, undiscounted cash flows due in future periods to settle the Company's debt and interest payments, including interest rate swaps. 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 differs from the total book value of Company debt. 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 11.

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

Syndicated and other bank borrowings	2011
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

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

Expiring:	2008 £m	2007 £m
In more than five years	–	–
In more than two years but not more than five years	–	–
In more than one year but not more than two years	–	–
In one year or less or on demand	–	65
	–	65

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

Notes to the Company Accounts

at 30 September 2008

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 by borrowing at fixed rates and using interest rate swaps acquired by Group companies. At 30 September 2008, the Company's borrowings were 83% fixed (after including the impact of interest rate swaps) with an average interest rate of 6.5% for nine years (2007 — 82% fixed at an average rate of 6.5% for ten 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	21	(147)	(1)
Effect if interest rates increased by 50 basis points (0.5%)	23	(149)	4
Difference	2	(2)	5
As reported in Income Statement	21	(147)	(1)
Effect if interest rates decreased by 50 basis points (0.5%)	19	(145)	(7)
Difference	(2)	2	(6)

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 is net of a bad debt provision which has been determined 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 2008 the value of collateral is £25 million (2007 — £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 owed by licensees.

	2008 £m	2007 £m
Provision as at 1 October	**1**	3
Increase in provision during the year	**2**	2
Provision utilised during the year	**—**	(1)
Provision released during the year	**(1)**	(3)
Provision as at 30 September	**2**	1

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 2008 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 2008

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 2008 is: Property, Plant and Equipment £3,138 million (2007 — £3,039 million), operating lease premiums £7 million (2007 — £7 million) and pubs held for sale £3 million (2007 — £7 million).

10. Capital disclosures and analysis of changes in net debt

The Company defines capital as total equity. The capital structure is managed to support the Company's objective of maximising long-term shareholder value through ready access to debt and capital markets, cost-effective borrowing and flexibility to fund buisness and acquisition opportunities whilst maintaining appropriate leverage to optimise the cost of capital.

The capital structure of the Company is based upon management's judgement of the appropriate balancing of all key elements of its financial strategy in order to meet the Company's operational and strategic requirements. The overall financing strategy of the Company is presented to the Board annually for approval.

The Company monitors capital on the basis of a net debt ratio, being net debt divided by net debt plus equity. Net debt is defined as the book value of the Company's debt less cash and cash equivalents (note 9). Equity is defined as total shareholders' funds.

	2008 £m	2007 £m
Total debt	2,133	2,182
Cash	(14)	(6)
Net debt	2,119	2,176
Equity	2,405	2,274
Net debt ratio	47%	49%

Notes to the Company Accounts

at 30 September 2008

11. 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

	2008 £m	2007 £m
Future minimum lease payments due under finance leases:		
after one year but not more than five years	1	1
in more than five years	12	12
	13	13
Future finance lease interest	(11)	(11)
Present value of future minimum lease payments	2	2

The present value of future minimum lease payments is due in more than five years (2007 — 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 £35 million (2007 — £39 million).

Operating leases

	2008 £m	2007 £m
Operating lease rentals recognised as an expense in the year	2	2

	2008 £m	2007 £m
Future minimum lease payments due under operating leases:		
within one year	2	2
after one year but not more than five years	8	8
in more than five years	28	30
	38	40

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 £11 million (2007 — £13 million).

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 six months and 30 years and are classified for accounting purposes as operating leases. Most of the leases with terms of over three years include provision for rent reviews on either a three or five year basis.

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

	2008 £m	2007 £m
Future minimum lease rentals receivable under operating leases:		
within one year	112	126
after one year but not more than five years	367	430
in more than five years*	498	556
	977	1,112

* Leases with future minimum lease rentals receivable under operating leases in more than five years have an average term of 11.9 years remaining on their agreements.

Notes to the Company Accounts

at 30 September 2008

12. Provisions

	2008 £m	2007 £m
At 1 October:		
Non-current	**3**	3
	3	3
Movement during the year:		
Utilisation	**—**	(1)
Transfer from Group company	**—**	1
	—	—
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 63 years.

13. Deferred tax

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

	2008 £m	2007 £m
Unrealised surplus on revaluation of property	**202**	210
Rolled over gains	**64**	63
Accelerated capital allowances	**80**	65
Fair value of interest rate swaps	**(3)**	(1)
Share-based payments	**(1)**	(6)
Pension scheme	**—**	1
Other temporary differences	**2**	2
	344	334

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 Company.

14. Pension

Please see note 27 of the Group financial statements for details of the pension liability.

Notes to the Company Accounts

at 30 September 2008

15. Share capital

Authorised:	2008 No.	2008 £m	2007 No.	2007 £m
Ordinary shares of 2.5p each	**1,000,000,000**	**25**	1,000,000,000	25

Allotted, called up and fully paid:	2008 No.	2008 £m	2007 No.	2007 £m
Ordinary shares of 2.5p each				
At 1 October	**561,467,054**	**14**	664,329,150	16
Cancelled	**(5,489,619)**	**—**	(102,862,096)	(2)
At 30 September	**555,977,435**	**14**	561,467,054	14

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 2008, the Company owned 50 million (2007 — 50 million) of its own shares as treasury shares with a nominal value of £1 million (2007 — £1 million) and a market value of £89 million (2007 — £293 million).

In addition, at 30 September 2008 the Company held 8,768,087 shares with a nominal value of £0.2 million and a market value of £16 million (2007: 10,027,700 shares, nominal value £0.3 million, market value £59 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 29 of Group financial statements).

During the year the Company made on market purchases totalling 5 million (2007 — 103 million) of its own ordinary shares for an aggregate consideration of £29 million (2007 — £658 million) (excluding costs). These shares were cancelled. Transaction costs of £0.2 million (2007 — £3 million) have been accounted for directly in equity in the profit and loss reserve.

Notes to the Company Accounts

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16. Statement of changes in equity

	Share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Treasury share reserve £m	Other reserve £m	Cash flow hedge reserve £m	Profit and loss account £m	Total £m
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 19)	—	—	—	—	—	—	—	(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)	358	4	918	2,274
Total recognised income and expense for the year	—	—	54	—	—	—	(4)	165	215
Transfer of realised revaluation surplus	—	—	(2)	—	—	—	—	2	—
Realisation of investment through dividends received	—	—	—	—	—	(5)	—	5	—
Equity dividends paid (note 19)	—	—	—	—	—	—	—	(81)	(81)
Cancellation of ordinary shares	—	—	—	—	—	—	—	(29)	(29)
Change in provision for share buy-backs	—	—	—	—	—	—	—	21	21
Employee share option entitlements exercised in the year	—	—	—	—	—	2	—	—	2
Directors' share option entitlements exercised in the year	—	—	—	—	—	1	—	—	1
Share-based expense recognised in operating profit	—	—	—	—	—	—	—	2	2
At 30 September 2008	**14**	**486**	**762**	**11**	**(227)**	**356**	**—**	**1,003**	**2,405**

Notes to the Company Accounts

at 30 September 2008

16. 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, 2006/07 and 2007/08.

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 re-issued.

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 20).

The reserve also includes the increase in value of subsidiaries acquired at fair value under IAS 27.

17. 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 £173 million (2007 — £386 million).

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

	2008 £'000	2007 £'000
Company audit fees	**164**	159
Tax fees	**645**	295
All other services	**45**	37
	854	491

Tax fees includes fees incurred in respect of advice on REITs of £566,000 (2007 — £180,000).

Notes to the Company Accounts

at 30 September 2008

18. Staff costs

	2008 £m	2007 £m
Wages and salaries	**21**	22
Social security costs	**1**	3
Other pension costs	**2**	2
	24	27

Included in wages and salaries is a total expense relating to share-based payments of £2 million (2007 — £3 million). All of this expense arises from transactions accounted for as equity-settled share-based payments (see note 29 of the Group financial statements).

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

The average monthly number of employees comprised:

	2008 No.	2007 No.
Operations staff	**215**	220
Administration staff	**300**	290
	515	510

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

	2008 £'000	2007 £'000
Directors emoluments*	**1,858**	2,320
Share-based payments†	**793**	1,828
Aggregate gains made on exercise of share options	**696**	4,400

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

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

19. Dividends paid and proposed

Paid during the year	2008 £m	2007 £m
Equity dividends on ordinary shares:		
Final dividend relating to prior year 10.4 pence (2007 — 9 pence)	**52**	52
Interim dividend for current year 5.8 pence (2007 — 5.2 pence)	**29**	27
	81	79
Proposed for approval by shareholders at the AGM		
Final dividend for current year 10.4 pence (2007 — 10.4 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.

Notes to the Company Accounts

at 30 September 2008

20. 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 Directors' Remuneration Report on pages 24 to 33.

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 29 of the Group financial statements section for more details of share-based payments.

21. Related parties

Compensation of key management personnel

	2008 £m	2007 £m
Short-term employee benefits	**1,858**	2,320
Post-employment benefits	**333**	310
Share-based payment	**793**	1,828
	2,984	4,458

Key management personnel comprise 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 24 to 33.

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 £20 million (2007 – £16 million). Interest payable on these loans was £2 million (2007 — £nil).

The following loans were outstanding at the year end:

	2008 £m	2007 £m
Loans due from subsidiary undertakings	**107**	87
Loans due to subsidiary undertakings	**(49)**	(19)
	58	68

The Company entered into other trading transactions with its subsidiary undertakings of £88 million (2007 — £102 million).

The following balances were outstanding at the year end:

	2008 £m	2007 £m
Amounts due from subsidiary undertakings	**149**	212
Amounts due to subsidiary undertakings	**(655)**	(721)
	(506)	(509)

Statement of Directors' Responsibilities in Relation to the Company Financial Statements

The directors are responsible for preparing the Annual Report and the Company 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 2008 which comprise the Statement of Recognised Income and Expenses, 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 2008.

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), 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.

Independent Auditors' Report to the Members of Enterprise Inns plc

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 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 2008;
- 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

17 November 2008

Analysis of Ordinary Shareholders

at 30 September 2008

Range	Number of shareholders	%	Shares held	%
1–1,000	775	31.1	385,321	0.1
1,001–10,000	1,028	41.3	3,709,409	0.7
10,001–50,000	318	12.8	7,136,335	1.3
50,001–100,000	92	3.7	6,688,894	1.2
100,001–150,000	35	1.4	4,372,656	0.8
150,001–500,000	123	4.9	32,487,964	5.8
500,001–1,000,000	50	2.0	37,654,673	6.8
1,000,001–5,000,000	47	1.9	100,529,967	18.1
5,000,001 and over	23	0.9	363,012,216	65.2
	2,491	100.0	555,977,435	100.0

The total numbers of shares held above includes 50,000,000 shares held in treasury and 8,768,087 shares held in Employee Benefit Trusts.

Financial Calendar

	2008
Preliminary announcement of annual results to 30 September 2008	18 November
Final dividend — ordinary shares: ex dividend date	31 December

	2009
Final dividend — ordinary shares: record date	5 January
Annual General Meeting	22 January
Final dividend — ordinary shares: payment date	26 January
Announcement of interim results	12 May
Interim dividend — ordinary shares: ex dividend date	3 June
Interim dividend — ordinary shares: record date	5 June
Interim dividend — ordinary shares: payment date	3 July
Preliminary announcement of annual results to 30 September 2009	17 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 Registrars' website to check your shareholding and maintain your records. Details can be found at www-uk.computershare.com/investor

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 £1 to the Woodland Trust 'Tree for All' campaign, a national tree planting and education programme, working with schools and communities, which aims to plant 12 million trees over the next five years. For details and to register to receive future communications electronically, please visit www.etreeuk.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 telephone. Log onto www-uk.computershare.com/investor or call 0870 703 0084 between 8.00 a.m. and 4.30 p.m., 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 to request a dividend mandate form. You can also register your bank account online by selecting "Bank Instructions Update" at www-uk.computershare.com/investor

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 2009 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 22 January 2009 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 2008 and the auditors' report on the accounts.
2. To approve the directors' remuneration report for the year ended 30 September 2008.
3. To declare a final dividend of 10.4 pence per ordinary share of the Company for the year ended 30 September 2008, which shall be payable to shareholders who are on the register of members as at the close of business on 5 January 2009.
4. To reappoint Mr H V Reid as a director.
5. To reappoint Mr D O Maloney as a director.
6. 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.
7. To authorise the directors to determine Ernst & Young LLP's remuneration as auditors of the Company.
8. 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 £4,216,056.98. 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 2010, 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:

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

Notice of Annual General Meeting

exceeding in aggregate the sum of £694,971.78.

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 8 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.

10. 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 75,846,017;

(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 2010, 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.

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

On behalf of the Board

D C George

Company Secretary

4 December 2008

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 Registrar. 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, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY. 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, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY; or (b) a CREST Proxy Instruction (as set out in paragraph 6 below); or (c) an online proxy appointment at www.eproxyappointment.com (you will need to enter the Control Number, together with 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 20 January 2009.

4. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

5. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 to 3 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.

6. 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

Notice of Annual General Meeting

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)) 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.

7. 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 20 January 2009 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 20 January 2009 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.

8. 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).

9. Copies of the directors' service contracts or letters of appointment 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.

10. 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.

11. As at 9.00 a.m. on 2 December 2008, the Company's issued share capital comprised 555,977,435 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 2 December 2008 is 555,977,435.

12. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of appointment letter if the chairman is being appointed as described in (i) above.

Explanatory Notes to the Notice of Annual General Meeting

The notice of the Annual General Meeting of the Company to be held on Thursday, 22 January 2009 is set out on pages 110 to 113 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 8 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 2008. 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 9.

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 24. 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 5.8 pence (net) has already been paid in respect of the 2007/2008 financial year. The directors are recommending a final dividend of 10.4 pence (net) per ordinary share of 2½ pence, payable on 26 January 2009 to holders on the register as at 6.00 p.m. on 5 January 2009. The final dividend will not be paid without shareholder approval and its amount may not exceed the amount recommended by the directors.

Resolutions 4 and 5 — Reappointment of Mr H V Reid and Mr D O Maloney

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. Accordingly, Mr H V Reid is retiring and seeking reappointment. In addition, the Company's articles of association provide that Mr D O Maloney, having being appointed as a director since the last annual general meeting, must stand for reappointment. Biographical information for Mr H V Reid and Mr D O Maloney is shown on pages 7 and 8 of the annual report and accounts. Details of why the Board believes they should be reappointed are included in the directors' report in the annual report and accounts, starting at page 9.

Resolution 6 — Auditors' appointment

The Companies Act 2006 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 19. After considering relevant information, the Audit Committee recommended to the Board of directors that Ernst & Young LLP be reappointed.

Resolution 7 — 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 8 — 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 £4,216,056.98 (up to 168,642,279 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 2 December 2008, 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 2010.

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 2 December 2008, the latest practicable date prior to the publication of the notice, the Company had 555,977,435 ordinary shares of 2½ pence each in issue and held 50,000,000 treasury shares, which is equal to approximately 9.88% of the issued share capital of the Company (excluding treasury shares) as at that date.

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

Resolution 9 — 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 2 December 2008, the latest practicable date prior to the publication of the notice (up to 27,798,871 new ordinary shares of 2½ pence each). 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 8.

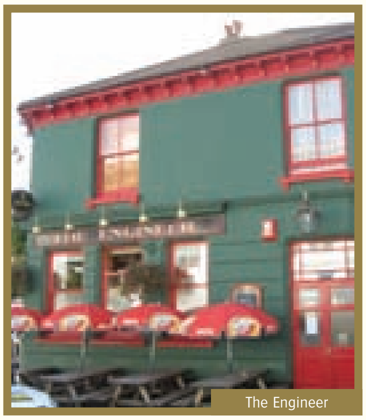
The directors consider this authority necessary in order to give them flexibility to deal with opportunities as they arise, subject to the restrictions contained in the resolution.

Resolution 10 — Purchase of own shares by the Company

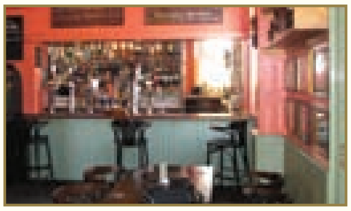
If passed this resolution will grant the Company authority for a period of up to 15 months after the date of passing of the resolution to buy its own shares in the market. The resolution limits the number of shares that may be purchased to 14.99% of the Company's issued share capital (excluding treasury shares) as at 2 December 2008, 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.

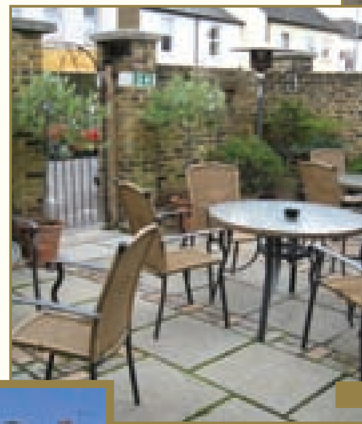
The directors' present intention is that shares purchased pursuant to this authority will be cancelled immediately on purchase. Alternatively, the shares may be held in treasury (provided any treasury shares held do not exceed 10% of the Company's issued share capital), sold for cash or (provided Listing 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 2 December 2008, the latest practicable date prior to the publication of the notice, options were outstanding over 7,883,813 ordinary shares of 2½ pence each in the Company, representing approximately 1.56% 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 1.83% of the Company's issued share capital (excluding treasury shares).



The Engineer



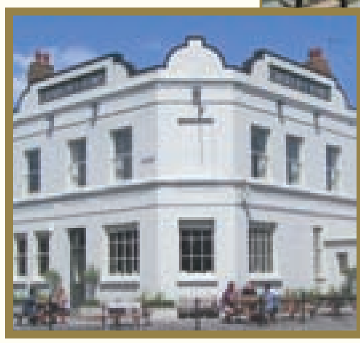


Canbury Arms

ENGINEER, BRIGHTON

Winner – Ladbrokes Racing Pub of the Year 2007

The role of pub and licensee at the heart of the local community couldn't be better exemplified than by Phil and Bev Reeves at the Engineer. As well as running a calendar of events to raise money for local charities, Phil and a group of his customers run a racing syndicate and now have a racehorse in training.



CANBURY ARMS, KINGSTON UPON THAMES

South London Business Awards 2007

Winner – Best New Business

Father and son duo Alan and Michael Pearson arrived at the Canbury Arms in March 2005 and have quickly established the Canbury Club as a service to the local community. Members enjoy club discounts, earning reward points and a variety of other benefits in return for their loyalty to the pub.

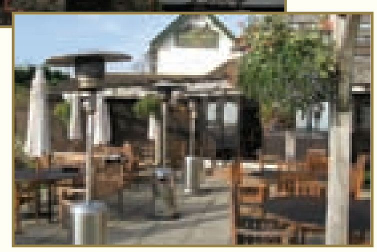
MARK CROSS INN, EAST SUSSEX

Morning Advertiser Great British Pub Awards 2008

Winner – Best Food Pub in the South East

Following a 12-week refurbishment, the Mark Cross is now a light, spacious, comfortable pub with an informal bar and several different dining areas. Every dish on the menu is prepared and cooked to order, using the freshest local ingredients.

Mark Cross Inn



The Fox Inn

THE FOX INN, BOGNOR REGIS

Morning Advertiser Great British Pub Awards 2008

Winner – Best UK Pub Garden; Winner – Best Pub in the South East

In the two years since Andy and Alison Hirons took over the Fox, they've created a fabulous outdoor space for all ages, incorporating landscaped areas, a large covered decked area with heating and lighting, a children's playground and a tasteful shelter for smokers, whilst the imaginative spacing of the tables in the garden ensures privacy for diners.

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