ENTERPRISE INNS

Annual Report and Accounts 2010

for the year ended 30 September 2010

We applaud the exceptional commitment, innovation and business skills of an unprecedented number of our award-winning licensees who, despite the challenging market, continue to be recognised for their achievements:

Horseshoe Inn

Horseshoe Inn, Shipston on Stour
CAMRA — **Shakespeare Pub of the Summer 2010**

Baggy, Sheelagh and Gabe Saunders won this accolade after a mere 18 months of trading at the Horseshoe. The Horseshoe is a quintessential early seventeenth-century half timbered market town tavern, offering cask ales, an excellent selection of wines and superb home cooked food.


Earl of March

Earl of March, Lavant
MA Top 50 Gastropub Awards 2010
Southern Media Group Business Awards 2010 —
Restaurant of the Year

In the two years since occupation, Giles Thompson (former Executive Chef at the Ritz) and his wife Ruth have transformed the Earl of March into a multi award-winning pub. The pub has also featured in a number of publications, including Jamie Oliver's magazine.


Golden Boar

Golden Boar, Freckenham
Velvet Magazine Fine Dining Awards 2010 — **Winner, Fine Dining Restaurant**

Vaggy Spyrou and his family have been licensees at the Golden Boar for three years. Head Chef Sergio Neal brought a wealth of experience to help this delightful sixteenth-century pub win its first award.

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Front cover pictures left to right

Green Dragon, Downend

Windmill, Peterborough

Woolpack, Sopley

Highlights

FINANCIAL HIGHLIGHTS

- EBITDA* before exceptional items £405 million (2009 — £450 million).
- Average net income per pub stable in second half, £63.9k for full year (2009 — £65.0k).
- Like-for-like net income in substantive estate (94% of total net income) 2% down (2009 — 3% down).
- £270 million proceeds from disposals, realising an exceptional profit of £52 million.
- Net debt reduced by £374 million.

STATUTORY RESULTS

- Profit before tax and exceptional items £175 million (2009 — £208 million).
- Profit after tax £26 million (2009 — £6 million).
- Adjusted earnings per share† 25.9p (2009 — 30.7p).

OPERATIONAL HIGHLIGHTS

- 89% of estate let on substantive agreements, up from 83% at 30 September 2009.
- Cessation of Temporary Management Agreement (TMA) programme.
- Continuing improvements in quality of estate and customer offering.
- New agreements provide additional flexibility to attract and retain the best licensees.

* Earnings before interest, tax, depreciation and amortisation.

† Excludes exceptional items.

Chief Executive's Review
(Incorporating the Business Review)

This has been another testing year for the pub sector with licensees once again having to meet the challenge of weak consumer demand, duty increases ahead of the rate of inflation and aggressive pricing from supermarkets.

Despite these difficult economic times, we have delivered EBITDA before exceptional items of £405 million, a solid result which reflects the gradual stabilisation of the business. Average net income per pub was stable during the second half of the year giving an overall decline of less than 2% for the year to 30 September 2010, compared to a decline of 8% last year.

At the year end, the percentage of our pub estate on substantive agreements had increased to 89% by number of pubs, representing 94% of total net income which, on a like-for-like basis in these pubs, had declined by 2% during the year.

Given the current degree of market uncertainty, the Board does not consider that the resumption of dividends now would be appropriate. However, subject to market conditions over the coming year, we expect to see further stabilisation in the performance of the pub estate and further reductions in the level of debt through strong cash generation from trading and the disposal of non-core pubs. On this basis, the Board is confident that the business is in a sound position to deliver positive returns to shareholders over the medium-term, including the resumption of dividend payments.

TRADING REVIEW

Improving net income trend

We consider that net income per pub is the correct measure by which to report on the performance of our pub estate, removing potential distortions created by changes to central overheads and to leasehold rent payable resulting from our sale and leaseback programme.

During the second half of the year, we achieved our target of arresting the decline in average net income per pub which was flat compared to a 3% decline in the first half of this year and an 8% decline for the corresponding period last year. We are now seeing a consistent improvement in average net income performance, a trend that we will seek to continue as we invest in the quality of our pub estate and our licensees and churn out underperformers.

Improving like-for-like performance across the whole estate

Our continuing commitment to disposing of non-core, underperforming outlets has clearly helped to deliver improved average net income per pub. Removing the impact of disposals and therefore on a like-for-like basis, average income per pub across the whole estate declined by 5% during the year (2009 — down 8%), with marked regional differences.

Location	No. of pubs at 30 Sept 2010	% of pubs	Income FY10 £m	% of income FY10	Inc/pub FY10 £k	Income FY09 £m	Inc/pub FY09 £k	Change %
North	2,276	33	147	32	65	159	70	(8)
Central	1,884	28	118	26	63	125	66	(6)
South	2,660	39	191	42	72	196	74	(3)
Total	6,820		456		67	480	70	(5)

Chief Executive's Review

(Incorporating the Business Review)

Like-for-like performance stabilising in the substantive estate

Like-for-like income in our substantive estate, which represented 94% of our total net income in the year, fell by just 2% and trends within the substantive estate were particularly encouraging. Some 2,500 licensees, who have been in their pubs for more than five years, delivered net income declines of 2% during the year. A similar number of licensees who have been in their pub for between one and five years saw net income grow by more than 2%. Together therefore this group of licensees, which represent 72% of our pubs by number, 80% by total income, delivered unchanged like-for-like income over the past year.

Of the remaining pubs within our substantive estate where licensees have been in occupation for less than one year, there are some 200 who have joined our business through assignment during the year and are growing income by 7% year on year. A further 1,000 signed up to substantive agreements during the last 12 months and are still settling into their businesses. Many of these licensees are enjoying stepped rents and other concessions as they seek to build their new businesses and whilst the like-for-like annual decline is currently 19%, we are pleased to see a consistent improvement in the performance of these pubs.

The balance of the estate represents pubs that are closed, holding over or operating under temporary tenancies and their like-for-like income is down 35% year on year. Whilst a number of these pubs are viable and will be re-launched following investment and the recruitment of a substantive licensee, many will be sold during the coming year.

Years in occupation	No. of pubs at 30 Sept 2010	Income FY10 £m	Inc/pub FY10 £k	Income FY09 £m	Inc/pub FY09 £k	Change %
< 1 year (new lets)	983	48	49	59	60	(19)
< 1 year (assignments)	206	15	73	14	68	7
1–5 years	2,371	172	73	168	71	2
Over 5 years	2,513	195	78	199	79	(2)
Total substantives	6,073	430	71	440	72	(2)
Non-substantives	747	26	35	40	54	(35)
Total	6,820	456	67	480	70	(5)

Provision of financial support and rate of business failures declining

As we continue to improve the quality of the pub estate through investment and churn and the profitability of our licensees through training and business support, the cost of direct financial support provided to substantive licensees through special discounts and rent concessions reduced during the year to £15 million (2009 — £21 million) and is currently running at a monthly cost of just over £1 million.

Furthermore we are encouraged that the rate of business failures continues to decline, reflected in a reduction in the cost of bad debts during the year to £2.1 million (2009 — £3.4 million), with the level of overdue balances down to £6.1 million (2009 — £6.9 million), representing less than 1% of turnover.

Our TMA programme was an effective tool which enabled us to take control of and revitalise good quality pubs where the business had been severely damaged. With the rate of business failures now declining and the overall quality of our licensees significantly improved, we have been able to wind down the TMA programme. Having reached a peak of 218 pubs during the third quarter of 2009, we are pleased that there are no longer any pubs operating under TMAs and that the programme has now ceased.

Chief Executive's Review
(Incorporating the Business Review)

Stability in the estate and strong demand for new leases and tenancies

We are encouraged by the level of stability amongst our successful licensees, with an average length of tenure in the substantive estate, excluding those who signed up during the past twelve months, of almost seven years.

Furthermore, and despite the obvious challenges facing the pub industry, the quality of our pub estate and the fairness and flexibility of our suite of letting agreements continue to attract record numbers of applicants. During the year to 30 September 2010 we received more than 2,500 formal applications to take on a substantive agreement with ETI, an increase of over 60% compared to the prior year.

Estate profile and licensee profitability

Critical to the success of the ETI estate has been our ability to evolve with the changing requirements of pub goers. From the predominantly wet-led estate acquired from the brewers in the early 90's, we have invested alongside our licensees to ensure that the pubs that make up the ETI estate rank amongst the best in the country.

The provision of great food has blossomed in our pubs and based upon a detailed analysis of almost 2,000 rent reviews agreed over the past two years, some 87% of our pubs now offer food, ranging from top quality bar snacks to the very best among gastro pubs and we estimate that food now represents 25% of turnover across our estate, an increase of over 20% in the past five years.

The availability of locally sourced cask ales, often restricted in managed houses and limited to their own products in brewer-owned estates, has substantially increased. As recognised by the Office of Fair Trading (OFT) in their recent dismissal of an appeal by the Campaign for Real Ale (CAMRA), our work with the Society of Independent Brewers (SIBA) has played a significant role in the development of cask ale in the UK. Across the ETI estate, we now offer 1,450 locally produced cask ale brands from almost 400 different brewers.

Accommodation has also become more important in our pubs and we now have around 5,000 letting rooms with many offering top quality bed and breakfast facilities.

It is this diversification which has enabled professional licensees not just to survive these difficult trading conditions but to thrive. As evidenced across the industry, whether in managed houses, free houses or leases and tenancies, the decline in the volume of beer sold in pubs is not matched by a decline in turnover or profitability as licensees develop a range of alternative income streams. We estimate that beer sales now represent 55% of turnover in our estate, down from 62% over the last five years.

PUB ESTATE
Continued improvement in estate quality

The ETI pub estate now comprises 6,820 pubs valued at £5 billion, an average value of £732,000 per pub. We own the freehold of 96% by number and 99% by value of the pub estate and total annualised leasehold rent payable amounts to £11 million, including the impact of the recent sale and leaseback programme.

The quality of our pub estate is critical to the success of our business, attracting the most discerning and professional licensees and giving them the best opportunity to develop a profitable business. Whilst our acquisition programme remains on hold, we continue to invest in the estate, having spent £55 million in 2010, working alongside our licensees to improve facilities and long-term potential in more than 1,600 pubs.

A positive result of the weakness in the lease assignment market has been that new licensees are paying substantially less by way of lease premiums to outgoing licensees and therefore have more funds to invest in the future of the pub that they have acquired, again adding impetus to the continuing improvements in the quality of our pubs.

Chief Executive's Review
(Incorporating the Business Review)

Pub values conservative and stabilising
Every year, we carry out an independent valuation of our pub estate, analysing not only the current performance of every pub but also its future potential. This review confirmed the generally held view across the industry that the value of top quality pubs remains strong whilst continuing to be weak for pubs in poorer locations and with less potential. This view is further supported by the demonstrably stable income that we have earned from the vast majority of our estate, with some 5,000 pubs where licensees have been in occupation for more than one year delivering unchanged like-for-like net income in the past year.

As a result of this review, we have written down the value of the estate by £103 million to £5 billion, the reduction in value including those pubs which we expect to sell or where we consider that changing circumstances and future income potential did not support the previous valuation.

Profitable disposal of non-core pubs
We disposed of 579 non-core pubs during the year, generating proceeds of £166 million and a profit of £21 million, net of all disposal costs. During the year to 30 September 2009 the EBITDA generated by these pubs was £12 million. We expect our programme for disposing of non-core pubs to continue at a similar level during the coming year.

Successful sale and leaseback programme
Whilst not strictly disposals, given that we retain operating control and an earnings stream from these pubs, we have taken advantage of a robust property investment market in central London, selling a small number of high value pubs at auction with a 35 year lease back. These auctions have proved very successful and during the year we sold 71 pubs, generating proceeds of £114 million, at an average rental yield of 6.4%. We expect to offer a similar level of pubs under our sale and leaseback programme in the coming year.

SECURE FINANCING STRUCTURE AND ROBUST CASH FLOW
ETI has a secure, flexible and tax efficient financing structure comprising securitised bonds, corporate bonds and bank debt. At 30 September 2010, net debt was £3,305 million compared to £3,679 million at the beginning of the financial year.

Securitised and corporate bonds remain manageable, cost-effective and tax efficient
The £1,501 million of securitised bonds amortise over 21 years and currently attract a fixed rate of interest of 6.4%. The Group is £75 million ahead of the amortisation schedule and we expect to continue to make repayments of the floating rate notes in advance until they are repaid in full by 2012. The repayment of fixed rate notes commences in September 2013, at which time we expect dividend payments from the Unique subsidiary to cease as profits within Unique will be used to repay these notes.

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

Our securitised bonds and corporate bonds trade at a relatively small discount to par and we monitor the market to identify opportunities to repurchase them as appropriate. Overall, however, we consider that together they represent a secure, manageable, cost-effective and tax efficient part of our corporate financing structure which we would expect to retain for the long-term good of the business.

Chief Executive's Review
(Incorporating the Business Review)

Successful refinancing of bank facility
We have reduced our bank debt by £216 million to £686 million during the past financial year, well on track to meet the requirements of our £625 million Forward Start Facility, which is fully committed and will commence in May 2011 when our existing facility matures. The new facility comprises a tranche of £206 million which expires in December 2012 and a tranche of £419 million which expires in December 2013. The overall facility will amortise at an amount of £25 million every six months commencing in December 2011. In May 2010 we cancelled our £275 million 6.66% interest rate swap and in September 2010 we cancelled our £350 million 4.89% interest rate swap.

A STRONG AND SUSTAINABLE BUSINESS MODEL
Tie aligns interests of landlord and tenants
The tied pub model provides a low cost of entry opportunity for entrepreneurial licensees to own and operate a pub business, supported by the expertise and resources of a brewer or pub company which owns the freehold of the pub. Tied tenants benefit from substantially lower fixed rental costs as a proportion of their total operating costs than is the case for free-of-tie tenants, and substantially lower capital risk than an individual freeholder. The objectives of the tenant and the landlord, both of whom want the pub to be successful, are demonstrably aligned by the shared interest in variable beer margin which reflects the performance of the pub.

The tied lease and tenancy business model has been approved time and again by the UK and European competition authorities. In its most recent ruling in October 2010 the OFT went further than in previous reviews and stated that it did not find evidence that the existence of the tie disadvantaged tied tenants compared to those who are free of tie.

The OFT report was the culmination of over eighteen months of regulatory scrutiny of the industry that began with a report on pub companies by the Business and Enterprise Committee (BEC now renamed BISC) in May 2009 and included a super complaint from the Campaign for Real Ale (CAMRA) and calls from various other campaign groups for an investigation into the operation of the tie.

The tie offers substantial benefits to licensees that fully free-of-tie businesses do not enjoy
The debate about the tie has created a confused picture about the relationship between pub companies and their licensees and the impact of the tie on the profitability of both parties. In reality, what matters is the total cost to the licensee of renting a particular pub business, having evaluated the benefits offered by the pub company or brewer. The vast majority of our licensees recognise the quality of our pub estate, understand and welcome the concept of fixed and variable rental costs and appreciate the many services and benefits that we offer.

In the ETI estate, some 18% of licensees are already free of tie for cider and 68% are not tied for wines, spirits and minerals. There are no ties whatsoever for the supply of food or any other services, although ETI has always been able to offer to licensees opportunities to purchase certain goods and services at excellent prices. We estimate that our most recent cost reduction initiative, working with the Carbon Trust, has the potential to reduce licensees' utility bills by as much as 30%.

In other areas such as business services and training, the ETI team continue to excel. Our Winning in Local Markets training programme, now attended free-of-charge by almost 1,000 licensees, won the Supreme Champion award at this year's National Industry Training Awards ceremony. Our Health and Safety package offers a total package of equipment testing and certification, together with advice and training at a very attractive price, such that this package, which is mandatory for all new agreements, has now been adopted by almost half our licensees.

Chief Executive's Review
(Incorporating the Business Review)

ETI's new agreements provide additional flexibility to attract and retain the best licensees

In the past two years, we have worked with our licensee groups to develop new agreements offering greater flexibility for licensees, addressing issues such as standard and incentive discounts and free-of-tie options.

As a result of this evolution we have launched a new suite of agreements, both leases and tenancies, which seek to make ETI agreements the most attractive and competitive in the industry. Responding to those who feel that rent reviews can sometimes disadvantage the over-performer, we have introduced the option of 10 and 20 year index-linked agreements with no rent reviews. For those who seek greater freedom from the tie, we have continued the tie release options in respect of wines, spirits and minerals and extended these to cover all bottled beers, ciders and FABs. For most pubs, a tie release option will be available in respect of gaming machines and we are offering a free-of-tie guest ale option in respect of locally sourced cask ale supplied by brewer members of SIBA.

These options are now available in respect of all new agreements and, in addition, all existing ETI agreement holders will have the opportunity, at a date no later than their next rent review, to negotiate terms for a completely new agreement to incorporate their choice of these new flexible options.

New Code of Practice exceeds all minimum standards

Fifteen years ago, ETI was one of the first pub companies to publish a Code of Practice which sought to set out in clear terms the basis of the commercial relationship between the company and its licensees. This Code of Practice has been regularly updated and enhanced and this year, in line with commitments made to the Secretary of State for Business, Innovation and Skills, we have issued a completely new Code of Practice. This Code exceeds all the conditions of the Industry Framework Code and was fully accredited in June 2010 by the British Institute of Innkeeping Benchmarking and Accreditation Service.

Pubs remain at the heart of the community

For the vast majority of pub goers in the UK, the pub remains at the heart of the community, the 'home of responsible drinking', providing a safe and professionally supervised environment where adults can enjoy food, drink and good company. This vital part of British life and culture must be protected and nurtured and we welcome the appointment of Bob Neill MP as Minister for Community Pubs and look forward to working with him to ensure that this vital part of our heritage and local economy goes from strength to strength.

OUTLOOK

The economic environment, especially with regards to consumer confidence and spending, remains uncertain and increases in VAT and beer duty will continue to put additional pressure on beer volumes. However, the past year has demonstrated the resilience of the best pub operators in the industry and we believe that the profile of our estate, combined with the professionalism and flair of our licensees leaves us well placed to face whatever challenges the year ahead may bring.

As we seek to build upon the improvements of the past year, we remain confident that in the medium-term the business will be in a good position to deliver positive returns to shareholders.

BOARD COMPOSITION

David George, Chief Financial Officer, has decided to retire after nearly 20 years in the role and will step down as a director at the conclusion of the Company's Annual General Meeting on 20 January 2011. David has played a key role and has been central to the growth of Enterprise Inns since he joined the company at its formation in 1991. As a result of the successful refinancing of our bank facilities in May, we have secured our medium-term financing requirements and it is now an opportune time for a successor to be appointed. The Board would like to thank him for his outstanding contribution and wish him all the best for the future.

Chief Executive's Review
(Incorporating the Business Review)

Neil Smith, age 45, will succeed David as Chief Financial Officer and, to ensure an orderly transition, will join the Company on 3 January 2011 as Chief Financial Officer Designate and will be appointed to the Board on 20 January 2011. Neil, a qualified chartered accountant, is currently Finance Director of Compass Group UK & Ireland, which he joined in 2007. Prior to this he held senior finance positions with NTL Inc, Telewest Global Inc. and Somerfield plc.

We are delighted that Neil has agreed to join Enterprise and very much look forward to working with him and to welcoming him to our Board. We are pleased to have been able to attract an individual of Neil's calibre and his many years of finance experience within consumer facing businesses will prove invaluable to the Company.

In addition, Jo Stewart will be retiring from the Board at the conclusion of the Annual General Meeting having served as an independent non-executive director since May 2001 and for most of that time either as Chairman of the Remuneration Committee or as Senior Independent Director. He has made a most valuable contribution to our development and we thank him most warmly for all that he has done for the Company over the past nine years.

We intend to issue an Interim Management Statement on 20 January 2011.

G E Tuppen CBE

15 November 2010

Directors and Advisers

H V REID#

Chairman

Appointed to the Board 21/01/97

Hubert Reid, 69, 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, 58, led the management buy-in which resulted in the formation of the Company in 1991. He is a chartered accountant and was in practice until 1980 with KPMG in London, North America and Europe. He then qualified with an MBA from the Cranfield School of Management before becoming managing director of a privately owned international engineering company where he worked until 1989. He has also worked in, and acted as a consultant to, a variety of businesses. He is Vice President, and former Chairman of the British Beer and Pub Association, a trustee of Drinkaware and was awarded a CBE in the 2006 New Years Honours List in respect of his contribution to the hospitality industry.

D A HARDING*#

Independent Non-Executive Director

Appointed to the Board 06/11/03

David Harding, 63, is Chairman of Coventry Building Society and a non-executive director of the Royal Mint. He was previously Finance Director of Railtrack Group plc. 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.

* Member of the Audit and Remuneration Committees

\# Member of the Nominations Committee

A J STEWART*#

Independent Non-Executive Director

Appointed to the Board 29/05/01

Jo Stewart, 61, 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. Jo will be retiring from the Board at the conclusion of the Annual General Meeting on 20 January 2011.

S E MURRAY*#

Independent Non-Executive Director

Appointed to the Board 03/11/04

Susan Murray, 53, is Chairman of Farrow & Ball and a non-executive director of Compass Group PLC, Imperial Tobacco plc and Pernod Ricard. She was previously Chief Executive of Littlewoods Stores Limited and Worldwide President and Chief Executive of The Pierre Smirnoff Company a part of Diageo Plc. She has previously held non-executive directorships with Aberdeen Asset Management PLC, SSL International plc and Wm Morrison Supermarkets plc and was a member of the Independent Complaints Panel of the Portman Group and a Director and council member of the Advertising Standards Authority.

D O MALONEY*#

Independent Non-Executive Director

Appointed to the Board 10/07/08

David Maloney, 55, is currently a non-executive director of Cineworld Group Plc, Ludorum Plc, Micro Focus International Plc and Carillion Plc. He was previously Chairman of Hoseasons Holidays Limited, a non-executive director of Virgin Mobile Holdings (UK) plc, 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, 59, 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. David will be retiring from the Board at the conclusion of the Annual General Meeting on 20 January 2011

W S TOWNSEND

Chief Operating Officer

Appointed to the Board 01/10/00

Simon Townsend, 48, 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 of the British Beer and Pub Association.

Secretary
J A Poole

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Stockbrokers
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Company number
2562808

Directors' Report

The directors present their report and accounts for the year ended 30 September 2010. Certain information required for disclosure in this report is provided in other sections of this Annual Report. These include the Business Review, the Corporate Governance and Remuneration Reports and the Group Financial Statements and accordingly these are incorporated into this report by reference.

Accounts and dividends

The Group profit for the year, after taxation, amounted to £26 million (2009 — £6 million).

The directors are not recommending the payment of any dividend on its ordinary shares for the year ended 30 September 2010 (2009 — nil).

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 and future developments is given in the Chief Executive's Review (incorporating the Business Review) on pages 2 to 8.

Directors and their interests

The names of the current directors together with related biographical information are set out on pages 9 and 10. All directors served throughout the year and were in place on the date of signing of these financial statements.

The rules for the appointment and replacement of directors are set out in the Company's Articles of Association. Directors are appointed by the Company by ordinary resolution at a general meeting of holders of ordinary shares or by the Board on the recommendation of the Nominations Committee. The Corporate Governance Report sets out further details of the requirements for re-election of directors on page 26. In addition, further details of the workings of the Nominations Committee are set out on page 29.

In accordance with the Articles of Association of the Company, Mr Tuppen and Mrs Murray retire from the Board at the Annual General Meeting and offer themselves for reappointment. The Board believes that their performance continues to be effective, that they demonstrate commitment to their roles and have a range of skills and experience relevant to the direction and control of the Company. In addition, Mrs Murray considers that she has sufficient time to commit to the Company's affairs notwithstanding her other business commitments and has no conflicting interests. In addition Mr George and Mr Stewart will be retiring from the Board at the conclusion of the Annual General Meeting. Mr Stewart is considered independent by the Board notwithstanding he has been a director for more than nine years.

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 2010**(i)	30 September 2009
H V Reid	Beneficial	**245,000**	245,000
G E Tuppen	Beneficial	**2,551,348**	2,295,313
	As Trustee	**636,000**	601,000
D C George	Beneficial	**1,715,000**	1,906,024
	As Trustee	**285,000**	160,000
W S Townsend	Beneficial	**700,000**	550,000
A J Stewart	Beneficial	**40,000**	40,000
D A Harding	Beneficial	**3,000**	3,000
S E Murray	Beneficial	**4,000**	4,000
D O Maloney	Beneficial	**25,000**	10,000

(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 15 December 2009 at 101.98 pence per share as follows:

	At 1 October 2009	Partnership Shares	Matching Shares	**At 30 September 2010**
G E Tuppen	6,566	1,471	2,942	**10,979**
D C George	6,566	1,471	2,942	**10,979**
W S Townsend	6,566	1,471	2,942	**10,979**

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 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 136 to 139.

Notifiable interests in shares
As at 15 November 2010 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	76,329,818	15.09
Glenview Capital Management LLC	62,083,386	12.27
Deutsche Bank AG	34,676,334	6.85
AXA S.A	25,357,249	5.01

Share Capital
As at 15 November 2010, 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 29 to the Group accounts on page 85. 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. The Articles of Association are also available on the Company's website.

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 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 liquidation may share in the assets of the

Directors' Report

Company. Holders of ordinary shares are entitled to receive the Company's annual report and accounts. Subject to meeting certain thresholds, holders of ordinary shares may requisition a general meeting of the Company or the proposal of resolutions at Annual General Meetings.

Voting rights and restrictions on transfer of shares

On a show of hands at a general meeting of the Company every holder of ordinary shares present in person or by proxy and entitled to vote has one vote and on a poll every member present in person or by proxy and entitled to vote has one vote for every ordinary share held. Further details regarding voting at the Annual General Meeting can be found in the Corporate Governance Report on page 32 and in the notes to the notice of the Annual General Meeting on pages 133 to 135. Details of the exercise of voting rights attached to the ordinary shares held by the Employee Share Trust are set out in the section entitled 'Shares held by the Employee Share Trust' 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 Trust, 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 of the Company 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 and held by the Company

At the Annual General Meeting held on 21 January 2010, the Company was given authority to purchase up to 75,846,017 of its ordinary shares during the next 15 months or until the date of its next Annual General Meeting. During the financial year the Company did not make any purchases of its shares. As at 30 September 2010 50,000,000 shares were held in treasury. The maximum number of shares held in treasury during the year ended 30 September 2010 was 50,000,000 on 1 October 2009 for a period of 365 days, representing 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 20 January 2011. The directors will be seeking a new authority for the Company to purchase its ordinary shares which will only be exercised if market and financial 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 Annual General Meeting on pages 136 to 139.

Shares held by the Employee Share Trust

The Company has established an employee benefit trust ('EBT'), the trustee of which is EES Trustees International Limited part of Computershare Plan Managers. As at 30 September 2010 the trustee held 7,021,056 shares, representing 1.39% 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.

The maximum number of shares held by the EBT during the year ended 30 September 2010 was 7,992,048 on 1 October 2009, representing 1.58% of total called up share capital excluding treasury shares at that time.

Directors' Report

During the year, 970,992 shares with a nominal value of £24,275 were disposed of by the EBT by way of the exercise of share options under the share schemes. Of these, a total of 925,678 shares were disposed of through the exercise of short-term and long-term incentives for a consideration of £35.

Articles of Association

The Company's Articles of Association (adopted by special resolution on 17 January 2008 and amended by special resolution on 21 January 2010) 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 are:

- the forward start facility agreement dated 10 May 2010 between the Company and the financial institutions named therein which provides that if any person or group of persons acting in concert gains control of the Company, then the Company shall promptly notify the agents and lenders. If any lender so requires, it may cancel its commitments to the Company and require the Company to repay all loans outstanding to it;
- 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 the Company) the Secured Bonds must, if they are not rated, after a written resolution of the bondholders, be either redeemed by the Company or the Company must successfully seek an investment grade rating for the Secured Bonds. If the Secured Bonds are rated, on a restructuring event, they must be redeemed by the Company where such rating is below investment grade or later falls below investment grade.

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 page 38.

Directors' indemnities

The Company's Articles of Association permit the Board to grant the directors indemnities in relation to their duties as directors, including qualifying third party indemnity provisions (within the meaning of the Companies Act 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.

Directors' Report

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, fraud prevention 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.

Emphasis is 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, regular departmental reviews provide 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 Computershare Plan Manager:

- the Save As You Earn Scheme in which 239 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 291 employees have purchased shares out of pre-tax income up to statutory limits which are held in a trust. The Company currently offers employees purchasing shares into the trust a matching share award.

In recognition of our policies regarding employee involvement we have during the year attained the status of Investors In People Champion.

INVESTORS IN PEOPLE | Champion

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. This work has been recognised by our continued inclusion in the FTSE4Good index.

FTSE4Good

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

Risks and uncertainties

This section highlights the principal risks and uncertainties facing the Group. The Group is exposed to a variety of financial, operational, economic and regulatory risks and uncertainties. This is not an exhaustive analysis of all the risks the Group may face and some risks are not considered to be material. The Group has formal management processes in place to identify and evaluate these risks. Some of the risks are external and therefore beyond our control. The Board formally reviews these material risks and ensures that these are appropriately managed by the executive management team and the Board retains overall responsibility for the Group's risk management framework.

The internal audit function provides assurance to the Audit Committee on the effectiveness of the internal control procedures. This is done through completion of the annual internal audit plan, which takes into account current business risks. The Audit Committee is responsible for annually reviewing the overall effectiveness of the risk management programme.

Directors' Report

The table below sets out the principal risks and uncertainties and how we mitigate them.

Risks and uncertainties	Mitigation processes
Financial	
Liquidity risk The Group has a flexible financing structure comprising bonds issued from the Unique securitisation (securitised bonds), corporate bonds issued by Enterprise Inns plc (Enterprise corporate bonds) and bank debt. At the year end committed bank facilities of £114 million were undrawn and a liquidity facility of £190 million is in place in respect of the securitised bonds. Whilst the existing banking facilities remain in place there is sufficient headroom to meet the liquidity requirements of the Group. The key short-term liquidity risk is the requirement to refinance £206 million of the new bank facility before December 2012 and £419 million of the new bank facility before December 2013. After that, the next significant refinancing event is not until 2018 when the £600 million corporate bond matures.	■ The Board regularly reviews detailed financial forecasts to ensure there is sufficient cash available to meet the requirements of the Group. ■ Under the existing bank arrangements which run until May 2011 the senior debt committed facility has reduced during the year from £1 billion to £800 million. Drawn bank debt has fallen during the year from £802 million to £686 million. ■ The bank facility was successfully refinanced in May 2010 through a forward start facility which becomes effective in May 2011. This new facility is £625 million and matures in December 2012 (£206 million) and December 2013 (£419 million). ■ The Board initiated a debt reduction programme in 2008 and there are a number of options available to the Group to reduce debt including the acceleration of the disposal of underperforming pubs and the suspension of acquiring new ones. The Group has also successfully implemented a sale & leaseback programme and continues to review the suitability of alternative sources of financing.
Interest rate risk The Group is exposed to movements in interest rates in respect of the drawn bank debt of £686 million and the £116 million securitised bond. All other debt is borrowed at fixed rates.	■ The Group manages interest rate exposure in respect of floating rate debt through the use of derivative transactions, specifically interest rate swaps. ■ There are three interest rate swaps within the Group over £116 million of floating rate debt. The average fixed rate of these swaps is 6.02%. ■ Interest rate swaps provide hedging for 14% of the Group's floating rate debt and ensured that total borrowings were 80% fixed at 30 September 2010 with an average interest rate of 6.4% for nine years. Further information on management of interest rate risk can be found in note 23 to the Group accounts on page 77.

Directors' Report

Risks and uncertainties	Mitigation processes
Financial covenants risk There are financial covenants that relate to the financing structure of the Group. There are two covenants that relate to the Unique securitisation which are tested at each quarter end. These covenants are based solely on the assets held within the Unique securitisation. There is a net asset covenant and a debt service cover covenant. There is sufficient headroom in both of these covenants. At the year end there is an annual valuation of the pub estate and a review of the annual income for the pubs secured under each of the Enterprise corporate bonds. The valuation is completed by a firm of independent chartered surveyors. The directors certify the net annual income as part of an annual compliance exercise. In the event that pub values or pub incomes have fallen there may be a requirement to add more pubs to the security of the corporate bonds and any addition of new pubs must be completed within 90 days of the year end. There are four covenants that relate to the bank debt, which are tested quarterly. There are two leverage covenants and two asset valuation covenants. The Board is satisfied that there is sufficient headroom on all four of these covenants.	■ When new financing is agreed the Board reviews a wide range of financial forecasts to ensure that there is sufficient headroom on all covenants throughout the period of the new facilities. ■ Throughout the year the Board regularly reviews detailed financial forecasts of the Group to ensure there is sufficient headroom on all covenants.
Leasehold rents payable The Group leases a proportion of its licensed estate from landlords under both finance and operating leases. These leases have varying terms, escalation clauses and renewal rights.	■ Pubs that are leased from landlords under finance and operating leases are let to tenants. ■ As a result of the sale & leaseback programme 71 pubs have been sold for £114 million and leased back to the Group with total annual rents of £7 million. Any onerous leases are fully provided for by the Group.
Pension risk The Group makes defined contribution payments to employees' own pension plans and also operates one defined benefit pension scheme.	■ The Group has only one defined benefit pension scheme which is closed to new members and for the future accrual of benefits to existing members. Assets at 30 September 2010 were £19 million and liabilities were £19 million resulting in no net deficit. Further information on pensions is provided in note 28 to the Group accounts on page 82.

Directors' Report

Risks and uncertainties	Mitigation processes
Operational	
Information technology The Group's daily operations are reliant on its information technology systems for accounting, reporting, communication and internal financial control processes. There is a risk that serious disruption could result if these systems fail for an extended period of time.	■ A business continuity plan is in place to ensure the business could continue to function in the event of a major systems failure. This plan is regularly tested. ■ There are comprehensive controls in place to protect information technology systems including the back-up and off-site storage of data.
Supply chain management The Group places reliance on key suppliers and distributors to ensure that there is a continuous supply of drink and other products to its licensees. The Group is exposed to interruption or failure of these key suppliers which could result in such products not being delivered to licensees on time.	■ The Group works closely with its key suppliers and distribution partners to ensure good working relationships. ■ The Group takes reasonable steps to try to ensure that key suppliers have appropriate disaster recovery plans in place to maintain continuity of supply.
People The Group is reliant on the ability to attract, train and retain the best quality licensees for its leased pubs, and failure to do this could impact on the Group's strategic objectives. Equally, the Group is reliant on its employees to provide key support functions in order to achieve its strategic aims.	■ The Group's licensee recruitment and training programme and its variety of tenancy and lease agreements are designed to attract the best quality people. We offer an industry leading range of flexible agreements, funding options and tailored deals for appropriate applicants. ■ We have in house legal support teams who process our own lease and tenancy agreements. ■ The Group is committed to providing appropriate employee training, retention and reward policies and has attained the prestigious accolade of 'Champion' status for Investors in People.
Economic	
General economic conditions The Group's business operations are sensitive to economic conditions and recent economic conditions have had an adverse impact on consumer spending. This has impacted on Group revenues and could continue if the downturn persists or worsens. The general economic outlook remains uncertain.	■ The Group regularly monitors its key income streams and licensees' performance to ensure the Group is competitively placed in the market. ■ The Group regularly reviews financial forecasts to assess the impact of economic conditions on its budget and strategic plans. ■ The Group gives careful consideration to licensees' requests for additional operational and financial support. ■ The Group continues to foster mutually beneficial relationships with key suppliers to ensure the impact of any price increases is minimised wherever possible.

Directors' Report

Risks and uncertainties	Mitigation processes
Property valuations Valuations of the Group's property portfolio have been affected by general economic conditions and resulting downwards pressure on maintainable income streams. These circumstances could continue and therefore reduce the valuation of the portfolio over time.	■ The Group ensures that every pub in its portfolio is valued annually at the market value by qualified external and internal valuers in accordance with RICS Valuation Standards (6th Edition). These valuations comply with the requirement of Financial Reporting and International Accounting Standards. ■ As part of the debt reduction programme underperforming pubs are sold.
Regulatory	
Regulation of the Tied Pub Model Despite the reports published by the Office of Fair Trading into the tied pub model in 2009 and 2010 and the renewal in 2010 of the block exemption by the EU, the report published by the Business and Enterprise Committee during 2009 could continue to impact on the Group's operational strategy and the relationship with our licensees.	■ The Group remains committed to the tied pub model and continues to work hard to ensure its Code of Practice ensures a transparent and mutually beneficial relationship with its licensees. ■ The Group actively engages with Government, trade bodies and other stakeholders to further evolve the tied pub model.
Health and safety A health and safety incident could result in a serious injury to the Group's employees, licensees or their customers.	■ The Group has policies and procedures in place to ensure compliance with Health and Safety regulations and such systems are regularly reviewed with training provided as appropriate. ■ The Group employs a Health and Safety Manager to identify and remedy specific risks and to ensure employees are aware of regulatory requirements. ■ The Group has a Health and Safety Committee which meets regularly to consider all aspects of health and safety and reports to the Board periodically.
Litigation The Group operates in a heavily regulated industry and may be involved in legal or statutory proceedings in relation to our licensees. The impact of such litigation may be immaterial in value but may result in harm to the Group's reputation. Where appropriate, the Group takes legal proceedings against licensees to ensure compliance with their agreements.	■ The Group employs a Legal Services Manager and other in-house specialists to ensure we comply with legislation and to manage any litigation with our licensees. ■ The Group will work with Local Authorities as necessary whenever any statutory issues are raised in relation to its pub estate.
Licensing and other regulatory factors Changes to the regulations relating to the sale of alcohol can have an impact on the Group's business. These risks include changes to licensing legislation and increases to alcohol duties imposed by the Government and the impact of social responsibility issues on the industry in general.	■ The Group works closely with Local Authorities as necessary to ensure licensing requirements are dealt with whenever appropriate. ■ The Group is a member of a number of trade bodies and associations, is a contributor to the Drinkaware trust, and works closely with these organisations to promote responsible drinking practices. Further details can be found in the Corporate Social Responsibility section of our website at www.enterpriseinns.com.

Directors' Report

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 66 days' purchases outstanding in trade creditors.

Financial Instruments
For further details of our financial risk management objectives and policies, please see note 23 to the Group accounts on page 74.

Going Concern
The Group's business activities, including a description of its financial position, cash flows, debt and borrowing facilities, is set out in the Business Review on pages 2 to 8. In addition a summary of factors likely to effect the Group's future development and performance is set out in the this report on pages 16 to 20. Further details on the Group's financial instruments and risks can be found in note 23 to the Group accounts on pages 74 to 77.

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

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 auditor is 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 auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Annual General Meeting
The Annual General Meeting will be held on 20 January 2011 at 11.00 a.m. The notice convening the Annual General Meeting and an explanation of the resolutions sought are set out on pages 131 to 139. At the meeting, the Company will be seeking shareholder approval, amongst other matters, for the:

- adoption of new Articles of Association to incorporate further changes introduced by the Companies Act 2006; and
- ability to convene general meetings (other than the Annual General Meeting) on 14 clear days' notice.

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

J A Poole

Secretary

15 November 2010

Registered Company name: Enterprise Inns plc

Registered Company number: 2562808

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 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 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 adequate 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 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure and Transparency Directive

The Annual Report and the Group financial statements comply with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority in respect of the requirement to produce an annual financial report.

The Annual Report and the Group financial statements are the responsibility of, and have been approved by, the directors.

The directors confirm to the best of their knowledge:

- the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Annual Report and the Group financial statements include a review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

G E Tuppen	**D C George**
Chief Executive	Chief Financial Officer
15 November 2010	15 November 2010

Corporate Governance

Dear shareholder,

On behalf of the Board, I am pleased to present our corporate governance report for the year ended 30 September 2010.

During the last year there have been a number of reviews of corporate governance practices in the UK, the most significant being the review of the Combined Code on Corporate Governance (as defined below) by the Financial Reporting Council (FRC). As a result of these reviews, several key characteristics have emerged which we believe are already embedded in our existing governance structures.

Governance needs to be meaningful, relevant and focused on helping our business deliver its strategy, generate long-term shareholder value and minimise risk. It follows that the role of the Chairman in leading the Board, the commitment of all members of the Board and the mix of skills, experience and independence that they bring are of paramount importance. We believe that our Board meets these tests, has the independence to ensure an objective approach and provides leadership and challenge in the boardroom. This report sets out our governance structures, the work of the Board and its Committees and provides a sense of how we seek to comply with our obligations.

For the year under review the appropriate governance provisions are those set out in the Combined Code on Corporate Governance adopted by the FRC in June 2008 (the 'Combined Code'). Throughout the year ended 30 September 2010, the Company has been in full compliance with the provisions of the Combined Code.

Following its review of the Combined Code, the FRC published a revised UK Corporate Governance Code in May 2010. This revised code will apply to reporting periods beginning on or after 29 June 2010 and therefore does not apply to our financial year ended 30 September 2010 or our AGM business in 2011. Nevertheless we have aligned our governance report with the themes of this revised code:

- Leadership (pages 24 to 26)
- Effectiveness (pages 26 to 30)
- Accountability (pages 30 to 31)
- Communication (pages 31 to 32)

In addition you will find the Directors' Remuneration Report set out on pages 33 to 45.

In summary, I believe that we continue to take a rigorous approach to governance and that our existing processes and structures encourage independent challenge to the executive.

Hubert Reid

Chairman

15 November 2010

Corporate Governance

LEADERSHIP

Membership of the Board and Board Committees

As at 30 September 2010 the Board comprised the Chairman, three executive directors and four independent non-executive directors. Biographies of all Board and Committee members are set out on pages 9 to 10. 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 (these are available on our website) and operate effectively. During the year the Board has again reviewed its composition and has concluded that it fully satisfies the requirements of the business and ensures proper governance of the Group. There were no changes to the membership of the Board during the year.

The Chairman, Mr Reid, has primary responsibility for:

- leadership of the Board, setting its agenda and the implementation of the annual performance evaluation exercise for the Board and its Committees.
- ensuring, through the Company Secretary, that the directors receive accurate, timely and clear information.
- managing the Board so that all directors make an effective contribution and that sufficient time is allowed for the discussion of complex issues.
- ensuring the Board effectively monitors Company performance in line with strategic objectives.
- ensuring that Board members are made aware of the views of the Company's major shareholders.

The Chief Executive, Mr 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. He is supported in this role by the executive team and his primary responsibilities are:

- to prepare, evaluate and implement the strategic goals and objectives of the organisation.
- to develop a business plan in line with strategic objectives within a framework of effective risk management.
- to give day to day direction and leadership towards the achievement of the organisation's strategy and objectives.
- to maintain communication with shareholders, analysts and the press on business performance, results and prospects.
- with the Chairman, to provide external leadership of the Company and to represent the Company with industry organisations, suppliers, government, shareholder bodies, financial institutions, the community and the public.

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. 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.

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 makes decisions and reviews and approves key policies and decisions of the Company, in particular in relation to: group strategy and operating plans, governance and compliance with laws and regulations, business development including major investments and disposals, financing structures and in conjunction with its Committees: financial reporting, risk management and succession planning.

Corporate Governance

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.

The Board has agreed an approach for dealing with conflicts of interest to the matters scheduled for Board consideration. The Board confirms that it is not aware of any situations which may, or did, give rise to a conflict of interest during the year.

All meetings of the Board are structured to allow open discussion by all directors and ensure full participation in the decision making process and all directors are equally accountable for the proper stewardship of the Company's affairs. When making decisions, the members of the Board are aware that they must have regard to various matters including the long-term, employees, relationships with suppliers, retailers and others, local communities and the environment and when reviewing strategy the Board takes into account these wider interests.

Meetings and attendance

It is the responsibility of the Chairman and Company Secretary to work closely together to plan the annual programme and agendas for meetings. During the year the Board held six scheduled meetings 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 meet and hear from the senior management team.

Members' attendance during the year ended 30 September 2010	Board meetings	Nominations Committee	Remuneration Committee	Audit Committee
Number of meetings held	6	2	7	3
Non-executive directors				
H V Reid	6	2	–	–
A J Stewart	6	2	7	3
D A Harding	6	2	7	3
S E Murray	6	2	7	3
D O Maloney	6	2	7	3
Executive directors				
G E Tuppen	6	2	–	–
D C George	6	–	–	–
W S Townsend	6	–	–	–

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.

On 1 June 2010 the Company appointed Mr Harding, as the new Senior Independent Director (to replace Mr Stewart) and whose role and responsibilities are clearly defined, set out in writing (available on our website) 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.

Corporate Governance

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 (available on our website) 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 a 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.

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 UK Corporate Governance Code.

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 directors will submit themselves for re-election 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.

EFFECTIVENESS

This section of the report sets out how we approach governance, measure our effectiveness and the role played by each Committee in supporting the Board. In particular, there is a governance need to ensure effective independent challenge by non-executives concerning strategy, succession, leadership, risk and reward. We meet this requirement as at least half of the Board comprises independent directors who have both a strong financial background and bring experience from other retail and consumer facing sectors. Accountability is strengthened by ensuring there is sufficient time for open debate and ensuring the Committees carry out detailed independent oversight.

Performance evaluation

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

Board performance evaluation

The process was led by the Chairman and all directors completed a questionnaire in which they were asked to score a number of performance criteria. The responses to these questionnaires were summarised in a report by the Company Secretary and presented to the Board. This year's review found the Board:

- has dealt robustly and effectively with the significant operational and financial challenges the Company has faced over the last 12 months.
- has clearly focused on the need to reduce debt and the associated refinancing issues.

Corporate Governance

- remains a good open forum for constructive discussion and decision making.
- needs to keep in mind the development of future strategy in line with key performance indicators, market trends and any change in our competitors' strategies.

Board Committee performance evaluation

Each Committee member completed a questionnaire in which they were asked to score a number of performance criteria. The results of these questionnaires were summarised by the Company Secretary and presented to the Board. This year's review found that:

- the overall Board Committee structure is appropriate and supports the Board.
- the composition of each Committee met the governance requirements of the business.
- meetings ensure open and meaningful communication and are sufficient in number and length.

Non-executive director performance evaluation

All non-executive directors completed a self-appraisal questionnaire in which they were asked to score a number of performance criteria. Subsequently, the Chairman held private discussions with each of them to discuss matters including any issues 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 and subsequently discussed this review with the Chairman.

Executive director performance evaluation

This process was led by the Chief Executive, with each executive director set challenging performance objectives at the start of the financial year. Throughout the year the Chief Executive met with the executive directors on a confidential basis to discuss and review individual performance objectives. The successful achievement of these objectives makes up part of the short-term incentive criteria under the Bonus Plan and is determined by the Remuneration Committee, further details of which are set out on pages 35 and 36 of the Directors' Remuneration Report.

Board Committees

In order to ensure effective leadership and governance, the Board governs through clearly identified Committees which have delegated powers to deal with specific aspects of the Company's affairs. A summary of the operation of these Committees is set out below. All Committees of the Board that are subject to the requirements of the Combined Code are chaired by an independent director or have a majority of independent directors as members.

The 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 Company has complied with the Smith Guidance on Audit Committees updated by the FRC in 2008.

The Audit Committee is chaired by Mr Maloney who has current and relevant financial experience. The Committee's members are the other non-executive directors. 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 has reviewed its activities against its terms of reference and concluded that it has discharged the responsibilities delegated to it under those terms of reference.

Corporate Governance

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.

During the year under review the Committee:

- has monitored the integrity of the financial statements, interim and annual report and accounts and relevant regulatory announcements.
- agreed the annual internal/external audit plan, reviewed key business risks and uncertainties, 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.
- agreed new terms of reference.
- 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 auditor's opinion on the Group's financial statements.
- establish a transparent process and reporting to enable the Committee to monitor policy compliance.
- 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.
- accounting advice and reviews of accounting standards.

The Committee is confident that in reviewing the external auditor's Annual Audit Results Report the objectivity and independence of the auditors is 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 the auditors is disclosed in note 6 to the Group accounts on page 60.

Corporate Governance

The Committee has approved the external auditor's remuneration and terms of engagement and is fully satisfied with the performance, objectivity and independence of the external auditors. Accordingly, it has not considered it necessary to require Ernst & Young LLP to tender for audit work during the year under review. There are no contractual obligations restricting the Company's choice of external auditor. The Committee has recommended that a resolution to reappoint the external auditors as the Company's statutory auditors, until the conclusion of the AGM in 2012, be proposed at the Company's forthcoming Annual General Meeting.

The Nominations Committee

The Committee is chaired by Mr Reid and its members are the Chief Executive, and the four non-executive directors.

The Committee is responsible for proactively refreshing and reviewing the Board's composition. The Committee nominates, for approval by the Board, candidates for appointment to the Board, having regard to its balance and structure. The Committee is also responsible for succession planning and takes into account the knowledge and skills mix required by the Board in the future. The Committee meets as required and met twice during the year. 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 under 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 including the retirement of Mr George and Mr Stewart at the conclusion of the Annual General Meeting on 20 January 2011.
- reviewed the requirement to appoint a new Chief Financial Officer and appointed external recruitment consultants to find suitable candidates.
- recommended the appointment to the Board of Mr Smith as Chief Financial Officer (further details of which are set out in the Directors' Remuneration Report on page 40).
- recommended to the Board the appointment of Mr Harding as Senior Independent Director in place of Mr Stewart.
- decided not to appoint an immediate replacement to Mr Stewart following his retirement.
- agreed new terms of reference.
- carried out an annual evaluation of its performance.

The Remuneration Committee

The Committee is chaired by Mrs Murray and its members are the three other non-executive directors. 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 it and the Company. The Committee met on seven occasions during the year.

Corporate Governance

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 and a summary of the work undertaken by the Committee during the year, are set out in the Directors' Remuneration Report, which includes details of directors' remuneration and directors' interests in shares, together with information on service contracts, on pages 33 to 45.

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 and Disclosure & Monitoring Committees

The Board has delegated, within agreed terms of reference, responsibility for certain matters of a routine nature which are not reserved for full Board consideration to a Finance Committee. This Committee comprises two executive directors, one of which must be the Chief Financial Officer. In addition, and to ensure full compliance with its obligations under the Disclosure Rules published by the UK Listing Authority, the Company has established a Disclosure Committee comprising the Chairman, Chief Executive and Chief Financial Officer to maintain adequate procedures, systems and controls to enable it to make timely and accurate disclosure of information via a regulatory news service when it is impracticable to hold a full Board meeting. A separate Monitoring Committee has been established to monitor compliance with the Listing Rules of the UK Listing Authority as well as a policy based on the Model Code which covers dealings in securities of the Company and applies to directors, persons discharging managerial responsibility and employee insiders.

ACCOUNTABILITY

The Board has overall accountability for running the business effectively, which includes making sure risks are managed and that we have a sound system of internal control and risk management processes, including health & safety procedures and risk controls that are designed to reduce the chance of a failure to meet our objectives. To achieve these objectives an independent audit is undertaken by the external audit and the internal audit function who regularly report to the Audit Committee.

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.

Operating policies and controls are in place to cover a wide range of issues including financial reporting, capital expenditure, information technology, business continuity and management of employees. Detailed policies ensure the accuracy and reliability of financial reporting and preparation of financial statements.

The key elements of the Group's processes for the provision of effective internal control and risk management systems include:

- regular Board meetings to consider a schedule of matters reserved for directors' consideration.
- the Board carries out an annual review of corporate strategy which includes a review of risks and uncertainties facing the business, and how these risks and uncertainties 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.

Corporate Governance

- an internal audit function which implements the annual internal audit plan as agreed by the Audit Committee.
- documented and enforced policies and procedures.
- appointment of staff of the necessary calibre to fulfil their allotted responsibilities.
- comprehensive budgets and forecasts, approved by the Board, reviewed and revised on a regular basis, with performance monitored against them and explanations obtained for material variances.
- a detailed investment approval process, requiring Board approval for major projects. Post-investment appraisals are conducted and are reviewed by the Board.
- the Audit Committee of the Board, comprising non-executive directors, considers significant financial control matters as appropriate.

Management is responsible for ensuring the appropriate maintenance of accounting records and processes to ensure that all financial information is relevant and accurate and prepared in accordance with applicable laws and regulations. A review of the consolidation and financial statements is completed by management to ensure that the financial position and results of the Group are appropriately reflected. All financial information published by the Group is subject to approval by the Audit Committee.

No change in the Company's internal control over financial reporting has occurred during the year that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Risk management

An ongoing process on internal control has been established for identifying, evaluating and managing risks faced by the Group. This process is reviewed regularly by the Board and, with advice from its Audit Committee, is satisfied that this meets the requirements of the guidance 'Internal Control: Guidance for Directors on the Combined Code' issued by the Institute of Chartered Accountants in England and Wales in 1999 and the Turnbull Guidance updated by the FRC in 2005. 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 annual accounts. Further details of the material risks and uncertainties facing the business can be found at pages 16 to 20 in the Directors' Report.

Directors' responsibilities

The directors are legally accountable for the content of this Annual Report and financial statements. The responsibilities of the directors for preparing this Annual Report and financial statements are set out on page 22.

COMMUNICATION

This section of the Annual Report looks at how we communicate and keep in touch with our investors and stakeholders.

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. The Board's primary contact with institutional investors is through the Chief Executive and Chief Financial Officer. Communication includes one on one meetings and presentations after the interim and preliminary results announcement, which the Chairman also attends, as well as specific analyst presentations with feedback from the Company's brokers as necessary.

Corporate Governance

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 via RNS 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.

Annual General Meeting

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 20 January 2011 can be found in the Notice of the meeting on pages 131 to 135. The Notice is sent by first class post to shareholders at least 20 working days before the Annual General Meeting and details of proxy votes for and against are made available to attendees after the result of hand votes. In accordance with the Combined Code, the Company has proposed in the Notice separate resolutions on each substantial matter. Shareholders who are unable to attend are encouraged to vote electronically in advance of the meeting or use the proxy card mailed to them. Details of how to vote electronically via the registrars and through the CREST electronic proxy appointment service are set out on the proxy form. The voting results are announced on the same day to the London Stock Exchange via RNS and on the Company's website. Last year all resolutions were passed on a show of hands with proxy votes cast ranging from 92.80% to 99.99% in favour of each resolution.

Electronic communications and our website

The Company has taken full advantage of the provisions within the Companies Act 2006 allowing the Company's corporate website to be used as the primary means of communication with shareholders where they have not requested hard copy documentation. The Company uses email alerts and actively promotes the downloading of all reports, enhancing the speed and equality of shareholder communication.

The Company's corporate website www.enterpriseinns.com/investors holds a wealth of information including:

- annual reports and investor presentations.
- latest news and press releases.
- our Articles of Association.
- associated governance documentation as highlighted in this report.

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 pages 129 and 130.

The information that is required by DTR 7.2.6 relating to share capital of the Company, can be found in the Directors' Report on pages 11 to 21.

On behalf of the Board

J A Poole

Secretary

15 November 2010

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 Mrs Murray, its other members being the three non-executive directors. No member of the Committee has any personal financial interest in the matters being decided. Mr Reid and Mr Tuppen attend meetings at the invitation of the Committee 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 the Combined Code on Corporate Governance (while also taking account of the relevant provisions of the new UK Corporate Governance Code). This report has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts & Reports) Regulations 2008.

The Committee seeks advice relating to directors' remuneration from Hewitt New Bridge Street ('HNBS', whose ultimate parent company is Aon Corporation) who were appointed by the Committee. Neither HNBS, nor any other part of Aon Corporation, provide 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. During the year, HNBS assisted the Committee with a number of matters, including:

- consultation with shareholders following the full review of executive remuneration conducted during the latter part of 2009 concerning in particular the level of awards to be made as long-term and short-term incentives and applicable performance conditions.
- a review of executive director remuneration for the financial year 2010/2011 including base salaries and once again the suitable level of awards to be made as long-term and short-term incentives and applicable performance conditions.
- a review of executive remuneration for Chief Financial Officers to assist with the recruitment of Mr Smith and the implications of the retirement of Mr George.
- advice and assistance in connection with the technical operation of the Company's incentive arrangements to take account of changes in the tax regime.

Ernst & Young LLP ('E&Y') have also been appointed by the Committee to provide technical and administrative advice to both the Committee and the Company on the operation of the Company's incentive plans. E&Y are the Group's auditors and also provide advisory services in respect of non-audit matters and taxation. However, the Committee is satisfied that the advice it receives from E&Y is robust, independent and objective.

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.

The Committee Chairman liaises with relevant senior managers in the Group to ensure that pay and employment conditions (e.g. base salary levels/increases, pension provision, the structure of annual bonus/long-term incentive provision) in the Group as a whole are taken into account when framing the executive remuneration policy.

Directors' Remuneration Report

Remuneration policy — executive directors

The Committee regularly reviews the executive directors' remuneration packages to ensure they take due account of the Company's specific circumstances, market practice, the views of its shareholders and are aligned to the Company's key strategic objectives.

When considering market practice (both in terms of the size and structure of executive remuneration), the Committee considers pay practices adopted amongst two comparator groups of companies, (i) a group of listed companies in the Travel and Leisure sector and (ii) a broader group of listed companies from the wider market. Both groups are comprised of companies of a broadly similar size to Enterprise Inns. In addition, wider FTSE 250 practice is also taken into account.

As reported last year, a detailed review of the Company's executive remuneration policy was undertaken, with the assistance of HNBS. The Committee concluded that the existing policy and approach remained both relevant and appropriate in terms of the balance between (i) fixed and variable pay, (ii) short-term incentive and long-term incentive pay and (iii) cash-based and share-based remuneration. However, following a consultation with the Company's major shareholders, certain changes were made to the executive remuneration policy:

- the basic structure of the annual bonus in terms of the use of both challenging EPS targets and individual strategic targets (with the latter now subject to a threshold level of EPS performance), with a significant element of deferral into shares, should remain unchanged. However, it was agreed to reduce the bonus opportunity of Mr Tuppen in relation to the year under review to 100% of salary (from 125%).
- the current approach to long-term incentive provision, which is provided via the regular annual grant of awards under the Company's 2005 Long-Term Incentive Plan that only vest in full five years after grant subject to challenging performance conditions, should also be continued. However, it was agreed that (i) the performance targets for the awards made in the year under review should be primarily based on the Company's relative TSR performance versus the FTSE 250, albeit subject to a financial underpin and (ii) Performance Share award levels for that year should be reduced to 100% of salary (from 150% of salary).

It was also decided that there should be no increase in base salaries or pension provision for the financial year beginning 1 October 2009.

The Committee has once again reviewed this policy and approach and has concluded that it remains relevant and appropriate.

The Remuneration Committee's policy will, therefore, continue to be 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. It is the Committee's policy that the performance-related elements of the package, comprising short-term cash and deferred share bonuses and long-term share-based awards, should comprise a significant portion of total remuneration for the executive directors.

The Committee believes that these performance-related incentive arrangements provide rewards which reflect an appropriate balance between Group and individual performance and align the rewards to executive directors with the long-term interest of shareholders. The current policy is for share-based awards to be satisfied by the use of existing shares held by the Employee Benefit Trust (further details are set out in the Directors' Report on page 13).

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.

Directors' Remuneration Report

The details of individual components of the remuneration package and service contracts are as follows:

Basic salary and benefits

Basic salary is a fixed cash sum payable monthly. The basic salary and benefits are reviewed annually against appropriate comparators and taking account of individual performance. Benefits 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 to individual responsibilities, benchmark data received from its remuneration advisers, current market/economic conditions and the general level of workforce salary increases. Following a recent review by the Committee of pay levels and structure, it was decided that there will be no increase in basic salary levels for the financial year beginning 1 October 2010. This follows a similar salary freeze in the year under review, which means that there have been no increases in base salaries since 1 October 2008.

Pensions

The pension contributions for the executive directors equate to 25% of basic salary. As previously reported the Committee agreed that, from 1 October 2006, Mr Tuppen could 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). No changes have been made to executive pension provision following the Committee's recent review.

Current Enterprise Inns Incentive Plans (the 'Incentive Plans')

For the year under review the Company had the following relevant Plans:

- the Enterprise Inns 2005 Annual Bonus Plan; and
- the Enterprise Inns 2005 Long-Term Incentive Plan (together referred to as the 'Incentive Plans')

The Incentive Plans were adopted at the 2005 Annual General Meeting and provide for participants to earn non-pensionable cash bonuses and share-based short-term and long-term incentives.

Further details of the Incentive Plans are set out below.

Short-term cash and share incentives (the 'Bonus Plan')

Under the terms of the Bonus Plan 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 Bonus Plan for the Chief Executive and the other executive directors was 100% of salary (notwithstanding the fact that the normal 'policy' bonus opportunity for the Chief Executive is 125% of salary).

Awards under the Bonus Plan are subject to demanding performance targets. For the year under review, 80% of the executive directors' bonus was subject to a sliding scale of challenging annual adjusted EPS growth targets, with 20% subject to challenging individual strategic targets, although no bonus is payable under this element of the Bonus Plan irrespective of performance against these targets unless a threshold level of EPS performance is delivered. In the normal course, 60% of any bonus earned is paid in cash, with the remaining 40% deferred into shares (a 'Deferred Share Award'). Deferred Share Awards may not ordinarily be exercised for 36 months after the end of the performance period. Awards between the minimum and maximum limits are calculated by reference to performance achieved against the pre-set targets.

The Deferred Share and cash bonus awards for the year are shown in the remuneration table on page 39. The bonuses paid range from around 86% to 88% of salary and were paid for the achievement of annual adjusted EPS targets (with the actual EPS delivered being above budget) and for performance against the challenging individual strategic objectives that were set at the start of the year. More particularly, these individual strategic objectives related to matters such as refinancing bank debt, debt reduction, pub disposals, improving operational performance and increasing the number of pubs on substantive agreements.

Directors' Remuneration Report

As was the case with the bonuses paid last year it has been decided that, to further strengthen the alignment of interests between executives and shareholders, the entire bonus of Mr Tuppen and Mr Townsend shall be payable as a Deferred Share Award, notwithstanding the fact that the rules of the Bonus Plan require only 40% of any bonus to be deferred.

Given the fact that Mr George will step down from the Board on 20 January 2011 and will cease employment on 31 July, it was considered appropriate to pay his full bonus in cash.

Following the Committee's recent review of executive remuneration, it was decided to retain the core elements of the executive directors' bonus opportunity for the forthcoming year. As a result, for the financial year beginning on 1 October 2010 (i) there will be no change in maximum bonus opportunity (i.e. Mr Tuppen's bonus opportunity will remain at 100% of salary notwithstanding the fact that his normal 'policy' bonus opportunity is 125%) (ii) at least 40% of any bonus earned will be payable as a Deferred Share Award and (iii) 80% of the total bonus opportunity will be payable by reference to performance against a sliding scale of adjusted EPS targets and 20% will be payable for performance against individual strategic targets (subject also to achievement of a threshold level of EPS performance). Mr George will not participate in the Bonus Plan as he is to step down from the Board.

In addition, the Committee has agreed to introduce a 'clawback' provision under which an appropriate means of redress can be applied in relation to the payment of a past bonus in certain circumstances. Further details will be disclosed in due course.

Long-term share incentives under the Incentive Plans

Under the Incentive Plans, two types of long-term incentive awards can be made under the Enterprise Inns 2005 Long-Term Incentive Plan (the 'LTIP'):

- 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 Bonus Plan; and
- shares acquired by participants using their cash bonus or other funds, up to the 25% of salary maximum.

LTIP awards made prior to 2009/10

Awards made under the LTIP prior to the award made for the 2009/10 financial year do not vest in full until five years after grant and are subject to challenging adjusted EPS (as to 50%) and relative TSR (as to 50%) based performance conditions measured over the three year period following grant.

The EPS-based condition measures 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.

The EPS growth targets to which pre 2009/10 awards are subject are as follows:

Average three year 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 occurs if average compound annual adjusted EPS growth is between 7% and 15%.

Directors' Remuneration Report

The TSR targets to which pre 2009/10 awards are subject are as follows:

Company's TSR ranking v. the FTSE 100 over the three year performance period	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.

For these purposes, the Committee 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 using a three month average TSR (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 relative TSR performance over the period).

Save for the award made in December 2008, no part of the TSR portion of pre 2009/10 awards 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.

All awards vest in three equal tranches on the third, fourth and fifth anniversaries of grant. The Committee seeks independent advice to determine the extent to which the adjusted EPS growth and TSR targets are met.

LTIP awards made in December 2009 and for the 2010/11 financial year

As reported last year the Committee carried out a detailed review of remuneration policy including the level of awards to be made under the LTIP for the financial year beginning 1 October 2009 and the applicable performance conditions. Following a consultation exercise with its major shareholders it was decided that (i) for the short-term, Performance Share award levels should be reduced to 100% of salary (from the normal policy grant level of 150% of salary) and (ii) different performance conditions should apply to awards which reflect the Company's aim of generating substantial above market returns to shareholders while also driving financial performance.

Therefore for the award made in December 2009, the performance condition was solely based on relative TSR performance which compares the Company's TSR performance over the three year period commencing on the date of grant with the TSR of the FTSE 250 (as at the date of grant) as follows:

Company's TSR ranking v. the FTSE 250 over the three year performance period	Percentage of Performance Share Award that vests	Level of match under 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.

In addition, irrespective of the Company's TSR performance, awards will only vest if the Committee is satisfied that the TSR result is reflective of the Company's underlying financial performance over the relevant period. When assessing the Company's performance over the relevant period for the purposes of this underpin, the Committee will robustly consider (i) the Company's net debt position, (ii) whether profit per pub is at acceptable levels, (iii) the extent to which there has been a stabilisation of EPS and (iv) cumulative EBITDA performance.

Directors' Remuneration Report

Following a recent review by the Committee it has been agreed that for the incumbent executive directors (bar Mr George who will not participate in the LTIP because he is to step down from the Board), the level of the LTIP awards and performance condition for the financial year 2010/11 will be on the same basis as the December 2009 awards. Therefore, for a second year Performance Share awards to the relevant incumbent executive directors will be at a reduced 100% of salary level (compared to the normal policy grant level of 150% of salary).

In addition, the Committee has agreed to introduce share ownership guidelines for the executive directors. Further details of such guidelines will be disclosed in due course.

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. No increases were made to the base level of non-executive directors' fees for the financial year beginning 1 October 2010 which have been unchanged since 1 October 2008.

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 12 months' notice of termination. There are no special provisions in the executive directors' contracts for compensation in the event of loss of office. The Committee would consider the circumstances of any individual case of early termination and would determine compensation payments accordingly. A fair but robust principle of mitigation would be applied to the payment of compensation in the context of professional advice received as to contractual entitlement.

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

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 take due account of 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

There are no special provisions in the Chairman's and non-executive directors' terms of appointment for compensation in the event of loss of office.

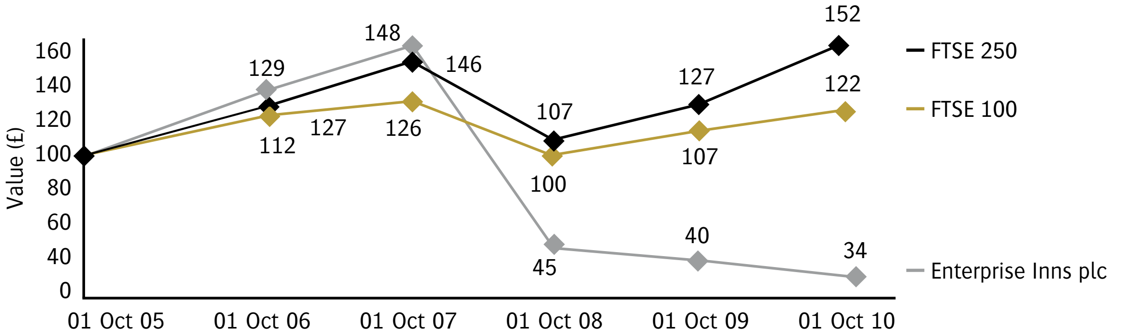
Biographical details of all directors can be found on pages 9 and 10.

Directors' Remuneration Report

The Company's policy regarding the re-election of all directors is explained on page 26.

Performance graph
The graph below shows the TSR, in terms of the change in value (with dividends re-invested) of an initial investment of £100 on 30 September 2005 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 and FTSE 250 indices.

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 and the FTSE 250 Index was selected as it is the index of which the Company is currently a member.



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 2010	Total 2009
H V Reid	236	–	–	–	**236**	236
A J Stewart	60	–	–	–	**60**	64
D A Harding	58	–	–	–	**58**	58
S E Murray	62	–	–	–	**62**	60
D O Maloney	62	–	–	–	**62**	60
Executive Directors						
G E Tuppen (c)	–	640	25	558	**1,223**	811
D C George (d)	–	384	23	339	**746**	476
W S Townsend	–	384	23	331	**738**	475
	478	1,408	71	1,228	**3,185**	2,240

(a) Benefits include car allowances or the use of a motor car, fuel and private medical insurances.

(b) The Chairman and non-executive directors are not eligible for performance-related bonuses or share awards under the Incentive Plans. The bonus disclosed relates to the bonus awarded under the Bonus Plan and earned in the year ended 30 September 2010. The bonus disclosed for Mr Tuppen, Mr George and Mr Townsend reflects the part achievement of challenging adjusted EPS targets and personal objectives during the year which have been measured objectively by the Committee. Details of all Deferred Share Awards made under the Bonus Plan are shown separately in this report.

Directors' Remuneration Report

(c) In addition, for the year under review, Mr Tuppen was paid a salary supplement in lieu of pension contributions of £120,000 and contributions were paid direct to his individual pension arrangements of £40,000. The total of £160,000 is shown in the pensions table below.

(d) As previously reported Mr George will step down from the Board of the Company on 20 January 2011 and will remain an employee of the Company until 31 July 2011. It has been agreed by the Board, on recommendation of the Committee, that he will receive the following: (i) £240,000 in lieu of his entitlement to salary and benefits during the balance of his 12 month notice period which will be paid in six monthly instalments between August 2011 and January 2012, and (ii) £130,000 in lieu of a performance-related bonus entitlement under the Incentive Plans for the 2010/11 financial year provided Mr George ensures an orderly handover of responsibilities and undertakes his other duties in a satisfactory manner. In addition it has been agreed that he will receive £30,000 as compensation for loss of statutory rights and he will be treated as a 'good leaver' for the purposes of (and in accordance with the terms of) awards outstanding under the Incentive Plans, with awards vesting subject to performance conditions and pro rata adjustments where relevant. The Company has also agreed, given his substantial industry knowledge and experience, that it would be beneficial to enter into a consultancy agreement with a Limited Liability Partnership operated by him for a period of one year from 8 August 2011 under which an annual consultation fee of £100,000 will be payable quarterly as consideration for Mr George providing advice and assistance in relation to the general financial structures of the Group (e.g. bank facilities, corporate bonds, securitisation arrangements, convertible loan notes, relationships with Rating Agencies etc). Finally the Company paid £5,000 towards his legal costs in documenting the agreements noted above.

Following a detailed review of current remuneration packages for Chief Financial Officers in comparable benchmark companies, it has been agreed, under the terms of a service agreement dated 8 October 2010, that the Company will pay Mr Smith a base salary of £350,000 at commencement of his employment in January 2011 together with a benefits package comprising contributions of a sum equivalent to 25% of base salary to personal pension arrangements (or salary supplement in lieu), car allowance and private medical insurance. In addition it has been agreed that Mr Smith will be entitled to participate fully in the awards to be made under the Incentive Plans for the 2010/11 financial year.

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

Executive Directors	2010 £'000	2009 £'000
G E Tuppen	160	160
D C George	96	96
W S Townsend	96	96
	352	352

Directors' Remuneration Report

Interest in options

The executive directors and other employees are able to acquire shares in the Company by participating in the Enterprise Inns Savings Related Share Options Scheme. 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 2009	Exercised	Lapsed	Granted	**At 30 Sept 2010**	Market price at exercise £	Aggregate gain £'000
G E Tuppen			–	–	–	–	–	–
	0.512	32,714				**32,714**(ii)		
D C George	3.535	4,554	–	–	–	**4,554**(i)	–	–
W S Townsend	0.512	35,498	–	–		**35,498**(iii)		

Notes:

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

(ii) Exercise period 01/02/2014–01/08/2014.

(iii) Exercise period 01/02/2016–01/08/2016.

Directors' Remuneration Report

Short-term share incentives

Details of short-term awards made under the Bonus Plans are set out in the table below:

Name/ Year	Date of grant	At 1 Oct 2009	Granted	Exercised	**At 30 Sept 2010**	Market price at exercise £	Gain £'000	Market value £'000(v)	Exercisable/ Holding period From	To
G E Tuppen										
2006	14/11/2006	35,134(i)	—	(35,134)	—	0.945	33	—	—	—
2007	28/11/2007	106,010(ii)	—	(106,010)	—	1.049	111	—	12/02/2010	28/11/2010(ix)
2008	no award made	—	—	—	—	—	—	—	—	—
2009	12/11/2009	128,588(iv)	—	(128,588)(viii)	—	1.049	134	—	12/02/2010	25/11/2012(ix)
2010	11/11/2010	—	520,835(vi)	—	**520,835**	—	—	558(vii)	11/11/2013	11/05/2014
Total		269,732	520,835	(269,732)	**520,835**	—	278	558		
D C George										
2006	14/11/2006	15,810(i)	—	(15,810)	—	0.945	15	—	—	—
2007	28/11/2007	47,704(ii)	—	(47,704)(viii)	—	1.049	50	—	12/02/2010	28/11/2010(ix)
2008	28/11/2008	28,823(iii)	—	(28,823)(viii)	—	1.049	30	—	12/02/2010	28/11/2011(ix)
2009	12/11/2009	60,366(iv)	—	(60,366)(viii)	—	1.049	63	—	12/02/2010	25/11/2012(ix)
Total		152,703		(152,703)			158			
W S Townsend										
2006	14/11/2006	13,190(i)	—	(13,190)	—	0.945	12	—	—	—
2007	28/11/2007	43,067(ii)	—	(43,067)(viii)	—	1.049	45	—	12/02/2010	28/11/2010(ix)
2008	28/11/2008	27,563(iii)	—	(27,563)(viii)	—	1.049	29	—	12/02/2010	28/11/2011(ix)
2009	12/11/2009	60,366(iv)	—	(60,366)(viii)	—	1.049	63	—	12/02/2010	25/11/2012(ix)
2010	11/11/2010	—	308,919(vi)	—	**308,919**	—	—	331(vii)	11/11/2013	11/05/2014
Total		144,186	308,919	(144,186)	**308,919**	—	149	331		

Directors' Remuneration Report

Notes:

(i) These shares have vested and have been used to count towards the participants' co-investment in Investment Shares for the purposes of calculating the Matching Share award for the financial year 2006/07, details of which are set out under long-term share incentives below.

(ii) These shares have vested and have been used to count towards the participants' co-investment in Investment Shares for the purposes of calculating the Matching Share award for the financial year 2007/08, details of which are set out under long-term share incentives below. These shares represented the deferral of the entire bonus payable for the year 2006/07.

(iii) These shares have vested and have been used to count towards the participants' co-investment in Investment Shares for the purposes of calculating the Matching Share award for the financial year 2008/09, details of which are set out under long-term share incentives below.

(iv) These shares have vested and have been used to count towards the participants' co-investment in Investment Shares for the purposes of calculating the Matching Share award for the financial year 2009/10, details of which are set out under long-term share incentives below. These shares represented the deferral of the entire bonus payable for the year 2008/09.

(v) Market value is calculated using the mid-market price of the ordinary shares at 30 September 2010 being £1.072.

(vi) The share price at which the number of Deferred Shares granted under the Bonus 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 2009/10 is therefore estimated using the mid-market price of the ordinary shares at 30 September 2010 being £1.072.

(vii) Market value is based on a percentage of basic salary earned as a result of achievement of the bonus objectives for the year 2009/10. 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 participants' co-investment in Investment Shares for the purposes of calculating the Matching Share award for the financial year 2010/11 under the LTIP, details of which are set out under long-term incentives below.

(viii) As a result of proposed changes to UK income tax and national insurance contributions the Committee agreed to allow the executive directors to accelerate the vesting of awards that had been fully earned under the Bonus Plan. On 12 February 2010 the vesting of these awards was therefore accelerated and the options exercised. The exercise was conditional on each director agreeing to hold all the shares acquired on the exercise of the option as 'forfeitable' shares under the rules of the Bonus Plan. Therefore each director has agreed not to sell, transfer, charge or otherwise dispose of any interest in these shares before the expiry of the applicable holding period, being the date the awards would have originally vested. All shares acquired as a result will be forfeited if the director ceases to be an officer or employee of the Group before the expiry of the holding period unless the director ceases to be an officer or employee for one of the 'good leaver' reasons specified under the Bonus Plan. The shares exercised are included in the table of directors' shareholdings on page 11 of the directors' report.

(ix) This is the applicable holding period for the purposes of the awards exercised on 12 February 2010.

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

Directors' Remuneration Report

Long-term share incentives

Details of LTIP awards, together with the details of awards exercised during the year, are set out in the table below.

The performance conditions applicable to these long-term awards are set out on pages 37 to 38.

Name/Plan Year	Date of grant	At 1 Oct 2009	Awarded Performance Shares	Awarded Matching Shares	Exercised	Lapsed	At 30 Sept 2010	Market price at exercise £	Aggregate gain £'000	Market value £'000(x)	Exercisable/ Holding period From	To
G E Tuppen												
2004	04/02/2005(i)	80,947	–	–	(80,947)(vii)	–	–	1.049	85	–	–	–
2005	19/12/2005(ii)	42,213	–	–	(21,106)(viii)	–	–	0.945	20		–	–
			–	–	(21,107)(ix)	–	–	1.049	22		12/02/2010	19/12/2010
2006	15/12/2006(iii)	192,402	–	–	–	(192,402)	–	–	–		–	–
2007	04/12/2007(iv)	224,924	–	–	–		224,924	–	–	241	04/12/2010	04/12/2013
2008	12/12/2008(v)	2,100,081	–	–	–	–	2,100,081	–	–	2,251	12/12/2011	12/12/2014
2009	08/01/2010(vi)	–	558,951	279,474	–	–	838,425	–	–	899	08/01/2013	08/01/2016
Total		2,640,567	558,951	279,474	(123,160)	(192,402)	3,163,430		127	3,391		
D C George												
2004	04/02/2005(i)	48,567	–	–	(48,567)(vii)	–	–	1.049	51	–	–	–
2005	19/12/2005(ii)	25,328	–	–	(12,664)(viii)	–	–	0.945	12	–	–	–
			–	–	(12,664)(ix)	–	–	1.049	13		12/02/2010	19/12/2010
2006	15/12/2006(iii)	115,440	–	–	–	(115,440)	–	–	–		–	–
2007	04/12/2007(iv)	134,954	–	–	–	–	134,954	–	–	145	04/12/2010	04/12/2013
2008	12/12/2008(v)	1,260,048	–	–	–	–	1,260,048	–	–	1,351	12/12/2011	12/12/2014
2009	08/01/2010(vi)	–	335,371	167,684	–	–	503,055	–	–	539	08/01/2013	08/01/2016
Total		1,584,337	335,371	167,684	(73,895)	(115,440)	1,898,057		76	2,035		
W S Townsend												
2004	04/02/2005(i)	40 473	–	–	(40,473)(vii)	–	–	1.049	42	–	–	–
2005	19/12/2005(ii)	21,710	–	–	(10,855)(viii)	–	–	0.945	10	–	–	–
			–	–	(10,855)(ix)		–	1.049	11	–	12/02/2010	19/12/2010
2006	15/12/2006(iii)	107,074	–	–	–	(107,074)	–	–	–	–	–	–
2007	04/12/2007(iv)	129,056	–	–	–	–	129,056	–	–	138	04/12/2010	04/12/2013
2008	12/12/2008(v)	1,260,048	–	–	–	–	1,260,048	–	–	1,351	12/12/2011	12/12/2014
2009	08/01/2010(vi)	–	335,371	167,684	–	–	503,055	–	–	539	08/01/2013	08/01/2016
Total		1,558,361	335,371	167,684	(62,183)	(107,074)	1,892,159		63	2,028		

Notes:

(i) The award is calculated at a maximum of 150% of salary at the start of the performance period as defined under the LTIP. Market value is calculated on the average share price over the five dealing days following announcement for the results for the financial year 2003/04 (341.9p).

(ii) The award is calculated at a maximum of 150% of salary at the start of the performance period as defined under the LTIP. 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).

(iii) The award is calculated at a maximum of 150% of salary at the start of the performance period as defined under the LTIP. Market value is calculated on the average share price over the five dealing days following announcement of the results for the financial year 2005/06 (597.7 pence). As reported last year these awards lapsed in full due to the failure to achieve the performance condition.

(iv) The award is calculated at a maximum of 150% of salary at the start of the performance period as defined under the LTIP. 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). The EPS condition for this award has been tested by Hewitt New Bridge Street and agreed by the Committee at the date of this report and resulted in none of the award subject to the EPS condition vesting. Similarly, the EPS 'underpin' to which the TSR element of the award is subject was not satisfied, resulting in none of the TSR element of the award vesting.

(v) The award is calculated at a maximum of 150% of salary at the start of the performance period as defined under the LTIP. Market value is calculated on the average share price over the five dealing days following announcement of the results for the financial year 2007/08 (60.905 pence).

(vi) The award is calculated at a maximum of 100% of salary at the start of the performance period as defined under the LTIP. Market value is calculated on the average share price over the five dealing days following announcement of the results for the financial year 2008/09 (114.5 pence).

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

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

(ix) As a result of proposed changes to UK income tax and national insurance contributions the Committee agreed to allow the executive directors to accelerate the vesting of awards that had been fully earned under the LTIP (i.e. in respect of which the three year performance period had run its full course). On 12 February 2010 the vesting of these awards was therefore accelerated and the options exercised. The exercise was conditional on each director agreeing to hold all the shares acquired on the exercise of the option as 'forfeitable' shares under the rules of the LTIP. Therefore each director has agreed not to sell, transfer, charge or otherwise dispose of any interest in these shares before the expiry of the applicable holding period, being the date awards would have originally vested. All shares acquired as a result will be forfeited if the director ceases to be an officer or employee of the Group before the expiry of the holding period unless the director ceases to be an officer or employee for one of the 'good leaver' reasons specified under the LTIP. The shares exercised are included in the table of directors' shareholdings on page 11 of the directors' report.

(x) Market value is calculated using the mid-market price of the ordinary shares at 30 September 2010 being £1.072 per share.

The high and low share prices during the year were £1.47 and £0.844 respectively.

£1 in aggregate is payable on the exercise of each year's LTIP award.

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 30 to the accounts on page 86.

Shareholders are invited to approve this report at the Annual General Meeting on 20 January 2011 details of which are set out on pages 131 to 135.

On behalf of the Board

S E Murray

Chairman of the Remuneration Committee

15 November 2010

Group Income Statement

for the year ended 30 September 2010

	Notes	2010 Pre-exceptional items £m	2010 Exceptional items (see note 4) £m	2010 Total £m	2009 Pre-exceptional items £m	2009 Exceptional items (see note 4) £m	2009 Total £m
Revenue	2	753	5	758	811	7	818
Cost of sales	3	(311)	(3)	(314)	(325)	(4)	(329)
Gross profit		442	2	444	486	3	489
Administrative expenses		(37)	(7)	(44)	(36)	(8)	(44)
EBITDA†		405	(5)	400	450	(5)	445
Depreciation and amortisation		(13)	—	(13)	(12)	—	(12)
Operating profit	5	392	(5)	387	438	(5)	433
Profit on sale of property, plant and equipment	7	—	52	52	—	1	1
Goodwill allocated to disposals	8	—	(17)	(17)	—	(8)	(8)
Net profit/(loss) on sale of property, plant and equipment	9	—	35	35	—	(7)	(7)
Movements in valuation of pub estate and related assets	10	—	(225)	(225)	—	(151)	(151)
Interest receivable		1	—	1	3	—	3
Interest payable	12	(218)	—	(218)	(233)	—	(233)
Movement in financial instruments	12	—	(11)	(11)	—	(34)	(34)
Total finance costs	12	(218)	(11)	(229)	(233)	(34)	(267)
Profit before tax		175	(206)	(31)	208	(197)	11
Taxation	13	(46)	103	57	(55)	50	(5)
Profit after tax attributable to members of the Parent Company		129	(103)	26	153	(147)	6
Earnings per share							
Basic	14			5.2p			1.2p
Basic diluted	14			5.2p			1.2p
Adjusted*	14	25.9p			30.7p		
Adjusted diluted*	14	25.8p			30.6p		

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

Group Statement of Comprehensive Income

for the year ended 30 September 2010

	2010 £m	2009 £m
Profit for the year	**26**	6
Other comprehensive income:		
Unrealised surplus/(deficit) on revaluation of pub estate	**38**	(278)
Movement in deferred tax liability related to revaluation of pub estate	**(41)**	80
Write-down of assets held for sale	**(22)**	(14)
Movement in cash flow hedge reserve	**21**	(22)
Deferred tax relating to movements on cash flow hedges	**(7)**	6
Restatement of deferred tax liability related to revaluation of pub estate for change in UK tax rate	**15**	—
Other comprehensive income for the year net of tax	**4**	(228)
Total comprehensive income for the year attributable to members of the Parent Company	**30**	(222)

Group Balance Sheet
at 30 September 2010

	Notes	2010 £m	2009 £m
Non-current assets			
Goodwill	16	**392**	409
Intangible assets: operating lease premiums	17	**13**	15
Property, plant and equipment	18	**4,972**	5,336
		5,377	5,760
Current assets			
Assets held for sale	19	**4**	6
Trade and other receivables	20	**67**	69
Cash		**108**	101
		179	176
Non-current assets held for sale	21	**30**	43
Total assets		**5,586**	5,979
Current liabilities			
Trade and other payables	22	**(205)**	(198)
Current tax payable		**(14)**	(29)
Financial liabilities	23	**(67)**	(141)
Provisions	26	**(6)**	—
		(292)	(368)
Non-current liabilities			
Financial liabilities	23	**(3,346)**	(3,639)
Accruals and deferred income		**(2)**	(3)
Provisions	26	**(2)**	(2)
Deferred tax	27	**(537)**	(591)
Pension scheme	28	**—**	(1)
		(3,887)	(4,236)
Total liabilities		**(4,179)**	(4,604)
Net assets		**1,407**	1,375
Equity			
Called up share capital	29	**14**	14
Share premium account	31	**486**	486
Revaluation reserve	31	**922**	960
Capital redemption reserve	31	**11**	11
Merger reserve	31	**77**	77
Treasury share reserve	31	**(227)**	(227)
Other reserve	31	**(23)**	(26)
Cash flow hedge reserve	31	**(3)**	(16)
Profit and loss account		**150**	96
Enterprise Inns shareholders' equity		**1,407**	1,375

Approved by the Board on 15 November 2010 and signed on its behalf by:

G E Tuppen
D C George

Group Statement of Changes in Equity

at 30 September 2010

	Share capital £m	Share premium account £m	Re-valuation reserve £m	Capital redemp-tion 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 2008	14	486	1,178	11	77	(227)	(28)	–	137	1,648
Profit for the year	–	–	–	–	–	–	–	–	6	6
Other comprehensive income	–	–	(212)	–	–	–	–	(16)	–	(228)
Total comprehensive income	–	–	(212)	–	–	–	–	(16)	6	(222)
Transfer of realised revaluation surplus	–	–	(6)	–	–	–	–	–	6	–
Equity dividends paid (note 15)	–	–	–	–	–	–	–	–	(52)	(52)
Directors' share option entitlements exercised in the year	–	–	–	–	–	–	2	–	(2)	–
Tax related to share schemes recognised directly in equity*	–	–	–	–	–	–	–	–	1	1
At 30 September 2009	14	486	960	11	77	(227)	(26)	(16)	96	1,375
Profit for the year	–	–	–	–	–	–	–	–	26	26
Other comprehensive income	–	–	(10)	–	–	–	–	14	–	4
Total comprehensive income	–	–	(10)	–	–	–	–	14	26	30
Transfer of realised revaluation surplus	–	–	(28)	–	–	–	–	–	28	–
Reclassification of movement in financial instruments	–	–	–	–	–	–	–	(1)	1	–
Directors' share option entitlements exercised in the year	–	–	–	–	–	–	3	–	(3)	–
Share-based expense recognised in operating profit	–	–	–	–	–	–	–	–	2	2
At 30 September 2010	**14**	**486**	**922**	**11**	**77**	**(227)**	**(23)**	**(3)**	**150**	**1,407**

* Tax related to share schemes recognised directly in equity has been moved from the Statement of Comprehensive Income to the Statement of Changes in Equity due to a change in IAS 1 'Presentation of Financial Statements'.

Group Cash Flow Statement
for the year ended 30 September 2010

	2010 £m	2009 £m
Cash flow from operating activities		
Operating profit	387	433
Depreciation and amortisation	13	12
Share-based expense recognised in profit	2	—
(Increase)/decrease in receivables and other	(1)	8
Increase/(decrease) in payables	2	(12)
Increase/(decrease) in provisions	6	(1)
Increase in current assets held for sale	1	—
	410	440
Tax paid	(43)	(59)
Net cash flows from operating activities	367	381
Cash flows from investing activities		
Payments to acquire public houses	—	(4)
Payments made on improvements to public houses	(54)	(52)
Payments to acquire other property, plant and equipment	(1)	(2)
Receipts from sale of property, plant and equipment	270	103
Net cash flows from investing activities	215	45
Cash flows from financing activities		
Interest paid	(220)	(235)
Interest received	1	3
Issue costs of long-term loans	(12)	—
Cancellation and restructuring of interest rate swaps	(53)	—
Equity dividends paid	—	(52)
Debt due in less than one year — new short-term loans	—	107
Debt due in less than one year — repayment of short-term loans	(100)	(38)
Debt due beyond one year — new long-term loans	367	581
Debt due beyond one year — repayment of long-term loans	(558)	(789)
Net cash flows from financing activities	(575)	(423)
Net increase in cash	7	3
Cash at start of year	101	98
Cash at end of year	108	101

Notes to the Group Accounts

at 30 September 2010

1. Accounting policies

The consolidated financial statements of Enterprise Inns plc for the year ended 30 September 2010 were authorised for issue by the Board on 15 November 2010. 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 an operation, an 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 re-instated. Any such goodwill is not included in determining the profit or loss on disposal.

Property, plant and equipment

Licensed land and buildings are held at their fair value and landlord's 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's fixtures and fittings are split into two categories, long life landlord's fixtures and fittings and short life landlord's fixtures and fittings. Both are held at cost less accumulated depreciation. The useful economic life of additions to long life landlord's fixtures and fittings has been calculated at 30 years and short life landlord's fixtures and fittings has been calculated at 5 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.

1. Accounting policies (continued)

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 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.

The Group enters into sale and leaseback transactions where licensed land and buildings have been sold and the Group has immediately entered into a lease agreement with the acquiree. These land and buildings have been classified as operating leases. They are no longer included within Property, Plant and Equipment and the rentals paid are charged on a straight-line basis to the Income Statement 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. Licensed land and buildings 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. Licensed land and buildings 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.

Notes to the Group Accounts
at 30 September 2010

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, 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 re-stated 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. To the extent that the forecast transaction is no longer expected to occur any related cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective shall be reclassified from equity to the Income Statement as a reclassification adjustment.

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.

v) Trade debtors and creditors
Trade debtors and creditors are held at amortised cost.

Net debt
Net debt is the total of all financial assets and liabilities (not including trade receivables and trade payables) less cash. Underlying net debt is amounts repayable to banks and other lenders, net of cash retained in the business.

Notes to the Group Accounts

at 30 September 2010

1. Accounting policies (continued)

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.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly income tax is charged or credited directly to equity if it relates to items charged or credited directly to equity. Otherwise income tax is charge in the Income Statement. 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 Comprehensive Income.

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, re-issued 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 Group Accounts
at 30 September 2010

1. Accounting policies (continued)

Revenue recognition
Revenue represents amounts receivable for goods and services provided in the normal course of business, net of discounts, volume rebates 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
An operating segment is a distinguishable segment of an entity that engages in business activities from which it may earn revenues and incur expenses and whose operating results are reviewed regularly by the entity's chief operating decision maker (CODM). The Board reviews the Group's operations and financial position as a whole and therefore considers that it has only one operating segment, being the operation of a leased and tenanted pub estate operating solely within the UK. The information presented to the CODM directly reflects that presented in the financial statements.

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 had 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. In valuing equity-settled transactions, no account is taken of any service and performance (vesting conditions), other than performance conditions linked to the price of the shares of the Company (market conditions). Any other conditions which are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value. 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.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance or service conditions are satisfied.

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/(loss) on sale of property, plant and equipment, movements in valuation of pub estate and related assets, finance costs and taxation.

Notes to the Group Accounts
at 30 September 2010

1. Accounting policies (continued)
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 items recognised in operating profit
The exceptional revenue, cost of sales and administrative costs relate to the operation of temporary management agreements (TMA). The presentation as exceptional is based on the fact that the cost is not considered to be part of the normal course of business and it is not expected to be incurred for an extended period.

In 2010 there are additional exceptional costs recognised in the administrative costs line relating to reoganisational costs and costs incurred in respect of regulatory matters.

b) Net profit/(loss) on sale of property, plant and equipment
Net profit/(loss) arising from the sale of property, plant and equipment.

c) Movements in valuation of pub estate and related assets
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. The remaining impact of the annual revaluation exercise is accounted for in equity and recognised in the Statement of Comprehensive Income.

d) Movement in financial instruments
The interest rate swaps are re-valued to fair value at each Balance Sheet date and the movement is recognised in the Income Statement unless hedge accounting is adopted. For interest rate swaps where hedge accounting is not applied the fair value movement is analysed between pre exceptional finance costs and exceptional finance costs. Pre exceptional finance costs includes cash payments or receipts on the interest rate swaps so as to show the underlying fixed rate on the debt with the remaining fair value movement (which is generally the movement in the carrying value of the swap in the period) reflected as an exceptional item.

e) 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 changes due to capital gains indexation relief and disposals, a debit or 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 Comprehensive Income.

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

Notes to the Group Accounts
at 30 September 2010

1. Accounting policies (continued)

New standards and interpretations

During the year the Group has adopted the following new standards, interpretations and amendments:

- 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 October 2009
- Amendment to IFRS 2 — Vesting Conditions and Cancellations — effective 1 October 2009
- Amendment to IAS 39 — Eligible Hedged Items — effective 1 July 2009
- Amendment to IFRS 7 — Financial Instrument Disclosures — effective 1 October 2009

The revision to IAS 1 separates owner and non-owner changes in equity. The Statement of Changes in Equity is now shown as a primary statement. The Group has chosen to present the new 'Statement of Comprehensive Income' as a linked statement to the Income Statement rather than as one single statement.'

Other than the amendment to IAS 1 the above have had an immaterial impact on the results of the Group.

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 Group are not expected to have a material impact on the financial statements. The effective dates below represent the latest date that the Group will be required to implement the standard:

- IFRS 9: Financial Instruments — effective 1 January 2013 (not yet endorsed)
- IFRS 7: Financial Instrument Disclosures — effective 1 July 2011
- Amendment to IAS 17 — Leases — effective for accounting periods starting after 1 January 2010

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 18 of these financial statements.

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 CGU's 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 16.

Notes to the Group Accounts
at 30 September 2010

1. Accounting policies (continued)

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.

2. Revenue

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

Revenue is derived as follows:

	2010			2009		
	Pre-exceptional items £m	Exceptional items £m	Total £m	Pre-exceptional items £m	Exceptional items £m	Total £m
Beer and cider sales	493	5	498	528	7	535
Wines, spirits and minerals sales	34	–	34	36	–	36
Rents receivable	212	–	212	231	–	231
Income from amusement and other machines	14	–	14	16	–	16
	753	5	758	811	7	818

3. Cost of sales

	2010			2009		
	Pre-exceptional items £m	Exceptional items £m	Total £m	Pre-exceptional items £m	Exceptional items £m	Total £m
Beer and cider cost of sales	274	3	277	292	4	296
Wines, spirits and minerals cost of sales	25	–	25	27	–	27
Leasehold charges	7	–	7	2	–	2
Repairs and maintenance	5	–	5	4	–	4
	311	3	314	325	4	329

Notes to the Group Accounts
at 30 September 2010

4. Exceptional items recognised in operating profit

	2010 £m	2009 £m
Impact of operating Temporary Management Agreements (TMAs):		
Revenue	5	7
Cost of sales	(3)	(4)
Administrative costs	(4)	(8)
Net cost of operating TMAs	(2)	(5)
Reorganisation and regulatory costs	(3)	—
	(5)	(5)

Temporary Management Agreements (TMAs) were introduced during the year to 30 September 2009, allowing the Group to take immediate control of failed pubs and move them quickly through a refurbishment and relaunch programme. Management companies are paid to run the pubs and the Group benefits from the profits and is responsible for any losses.

The presentation as exceptional is based on the fact that the cost is not considered to be part of the normal course of business and it is not expected to be incurred for an extended period.

The net cost of £2 million (2009 — £5 million) comprises administrative costs of £4 million (2009 — £8 million) being management fees and net losses. This cost is offset by £2 million (2009 — £3 million) of gross profit on beer sales to these pubs.

The TMA programme has now largely served its purpose and therefore no further costs are expected to be incurred.

An exceptional charge of £3 million has been incurred relating to reorganisational costs and costs incurred in respect of regulatory matters.

All other exceptional items are explained in notes 7 to 10 and 12 to 13.

5. Operating profit

Operating profit is stated after charging:

	2010 £m	2009 £m
Depreciation		
Relating to cost of sales	11	11
	11	11
Amortisation		
Relating to cost of sales	2	1
Depreciation and amortisation	13	12

Notes to the Group Accounts
at 30 September 2010

6. Auditors' remuneration

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

	2010 £'000	2009 £'000
Group audit fees	**167**	185
Audit fees in respect of subsidiaries	**16**	35
Other fees pursuant to legislation	**13**	14
Tax fees	**328**	394
All other services	**121**	34
	645	662

Tax fees in 2010 included fees incurred in respect of VAT of £200,000. Tax fees in 2009 included fees in respect of advice on REITs of £221,000.

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

	2010 £m	2009 £m
Normal disposals		
Profits on sale of property, plant and equipment	**30**	17
Losses on sale of property, plant and equipment	**(9)**	(16)
	21	1
Sale and leaseback disposals		
Profits on sale of property, plant and equipment	**31**	—
Total net profit on sale of property, plant and equipment	**52**	1

There is no current or deferred tax movement associated with the profit on sale of property, plant and equipment.

During the year 71 pubs were sold as part of the Group's sale and leaseback programme. These pubs were sold at fair value and generated proceeds of £114 million and resulted in a profit over book value, after fees, of £31 million. These pubs were immediately leased back by the Group and are now classified as operating leases.

8. Goodwill allocated to disposals

	2010 £m	2009 £m
Goodwill allocated to disposals	**(17)**	(8)
	(17)	(8)

In accordance with IAS 36 purchased goodwill is allocated to operations disposed of, based on the relative value of the disposal to operations retained. Accordingly, goodwill of £17 million (2009 — £8 million) has been allocated to the 650 (2009 — 368) pubs disposed of during the year.

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9. Net profit/(loss) on sale of property, plant and equipment including goodwill allocation

	2010 £m	2009 £m
Profits on sale of property, plant and equipment	30	17
Losses on sale of property, plant and equipment	(9)	(16)
Profits on sale and leaseback disposals	31	—
Goodwill allocated to disposals	(17)	(8)
	35	(7)

10. Movements in valuation of pub estate and related assets

	2010 £m	2009 £m
Movements from revaluation of pub estate (see note 18)	(141)	(122)
Movements from revaluation of pub estate (see note 17)	(1)	(2)
Write-down of non-current assets held for sale to fair value less costs to sell (see note 18)	(83)	(23)
Write-down of non-current assets held for sale to fair value less costs to sell	—	(1)
Costs associated with non-current assets held for sale	—	(3)
	(225)	(151)

There is no current tax expense associated with these movements. A deferred tax credit of £63 million (2009 — £42 million) arises as a result of the revaluation and write-down of these properties.

11. Staff costs

	2010 £m	2009 £m
Wages and salaries	22	20
Social security costs	2	2
Other pension costs	2	2
	26	24

Included in wages and salaries is an expense relating to share-based payments of £2 million (2009 — nil). All of this expense arises from transactions accounted for as equity-settled share-based payments (see note 30).

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

The average monthly number of employees comprised:

	2010 No.	2009 No.
Operations staff	201	216
Administration staff	291	299
	492	515

Notes to the Group Accounts
at 30 September 2010

11. Staff costs (continued)

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

	2010 £'000	2009 £'000
Directors emoluments*	3,185	2,240
Share-based payments†	1,126	1,103
Aggregate gains made on exercise of share options	851	392

* Comprises fees, salary, benefits and performance-related bonus.
† Fair value of share-based payments charged to the Income Statement during the year.

12. Finance costs

	2010 £m	2009 £m
Bank loans and overdrafts	45	55
Debentures/secured bonds/securitised bonds	172	175
Other interest payable and finance costs	1	3
Interest payable	218	233
Exceptional finance costs:		
Movement in fair value of financial instruments	(8)	34
Reclassification from cash flow hedge reserve	19	—
Total finance costs	229	267

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) is £202 million (2009 — £214 million) with the balance remaining in total finance costs, excluding reclassification of hedge reserve, being the movement in fair value on swaps.

13. Taxation

a) Total tax expense recognised in the Group Income Statement

	2010			2009		
Current tax	Pre-exceptional items £m	Exceptional items £m	Total £m	Pre-exceptional items £m	Exceptional items £m	Total £m
UK corporation tax	47	(14)	33	53	(2)	51
Adjustments in respect of prior years	(5)	—	(5)	(4)	—	(4)
Total current tax	42	(14)	28	49	(2)	47
Deferred tax						
Origination and reversal of temporary differences (note 13c)	4	(89)	(85)	6	(48)	(42)
Total deferred tax	4	(89)	(85)	6	(48)	(42)
Taxation (note 13b)	46	(103)	(57)	55	(50)	5

13. Taxation (continued)

b) Tax charge reconciliation

	2010			2009		
	Pre-exceptional items £m	Exceptional items £m	Total £m	Pre-exceptional items £m	Exceptional items £m	Total £m
Profit/(loss) before tax	**175**	**(206)**	**(31)**	208	(197)	11
Profit/(loss) on ordinary activities before tax at 28%	**49**	**(57)**	**(8)**	58	(55)	3
Effects of:						
Expenses not deductible for tax purposes/(non taxable income)	**2**	**(12)**	**(10)**	1	2	3
Release of deferred tax in respect of property disposals	**—**	**(11)**	**(11)**	—	(6)	(6)
Movement in deferred tax liability for retained properties due to indexation — see note b(i)	**—**	**(17)**	**(17)**	—	9	9
Adjustments in respect of prior years	**(5)**	**—**	**(5)**	(4)	—	(4)
Movement in deferred tax balances restated at 27%	**—**	**(6)**	**(6)**	—	—	—
Total tax charge/(credit) in the Income Statement	**46**	**(103)**	**(57)**	55	(50)	5

(i) 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 occurred 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. In previous years this pre-acquisition liability has reduced due to capital gains indexation relief, and a credit has been recognised in the Income Statement. Indexation is calculated with reference to the movement in the Retail Price Index (RPI) during the year. In the year to 30 September 2009 RPI decreased which resulted in a charge to the Income Statement. However in the year to 30 September 2010 RPI increased which has resulted in a credit to the Income Statement. The exceptional indexation credit for the year ended 30 September 2010 is £17 million (2009 — £9 million debit). 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.

Notes to the Group Accounts
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13. Taxation (continued)

c) Deferred tax recognised in the Group Income Statement

	2010			2009		
	Pre-exceptional items £m	Exceptional items £m	Total £m	Pre-exceptional items £m	Exceptional items £m	Total £m
Accelerated capital allowances — see note c(i)	6	—	6	6	—	6
Deferred tax on movement in fair value of interest rate swaps	—	8	8	—	(9)	(9)
Temporary differences	(1)	—	(1)	—	—	—
Deferred tax on share schemes	(1)	—	(1)	—	—	—
Deferred tax on movement in valuation of pub estate — see note c(ii)	—	(63)	(63)	—	(42)	(42)
Movement in deferred tax liability due to property disposals and indexation — see note b(i)	—	(28)	(28)	—	3	3
Re-statement of deferred tax balances for change to UK tax rate	—	(6)	(6)	—	—	—
	4	(89)	(85)	6	(48)	(42)

(i) The £6 million deferred tax charge (2009 — £6 million) relates to capital allowances claimed in the Group's tax computations in advance of depreciation. See note 27 for further details.

(ii) The £63 million deferred tax credit on movements in valuation of the pub estate is the tax effect (at 28%) of the £225 million exceptional movement in valuation of the pub estate and related assets in the Income Statement as detailed in note 10. In 2009 the revaluation movement was £151 million, giving rise to a £42 million tax credit.

d) Tax recognised directly in equity

	2010 £m	2009 £m
Movement in deferred tax liability related to revaluation of property and rolled over gains — see note d(i)	41	(80)
Movement in current and deferred tax relating to share schemes	—	(1)
Movement in deferred tax relating to mark to market of cash flow hedges	7	(6)
Restatement of deferred tax balances for change in UK tax rate	(15)	—
Tax charge in the Statement of Comprehensive Income	33	(87)

(i) The movement in the deferred tax liability relating to revaluation of property and rolled over gains is calculated as follows:	2010 £m	2009 £m
Tax effect of unrealised surplus/(deficit) on revaluation of property	21	(78)
Tax effect of revaluation surplus/(deficit) on pubs sold and awaiting sale	24	(6)
Movement in indexation during the year not (credited)/debited to the Income Statement	(2)	25
Adjustment to brought forward capital loss on rolled over gains position	(2)	(3)
Capital losses not previously recognised	—	(18)
Total movement as above	41	(80)

Notes to the Group Accounts
at 30 September 2010

14. Earnings per share

The calculation of basic earnings per share is based on the profit for the year of £26 million (2009 — £6 million) and on 498.6 million (2009 — 497.8 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 £129 million (2009 — £153 million) and on 498.6 million (2009 — 497.8 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:

	2010 £m	2009 £m
Profit after tax	26	6
Exceptional finance costs:		
Movement in financial instruments	11	34
Other exceptional items:		
Net (profit)/loss on disposal of property, plant and equipment including allocation of goodwill	(35)	7
Movements in valuation of pub estate and related assets	225	151
Reorganisation and regulatory costs	3	—
Net cost of Temporary Management Agreements	2	5
Tax impact of exceptional items listed above	(131)	(53)
Movement in deferred tax liability due to indexation and disposals	28	3
Adjusted earnings	129	153

Diluted earnings per share is based on the profit for the year of £26 million (2009 — £6 million) and adjusted profit of £129 million (2009 — £153 million) and on 500.5 million (2009 — 499.3 million) ordinary shares calculated as follows:

	2010 million	2009 million
Basic weighted average number of shares	498.6	497.8
Enterprise Inns Quest share save scheme	1.8	1.4
Long-term and short-term incentive plans	0.1	0.1
Diluted weighted average number of shares	500.5	499.3

Notes to the Group Accounts
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15. Dividends paid and proposed

Paid during the year	2010 £m	2009 £m
Equity dividends on ordinary shares:		
Final dividend relating to prior year nil pence (2009 — 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.

The Board is not proposing to recommend a final dividend for 2010.

16. Goodwill

	2010 £m	2009 £m
At 1 October	409	417
Allocated to disposals	(17)	(8)
At 30 September	392	409

Allocation to disposals
In accordance with IAS 36 goodwill is allocated to operations disposed of, based on the relative value of the disposal to operations retained. Accordingly, goodwill of £17 million (2009 — £8 million) has been allocated to the 650 (2009 — 368) pubs disposed of during the year.

Impairment testing
Goodwill acquired via business combinations is tested annually for impairment. For this purpose, the goodwill is allocated to the pub estate being a group of Cash Generating Units. 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. The recoverable amount is determined from value in use calculations.

Value in use is calculated using budgeted EBITDA and forecasts of cash flow over a five year period, as prepared for the Board. The five year cash flows continue to be risk adjusted to reflect a conservative outlook. They include the impact of the reduction in consumer spending as a result of the difficult economic conditions and have also been adjusted to reflect the Group's disposal programme. 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 (2009 — 3%). The key driver to maintaining the growth rate is management's 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. Management uses judgement and past experience when preparing the budgeted EBITDA.

16. Goodwill (continued)

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 flows. In making this adjustment to the Group WACC, management have risk adjusted it by using an average of the highest four market risk premiums and Company betas obtained from five advisors at the year end date. The pre-tax risk adjusted discount rate used in the testing at 30 September 2010 was 8% (2009 — 8%).

As of 30 September 2010, the pre-tax adjusted discount rate could increase to 10% 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 3% in the growth rate of cash flows would result in no impairment.

There is no impairment to goodwill in the period.

17. Intangible assets: operating lease premiums

	2010 £m	2009 £m
Cost:		
At 1 October	**20**	23
Impairment of operating leases to fair value	**(1)**	(2)
Transfer to non-current assets held for sale	—	(1)
At 30 September	**19**	20
Amortisation:		
At 1 October	**5**	5
Provided during the year	**1**	—
At 30 September	**6**	5
Net book value:		
At 30 September	**13**	15
At 1 October	**15**	18

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 106 years.

There are 93 pubs attracting operating lease premiums in 2010 (2009 — 93).

Notes to the Group Accounts
at 30 September 2010

18. Property, plant and equipment

	Licensed land and buildings £m	Landlord's fixtures and fittings £m	Other assets £m	Total £m
Cost or valuation				
At 1 October 2008	5,657	195	33	5,885
Additions	24	37	2	63
Revaluation:				
— Recognised in the Statement of Comprehensive Income	(278)	—	—	(278)
— Recognised in the Income Statement	(122)	—	—	(122)
Write-down to fair value less costs to sell:				
— Recognised in the Statement of Comprehensive Income	(14)	—	—	(14)
— Recognised in the Income Statement	(23)		—	(23)
Net transfers to non-current assets held for sale	(125)	(13)	—	(138)
At 1 October 2009	5,119	219	35	5,373
Additions	28	32	1	61
Revaluation:				
— Recognised in the Statement of Comprehensive Income	38	—	—	38
— Recognised in the Income Statement	(141)	—	—	(141)
Write-down to fair value less costs to sell:				
— Recognised in the Statement of Comprehensive Income	(22)	—	—	(22)
— Recognised in the Income Statement	(83)	—	—	(83)
Net transfers to non-current assets held for sale	(186)	(18)	—	(204)
Disposals	—	(3)	—	(3)
At 30 September 2010	4,753	230	36	5,019
Depreciation				
At 1 October 2008	8	12	6	26
Charge for the year	1	8	3	12
Disposals	—	(1)	—	(1)
At 1 October 2009	9	19	9	37
Charge for the year	3	6	3	12
Net transfers to non-current assets held for sale	(1)	(1)	—	(2)
At 30 September 2010	11	24	12	47
Net book value				
At 30 September 2010	**4,742**	**206**	**24**	**4,972**
At 30 September 2009	5,110	200	26	5,336

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 2010 by Humberts Leisure Limited and Christie & Co., independent Chartered Surveyors, and by the internal Head of Estates, Simon Millar MRICS, Chartered Surveyor.

18. Property, plant and equipment (continued)

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.

Land and Buildings are valued on an individual basis, however in order to give an indication as to the sensitivity of the revaluation, movements in both the total income stream and the average yield have been tested, each in isolation. All other variables are held constant in order to assess the effect on the valuation. This information should not be taken as a projection of likely future valuation movements as the interaction of more than one input to the valuation model on a pub by pub basis is actually assessed in the year end revaluation exercise. Decreasing the yield used in the revaluation at 30 September 2010 by 0.25% would increase the valuation of the estate by £118 million, increasing the yield by 0.25% would decrease the valuation by £112 million. Increasing the income streams used in the revaluation at 30 September 2010 by 0.25% would increase the valuation by £124 million, decreasing the income streams by 0.25% would decrease the valuation by £124 million.

The pubs used as security for the secured bonds and debenture in Enterprise Inns plc have been valued by Humberts Leisure Limited (2,076 pubs). The balance of the estate held in Enterprise Inns plc (1,423 pubs) has been valued by the Head of Estates. The results of this internal valuation have been compared to that of the external valuers. This review ensured that the results are consistent.

A representative sample of the pubs held by Unique Pub Properties Limited ('Unique') has been valued by Christie & Co. (200 pubs). The method of this valuation has been applied across the rest of the Unique estate (2,853 pubs) 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. have valued 200 of the pubs from within the Unique Securitisation and state within their report that they have used valuer judgement to interpret the most recent available evidence and current market sentiment to arrive at the valuation.

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 2010	
Cost	3,723
Accumulated depreciation	(35)
Net book value	3,688
At 30 September 2009	
Cost	4,018
Accumulated depreciation	(36)
Net book value	3,982

The carrying value of property held under finance leases at 30 September 2010 was £213 million (2009 — £232 million). Additions during the year include £2 million of property held under finance leases (2009 — £2 million).

At 30 September 2010, the Group had entered into contractual commitments to purchase £4 million (2009 — £3 million) of property, plant and equipment.

19. Current assets held for sale

Fixtures and fittings purchased from tenants	2010 £m	2009 £m
Cost		
At 1 October	7	15
Transferred to Landlord's Fixtures and Fittings	(1)	(8)
Additions	8	9
Disposals	(9)	(9)
At 30 September	5	7
Provision		
At 1 October	1	4
Transferred to Landlord's Fixtures and Fittings	—	(2)
Charge for the year	2	1
Utilised during the year	(2)	(2)
At 30 September	1	1
Net realisable value	4	6

20. Trade and other receivables

	2010 £m	2009 £m
Trade receivables	52	58
Prepayments and accrued income	6	4
Other receivables	9	7
	67	69

The ageing of trade receivables at 30 September was as follows	2010 £m	2009 £m
Not past due	46	51
Up to 30 days overdue	4	3
31–60 days overdue	2	1
61–90 days overdue	—	1
More than 90 days overdue	—	2
	52	58

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20. Trade and other receivables (continued)

Credit risk

There are no significant concentrations of credit risk within the Group. The Group is exposed to a small amount of credit risk that is primarily attributable to trade receivables and cash balances. The Group's objective is to minimise this risk by dealing with third parties with high credit ratings and carrying out credit checks where appropriate. The amount of trade and other receivables included in the balance sheet are net of a bad debt provision which has been 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 2010 the value of collateral is £32 million (2009 — £31 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.

	2010 £m	2009 £m
Provision as at 1 October	3	3
Increase in provision during the year	2	3
Provision utilised during the year	(1)	(1)
Provision released during the year	(2)	(2)
Provision as at 30 September	2	3

There are no indications as at 30 September 2010 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.

21. Non-current assets held for sale

	2010 £m	2009 £m
At 1 October	43	11
Net transfer from property, plant and equipment (note 18)	202	137
Net transfer from intangible assets: operating lease premiums (note 17)	—	1
Write-down to fair value less costs to sell	(3)	(1)
Disposals	(212)	(105)
At 30 September	30	43
Representing:		
Property, plant and equipment	30	42
Intangible assets: operating lease premiums	—	1
	30	43

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.

At the end of the year non-current assets held for sale includes 129 pubs which are expected to be sold within the next year (2009 — 175 pubs).

A balance of £1 million (2009 — £2 million) in relation to these pubs is held within the revaluation reserve representing revaluation surpluses.

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22. Trade and other payables

	2010 £m	2009 £m
Trade payables	64	67
Accruals and deferred income	87	89
Other payables	54	42
	205	198

Included within other payables is a balance of £32 million (2009 — £31 million) being collateral held by the Group in the form of cash deposits. See note 20.

23. Financial assets and liabilities

Financial liabilities	2010 £m	2009 £m
Current		
Secured bank facility	—	100
Bank borrowings	61	—
Interest rate swaps	6	41
	67	141
Non-current		
Bank borrowings	614	801
Corporate bonds	1,181	1,181
Securitised bonds	1,541	1,619
Interest rate swaps	6	34
Finance lease payables	4	4
	3,346	3,639
Total financial liabilities	3,413	3,780
Total financial assets and liabilities	3,413	3,780

Fair values

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

23. Financial assets and liabilities (continued)

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

	Interest rate	2010 Nominal value £m	2010 Book value £m	2010 Fair value £m	2009 Nominal value £m	2009 Book value £m	2009 Fair value £m
Bank borrowings	LIBOR + 1.2%	686	675	675	802	801	802
Secured bank facility	LIBOR + 1.25%	—	—	—	100	100	100
Corporate bonds:							
Debenture — issued 3 February 1999	6%	60	60	55	60	60	51
Secured bond — issued 9 May 2000	6.875%	125	124	100	125	124	93
Secured bond — issued 15 February 2001	6.875%	125	124	105	125	124	95
Secured bond — issued 26 February 2002	6.375%	275	272	201	275	272	197
Secured bond — issued 3 March 2003	6.5%	600	601	513	600	601	483
		1,185	1,181	974	1,185	1,181	919
Securitised bonds:							
A2N — issued 25 February 2005	LIBOR + 0.16%	116	116	116	191	191	191
A3 — issued 30 March 1999	6.542%	435	451	399	435	452	383
A4 — issued 20 September 2002	5.659%	535	536	433	535	536	412
M — issued 30 March 1999	7.395%	225	242	175	225	244	165
N — issued 20 September 2002	6.464%	190	196	123	190	196	115
		1,501	1,541	1,246	1,576	1,619	1,266
Interest rate swaps:							
£275m swap expiring 1 June 2012	6.662%	—	—	—	—	32	32
£350m swap expiring 30 September 2011	4.887%	—	—	—	—	22	22
£27m swap expiring 30 December 2012	7.873%	—	2	2	—	5	5
£14m swap expiring 30 December 2012	7.873%	—	1	1	—	3	3
£75m swap expiring 30 September 2013	6.079%	—	9	9	—	13	13
		—	12	12	—	75	75
		3,372	3,409	2,907	3,663	3,776	3,162
Finance lease payables (note 25)		—	4	4	—	4	4
Total debt		3,372	3,413	2,911	3,663	3,780	3,166
Cash*		(108)	(108)		(101)	(101)	
Underlying net debt/net debt (note 24)		3,264	3,305		3,562	3,679	

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. 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.

23. Financial assets and liabilities (continued)

Interest rate swaps

On 30 September 2010, the £350 million swap expiring 30 September 2011 was cancelled. The Group paid £14 million to eliminate the fair value of the swap at the date of cancellation. This swap was previously designated as an effective hedge.

On 27 May 2010, the £275 million swap expiring 1 June 2012 was cancelled. The Group paid £30 million to eliminate the fair value of the swap at the date of cancellation. This swap was not designated as an effective hedge.

On 29 September 2006 the Group designated the £350 million swap referred to above as an effective cash flow hedge under IAS 39. As a result, changes in the fair value of the effective portion of this swap were recognised directly in equity with changes in the fair value of the ineffective portion of the hedge recognised in the Income Statement.

In line with Group accounting policy, to the extent that the forecast transaction, being the underlying debt, is no longer expected to occur, any related cumulative losses held in the cash flow hedge reserve are reclassified to the Income Statement. As a result of the Group refinancing in May 2010 a significant portion of the debt against which the interest rate swap is hedged, is no longer expected to exist due to planned reductions in the level of the debt. This has resulted in a reclassification from the cash flow hedge reserve to the Income Statement of £19 million. After taking into account a £5 million fair value credit the net charge to the Income Statement in relation to this interest rate swap is £14 million.

In addition to the above transactions a further £9 million was paid to restructure Group interest rate swaps.

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:

	2010 £m	2009 £m
At 1 October	**75**	19
Cancellation of interest rate swaps	**(53)**	—
Fair value movements:		
— ineffective portion and swaps not designated as effective hedges recognised in Income Statement	**(8)**	34
— effective portion recognised in Cash Flow Hedge Reserve	**(2)**	22
At 30 September	**12**	75

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. The purpose of such transactions is to manage the interest rate risk arising from the Group's sources of finance.

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:

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at 30 September 2010

23. Financial assets and liabilities (continued)

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 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 bank facilities

The nominal value of the Group's borrowings (excluding interest rate swaps and finance lease payables) comprised:

	2010	2009
Bank borrowings	20%	25%
Corporate bonds	35%	32%
Securitised bonds	45%	43%

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

	2010			2009		
	Debt £m	Interest £m	Total £m	Debt £m	Interest £m	Total £m
In more than five years	2,362	1,092	3,454	2,510	1,354	3,864
In more than two years but not more than five years	891	505	1,396	184	501	685
In more than one year but not more than two years	58	197	255	869	197	1,066
In one year or less or on demand	61	198	259	100	214	314
	3,372	1,992	5,364	3,663	2,266	5,929

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 £3,409 million as the book value of Group debt includes the fair value of interest rate swaps which is based on discounted cash flows, and unamortised fees. 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 25.

23. Financial assets and liabilities (continued)

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

Bank borrowings	2011
Forward start facility	2012–2013
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 in	2010 £m	2009 £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	–	198
In one year or less or on demand	114	–
	304	388

The undrawn facilities relate to:

	2010 £m	2009 £m
Undrawn liquidity facility*	190	190
Undrawn element of committed bank facility	114	198

* 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 2011. The facility relates to the N note which is repayable 2027–2032 and therefore the facility has been disclosed as expiring in more than five years.

The new Forward Start Facility that was signed in May 2010 is fully committed and will commence in May 2011 when the current bank facility matures. The new facility of £625 million comprises a tranche of £206 million which expires in December 2012 and a tranche of £419 million which expires in December 2013. The overall facility will amortise at an amount of £25 million every six months, commencing in December 2011. A margin of 3.5% is now being paid on current borrowings by lenders who are participating in the new facility.

Further details in respect of the Board's considerations on liquidity are disclosed within the Chief Executive's Review on page 5 within the secure financing structure and robust cash flow section.

23. Financial assets and liabilities (continued)

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 2010, the Group's borrowings were 80% fixed (after including the impact of interest rate swaps) with an average interest rate of 6.4% for 9 years (2009 — 92% fixed at an average rate of 6.5% for 10 years).

Interest rate sensitivity

In estimating the sensitivity of the financial instruments we have assumed a reasonable potential change in interest rates. The method used assumes that all other variables are held constant to determine the impact on profit before tax. The analysis is for illustrative purposes only, as in practice market rates rarely change in isolation.

Actual results in the future may differ materially from these estimates due to the movements in the underlying transactions, actions taken to mitigate any potential losses, the interaction of more than one sensitivity occurring, and further developments in global financial markets. As such this table should not be considered as a projection of likely future gains and losses in these financial instruments.

	Interest receivable	Interest Payable	Movement in fair value of interest rate swap	
	Income statement		Income statement	Equity
	£m	£m	£m	£m
At 30 September 2010				
Effect if interest rates increased by 50 basis points (0.5%)	1	(4)	1	—
Effect if interest rates decreased by 50 basis points (0.5%)	(1)	4	(1)	—
At 30 September 2009				
Effect if interest rates increased by 50 basis points (0.5%)	3	(3)	10	4
Effect if interest rates decreased by 50 basis points (0.5%)	(3)	3	(10)	(4)

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 2010 is — Property, Plant and Equipment £4,948 million (2009 — £5,310 million), operating lease premiums £13 million (2009 — £15 million) and pubs held for sale £30 million (2009 — £43 million).

Covenants

The Group is subject to a number of covenants in relation to its borrowing facilities. The covenants are different for each tranche of debt and include a covenant on net debt to EBITDA, minimum EBITDA to interest, asset and debt ratios, minimum available cash flow to debt service costs and a net worth ratio. The Group tests these covenants on a regular basis and forecasts are prepared during the budgeting process. These are reviewed at Board level.

23. Financial assets and liabilities (continued)

Hierarchical classification of financial instruments measured at fair value

IFRS 7 requires that for fair value measurements recognised in the Balance Sheet the inputs used in the valuation are graded using a prescribed hierarchy as described below:

Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 — Other techniques whereby the inputs are either directly or indirectly derived from market data.
Level 3 — Inputs used in the valuation are not based on observable market data.

The Group has three interest rate swaps which are recognised in the Balance Sheet at fair value. The inputs used in the valuation have been evaluated as level 2 within the hierarchy described above.

24. Capital disclosures and analysis of changes in net debt

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 business 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. This includes a strategy on dividends, share buy backs and monitoring liquidity risk. The overall financing strategy of the Group is presented to the Board annually as part of the budgeting exercise.

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 23). Equity is defined as total shareholders' funds.

The Board considers capital structure when recommending dividends. Given the current degree of market uncertainty, the Board does not consider that the resumption of dividends would now be appropriate.

	2010 £m	2009 £m
Total debt	3,413	3,780
Cash	(108)	(101)
Net debt	3,305	3,679
Equity	1,407	1,375
Net debt ratio	70%	73%

Notes to the Group Accounts

at 30 September 2010

25. 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

	2010 £m	2009 £m
Future minimum lease payments due under finance leases:		
After one year but not more than five years	2	2
In more than five years	26	27
	28	29
Future finance lease interest	(24)	(25)
Present value of future minimum lease payments	4	4

The present value of future minimum lease payments is due in more than five years (2009 — 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 £77 million (2009 — £98 million).

Operating leases

	2010 £m	2009 £m
Operating lease rentals recognised as an expense in the year	6	3

	2010 £m	2009 £m
Future minimum lease payments due under operating leases:		
Within one year	10	3
After one year but not more than five years	40	12
In more than five years	193	55
	243	70

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 £87 million (2009 — £24 million).

Notes to the Group Accounts
at 30 September 2010

25. 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 1 and 30 years and are classified for accounting purposes as operating leases. Most of the leases with terms of over 3 years include provision for rent reviews on either a 3 or 5 year basis.

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

	2010 £m	2009 £m
Future minimum lease rentals receivable under operating leases:		
Within one year	199	219
After one year but not more than five years	636	721
In more than five years*	1,141	1,417
	1,976	2,357

* Leases with future minimum lease rentals receivable under operating leases in more than five years have an average term of 14 years (2009 — 14 years) remaining on their agreements.

26. Provisions

	2010 £m	2009 £m
At 1 October:		
Current	—	—
Non-current	2	3
	2	3
Movement during the year:		
Increase in provision during the year	6	—
Release of provision during the year	—	(1)
	6	(1)
At 30 September:		
Current	6	—
Non-current	2	2
	8	2

The increase to current provisions in the year of £6 million relates a receipt from HMRC in respect of VAT. This amount has been paid on the condition it will be returned if HMRC is successful in an appeal to be heard in the European Court of Justice. The Group has therefore recognised this amount as a provision until a final decision has been handed down.

The non-currrent 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 10 to 60 years.

Notes to the Group Accounts
at 30 September 2010

27. Deferred tax

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

	2010 £m	2009 £m
Unrealised surplus on revaluation of fixed assets and rolled over gains — see note 27(a)	**434**	500
Accelerated capital allowances — see note 27(b)	**117**	116
Fair value of interest rate swaps	**(7)**	(20)
Share-based payments	**(2)**	(2)
Temporary differences	**(5)**	(3)
	537	591

In June 2010, the UK government announced its intention to propose Parliament reduce the main rate of UK corporation tax from 28% to 24% by 1 April 2014 by enacting, every year until 2014, a reduction of 1%. At 30 September 2010 the first of these reductions, being a change in UK corporation tax rate from 28% to 27% on 1 April 2011, had been substantively enacted therefore the deferred tax assets and liabilities included within these Financial Statements have been calculated based on this reduced current UK corporation tax rate of 27%. The forecast effect of the further above proposed reductions in rate by 2014 would be to decrease the net deferred tax liability by £64 million. £19 million is expected to be recognised in the Income Statement and £45 million in equity.

The government also announced that the main rate of capital allowances will fall from 20% to 18% with effect from 1 April 2012, with the rate in respect of integral features falling from 10% to 8%. The impact on the timing of the capital allowance receipts has not been quantified as it is not practicable to do so.

(a) The deferred tax provision for the unrealised surplus on the revaluation of fixed assets has moved during the year as follows:

	2010 £m
Opening provision at 1 October 2009	**500**
Reduction in deferred tax liability due to property disposals credited to the Income Statement	**(11)**
Reduction in deferred tax liability due to indexation credited to the Income Statement	**(17)**
Reduction in deferred tax liability due to movements from revaluation of pub estate recognised in the Income Statement	**(63)**
Increase in deferred tax liability recognised directly in equity	**41**
Restatement for change in UK tax rate	**(16)**
Closing provision at 30 September 2010	**434**

Notes to the Group Accounts
at 30 September 2010

27. Deferred tax (continued)

(b) Deferred tax provided in respect of Accelerated Capital Allowances (ACA's) increased by £6 million during 2010, from £116 million to £122 million, being the ACA tax charge detailed in note 13c. The deferred tax balance has then been restated to reflect the change in UK tax rate. The year end balance is therefore £117 million. The movement is calculated as follows:

	Net Book Value in excess of Tax Written Down Value £m	Tax at 28% £m
Opening balance at 1 October 2009	414	116
Depreciation	(7)	(2)
Capital Allowances	28	8
Closing balance at 30 September 2010 at 28%	435	122
Restated for change in UK tax rate		(5)
Closing balance at 30 September 2010 at 27%	435	117

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.

28. Pension scheme

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 that has now been liquidated as part of the Group reorganisation) 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 2010. The valuation was carried out by Mercer, independent professionally qualified actuaries, using the projected unit credit method.

Assets and liabilities of the plan	**2010 £m**	2009 £m
Fair value of plan assets:		
Equities	**11**	11
Bonds	**8**	7
	19	18
Present value of plan liabilities	**(19)**	(19)
Net pension deficit	**–**	(1)

The present value of plan liabilities relates to funded plans.

28. Pension scheme (continued)

Movement in deficit during the year

	2010 £m	2009 £m
Net deficit at the start of the year	(1)	(1)
Employer contributions	1	—
Net deficit at the end of the year	—	(1)

Analysis of amounts recognised in the Income Statement

	2010 £m	2009 £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 Comprehensive Income

	2010 £m	2009 £m
Actual return on plan assets	2	2
Less expected return on plan assets	(1)	(1)
	1	1
Other actuarial gains and losses	(1)	(1)
	—	—

Changes in the fair value of plan assets

	2010 £m	2009 £m
Fair value of plan assets at the start of the year	18	16
Expected return on plan assets	1	2
Actuarial gain on plan assets	1	1
Benefits paid	(2)	(1)
Employer contributions	1	—
Fair value of plan assets at the end of the year	19	18

Notes to the Group Accounts
at 30 September 2010

28. Pension scheme (continued)
Changes in the present value of scheme liabilities

	2010 £m	2009 £m
Present value of plan liabilities at the start of the year	**(19)**	(17)
Interest cost	**(1)**	(2)
Benefits paid	**2**	1
Actuarial loss on plan liabilities	**(1)**	(1)
Present value of plan liabilities at the end of the year	**(19)**	(19)

The principal assumptions made by the actuaries were:

	2010 %	2009 %
Rate of increase in pension payments	**3.60**	3.60
Rate of increase of pensions in deferment	**2.70**	3.30
Discount rate	**5.10**	5.60
Inflation assumption	**3.20**	3.30
Expected return on plan assets:		
Equities	**7.30**	6.75
Bonds	**4.38**	3.95
Longevity at age 65 for current pensioners		
Men	**23 years**	23 years
Women	**26 years**	26 years
Longevity at age 65 for future pensioners		
Men	**25 years**	24 years
Women	**28 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 2010 are after a deduction for plan expenses of 0.75% p.a. (2009 – 0.75%).

The mortality tables used to value the plan's liabilities are PMA92(YOB)mc subject to a minimum annual improvement of 1% p.a. for current pensioners and for future retirees. These tables give a life expectancy as set out above.

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at 30 September 2010

28. Pension scheme (continued)

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

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Fair value of plan assets	**19**	18	16	19	19
Present value of plan liabilities	**(19)**	(19)	(17)	(17)	(19)
Net (deficit)/surplus	**—**	(1)	(1)	2	—
Experience adjustments on plan assets	**1**	1	(4)	—	1
Experience adjustments on plan liabilities	**(1)**	(1)	—	2	(1)

Total contributions to the defined benefit scheme during the year to 30 September 2011 are expected to be £490,000.

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 Comprehensive Income is a loss of £1 million (2009 — £1 million loss).

29. Share capital

	2010		2009	
Authorised:	**No.**	**£m**	No.	£m
Ordinary shares of 2.5p each	**1,000,000,000**	**25**	1,000,000,000	25

	2010		2009	
Allotted, called up and fully paid:	**No.**	**£m**	No.	£m
Ordinary shares of 2.5p each	**555,977,435**	**14**	555,977,435	14

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

At 30 September 2010, the Group owned 50 million (2009 — 50 million) of its own shares as treasury shares with a nominal value of £1 million (2009 — £1 million) and a market value of £54 million (2009 — £62 million).

In addition, at 30 September 2010 the Group held 7,021,056 shares with a nominal value of £0.2 million and a market value of £8 million (2009 — 7,992,048 shares, nominal value £0.2 million, market value £10 million). These shares are held by the Employee Benefit Trust and are shares used to satisfy awards made under the Enterprise Inns Incentive Plans and other share option schemes (note 30).

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at 30 September 2010

30. 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 33 to 45.

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 (2009 — £nil 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 2005, 2006, 2007, 2008, 2009 and 2010.

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:

	2010	2009
Outstanding beginning of year	**368,413**	152,371
Granted	**323,994**	291,101
Vested	**(43,078)**	(69,359)
Forfeited/expired	**(9,477)**	(5,700)
Outstanding at end of year	**639,852**	368,413
Weighted average remaining contractual life	**1.6 years**	1.9 years

Employee Share Option Scheme

The ESOS scheme is open to all employees. Share options are awarded to employees at the discretion of the Board. The current intention of the Board is to issue options with an exercise price equal to the market value of a share at grant date. Options will normally vest after three years if an employee remains in service and if EPS or EBITDA growth targets are met. For options granted during the year ended 30 September 2007 options will only vest in full if the average compound annual percentage growth in adjusted EPS between the grant date and the third anniversary of the grant date is 8.33%. For options granted during the years ended 30 September 2008 and 30 September 2009 options will only vest in full if aggregate EDITDA for the three consecutive financial years commencing 1 October 2008 and 1 October 2009 is more than £1.32 billion and £1.25 billion respectively. 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.

Notes to the Group Accounts
at 30 September 2010

30. Share-based payments (continued)

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

	2010 Number of share options	2010 Weighted average exercise price £	2009 Number of share options	2009 Weighted average exercise price £
Outstanding beginning of year	**9,268,016**	**2.49**	5,217,305	4.27
Granted	**6,362,100**	**1.01**	4,997,100	0.64
Exercised	**(1,076)**	**0.64**	(22,331)	1.40
Forfeited/expired	**(1,773,926)**	**3.50**	(924,058)	2.64
Outstanding at end of year*	**13,855,114**	**1.68**	9,268,016	2.49
Weighted average remaining contractual life		**7.7 years**		7.4 years

* Included in this balance are 30,539 options (2009 — 30,539) which have not been accounted for under IFRS 2 as they were granted before 7 November 2002. Such options are not accounted for under IFRS 2 in line with the transitional provisions of this standard and of IFRS 1 'First-time adoption of IFRS'. Options will only vest in full if certain performance criteria are met.

Options outstanding at 30 September 2010 comprise the following:

Exercise date	Number of share options	Exercise price £
Exercisable:		
11/12/04–11/12/11	30,539	1.29
16/12/05–16/12/12	78,059	1.40
08/12/06–08/12/13	168,029	2.45
07/12/07–07/12/14	834,046	3.51
18/05/08–18/05/15	355,000	3.79
06/12/08–06/12/15	1,192,018	4.45
	2,657,691	
Not yet exercisable:		
03/12/10–03/12/17	841,976	5.07
08/12/11–08/12/18	4,344,376	0.64
08/12/12–08/12/19	6,011,071	1.01
	11,197,423	
	13,855,114	

The weighted average fair value of options granted during the year under the ESOS was £0.57 (2009 — £0.21).

30. Share-based payments (continued)

Savings-Related Share Option Scheme

The SAYE scheme is open to executive directors and employees at the discretion of the Board. Participants contract to save a fixed amount each month with a savings institution for a period of five or seven years. At the end of the savings term, participants are given the option to purchase shares at a price set before the savings began. The option price will be not less than 80% of the market value of a share on the date that participants are invited to take part in the scheme, or the nominal value of a share if lower. Options will usually be settled using ordinary shares held by the 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:

	2010 Number of share options	2010 Weighted average exercise price £	2009 Number of share options	2009 Weighted average exercise price £
Outstanding at beginning of year	**4,351,318**	**0.61**	830,294	2.89
Granted	**177,891**	**1.00**	4,365,465	0.51
Exercised	**(44,238)**	**0.60**	(6,852)	1.05
Forfeited/expired	**(533,374)**	**0.96**	(837,589)	2.36
Outstanding at end of year‡	**3,951,597**	**0.58**	4,351,318	0.61
Weighted average remaining contractual life		**4.0 years**		4.8 years

Options outstanding at 30 September 2010 comprise the following:

Exercise date	Number of share options	Exercise price £
Not yet exercisable:		
01/02/10–01/08/12	9,178	2.73
01/02/11–01/08/11	3,600	1.86
01/02/11–01/08/13	29,886	3.54
01/02/12–01/08/14	6,380	4.67
01/02/13–01/08/15	12,185	4.25
01/02/14–01/08/16	3,726,271	0.51
01/02/15–01/08/17	164,097	1.00
	3,951,597	

The weighted average fair value of options granted during the year under the SAYE scheme was £0.75 (2009 — £0.15).

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30. Share-based payments (continued)

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 33 to 45.

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/or 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:

	2010		2009	
	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	**5,783,260**	**1,329,248**	1,748,070	1,925,604
Granted †	**1,844,535**	**1,098,508**	4,620,177	845,415
Exercised	**(259,238)**	**(666,440)**	(214,609)	(91,711)
Forfeited/released	**(903,845)**	**(596,071)**	(370,378)	(1,350,060)
Outstanding at end of year	**6,464,712**	**1,165,245**	5,783,260	1,329,248
Weighted average remaining contractual life	**3.2 years**	**3.5 years**	3.4 years	2.5 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 2010 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 2010. The number of shares granted in 2009 has been amended to show the actual number granted in 2009. This number has also been changed to reflect the maximum number of shares granted in the year. Where the conditions are not met the shares are released in the forfeited/released line.

The weighted average fair value of shares granted during the year under the STIP was £1.00 (2009 — £0.85 restated for actual number of shares granted in 2009) and under the LTIP was £0.56 (2009 — £0.38).

The weighted average share price on exercise of shares and share options under all schemes during the year was £1.06 (2009 — £0.58).

30. Share-based payments (continued)

Fair value of share schemes

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

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

	ESOS		SAYE	
Weighted average:	**2010**	2009	**2010**	2009
Share price (£)	**1.01**	0.64	**1.21**	0.46
Exercise price (£)	**1.01**	0.64	**1.00**	0.51
Dividend yield	**0.0%**	3.8%	**0.0%**	3.8%
Expected volatility	**83%**	56%	**66%**	50%
Risk-free interest rate	**1.82%**	2.67%	**2.95%**	2.91%
Expected life of option (years)	**3.3**	3.3	**5 or 7**	5 or 7

	STIP		LTIP	
Weighted average:	**2010**	2009	**2010**	2009
Share price (£)	**1.27**	0.98	**1.01**	0.65
Exercise price (£)	**—**	—	**—**	—
Dividend yield	**0.0%**	3.8%	**0.0%**	3.8%
Expected volatility	**72%**	49%	**74%**	50%
Risk-free interest rate	**2.40%**	3.03%	**2.3%**	2.8%
Expected life of option (years)	**4**	2–4§	**3–5**‡	3–5‡

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

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

† 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 2010. The 2009 weighted averages have been amended to reflect the actual number of shares granted in 2009.

§ In the year to 30 September 2010 there were two STIP schemes are in place. One vests equally after 2 and 3 years and the other vests after 4 years.

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

Notes to the Group Accounts
at 30 September 2010

31. Reserves

Share premium account
This reserve represents the amount of proceeds received for shares in excess of their nominal value of 2.5 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 re-issued.

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 30).

Cash flow hedge reserve
The cash flow hedge reserve contains the effective portion of the interest rate swaps that are designated as effective cash flow hedges under IAS 39, net of tax.

32. Additional cash flow information

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

	2010 £m	2009 £m
Increase in cash in the year	7	3
Cash outflow from change in debt	291	139
Issue costs of new long-term loans	12	—
Change in net debt resulting from cash flows	310	142
Amortisation of issue costs and discounts/premiums on long-term loans	(4)	(2)
Amortisation of securitised bonds	5	4
Change in fair value of interest rate swaps	63	(56)
Movement in net debt in the year	374	88
Net debt at start of year	(3,679)	(3,767)
Net debt at end of year	**(3,305)**	(3,679)

Notes to the Group Accounts
at 30 September 2010

32. Additional cash flow information (continued)
b) Analysis of net debt

	2010 £m	2009 £m
Corporate bonds	**(1,185)**	(1,185)
Bank borrowings	**(686)**	(902)
Securitised bonds	**(1,501)**	(1,576)
Gross debt	**(3,372)**	(3,663)
Cash	**108**	101
Underlying net debt (note 23)	**(3,264)**	(3,562)
Capitalised debt issue costs	**24**	15
Fair value adjustments on acquisition of bonds	**(49)**	(53)
Fair value of interest rate swaps	**(12)**	(75)
Finance lease payables	**(4)**	(4)
Net debt (note 23)	**(3,305)**	(3,679)
Balance sheet:		
Current financial liabilities	**(67)**	(141)
Non-current financial liabilities	**(3,346)**	(3,639)
Cash	**108**	101
Net debt	**(3,305)**	(3,679)

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

33. Related party transactions

Compensation of key management personnel

	2010 £'000	2009 £'000
Short-term employee benefits	**3,185**	2,240
Post-employment benefits	**352**	352
Share-based payments	**1,126**	1,103
	4,663	3,695

Key management personnel comprises 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 33 to 45.

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%	

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 2010 which comprise the Group Income Statement, Group Statement of Comprehensive Income, Group Balance Sheet, Group Statement of Changes in Equity, Group Cash Flow Statement and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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

As explained more fully in the Directors' Responsibilities Statement set out on page 22, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 September 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Independent Auditors' Report to the Members of Enterprise Inns plc

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Group financial statements; and
- the information given in the Corporate Governance Statement set out on pages •• with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 21, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 23 to 32 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matter

We have reported separately on the Parent Company financial statements of Enterprise Inns plc for the year ended 30 September 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.

Ronald John Bowker

(Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Birmingham

15 November 2010

Five Year Record

Year ended 30 September

	2010 IFRS £m	2009 IFRS £m	2008 IFRS £m	2007 IFRS £m	2006 IFRS £m
Revenue	**758**	818	880	921	970
Operating profit	**387**	433	502	521	537
Profit before tax and exceptionals	**175**	208	263	301	315
Profit after tax	**26**	6	183	291	325
Adjusted earnings per share (pence)*	**25.9**	30.7	39.2	39.6	34.2

* 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

	2010 IFRS £m	2009 IFRS £m	2008 IFRS £m	2007 IFRS £m	2006 IFRS £m
Non-current assets	**5,377**	5,760	6,296	6,152	5,787
Current assets†	**209**	219	198	204	222
Current liabilities	**(292)**	(368)	(286)	(318)	(391)
Non-current liabilities	**(3,887)**	(4,236)	(4,560)	(4,577)	(4,016)
Net assets	**1,407**	1,375	1,648	1,461	1,602

† Includes non-current assets held for resale.

Enterprise Inns plc
Company Accounts 2009/10

Statement of Comprehensive Income
for the year ended 30 September 2010

	2010 £m	2009 £m
Profit for the year	**123**	66
Other comprehensive income:		
Unrealised deficit on revaluation of licensed estate	**(41)**	(147)
Movement in deferred tax liability related to revaluation of pub estate	**12**	48
Write-down of assets held for sale	**(18)**	(12)
Movement in cash flow hedge reserve	**21**	(22)
Deferred tax relating to movements on cash flow hedges	**(7)**	6
Restatement of deferred tax liability related to revaluation of pub estate for change in UK tax rate	**8**	—
Other comprehensive income for the year net of tax	**(25)**	(127)
Total comprehensive income for the year attributable to members of the Parent Company	**98**	(61)

Balance Sheet
at 30 September 2010

	Notes	2010 £m	2009 £m
Non-current assets			
Investments	2	**1,833**	1,833
Intangible assets: operating lease premiums	3	**6**	6
Property, plant and equipment	4	**2,661**	2,907
Financial assets	9	**69**	47
		4,569	4,793
Current assets			
Assets held for sale	5	**3**	4
Trade and other receivables	6	**463**	458
Cash		**8**	11
		474	473
Non-current assets held for sale	7	**15**	20
Total assets		**5,058**	5,286
Current liabilities			
Trade and other payables	8	**(531)**	(547)
Current tax payable		**(10)**	(21)
Financial liabilities	9	**(61)**	(130)
		(602)	(698)
Non-current liabilities			
Financial liabilities	9	**(1,797)**	(2,008)
Accruals and deferred income		**(2)**	(3)
Provisions	12	**(2)**	(2)
Deferred tax	13	**(274)**	(293)
Pension scheme	14	**—**	(1)
		(2,075)	(2,307)
Total liabilities		**(2,677)**	(3,005)
Net assets		**2,381**	2,281
Equity			
Called up share capital	15	**14**	14
Share premium account	16	**486**	486
Revaluation reserve	16	**572**	635
Capital redemption reserve	16	**11**	11
Treasury share reserve	16	**(227)**	(227)
Other reserve	16	**387**	384
Cash flow hedge reserve	16	**(3)**	(16)
Profit and loss account		**1,141**	994
Enterprise Inns shareholders' equity		**2,381**	2,281

Approved by the Board on 15 November 2010 and signed on its behalf by:

G E Tuppen
D C George

Statement of Changes in Equity

at 30 September 2010

	Share capital £m	Share premium account £m	Re-valuation reserve £m	Capital redemp-tion reserve £m	Treasury share reserve £m	Other reserve £m	Cash flow hedge reserve £m	Profit and loss account £m	Total £m
At 1 October 2008	14	486	750	11	(227)	356	—	1,003	2,393
Profit for the year	—	—	—	—	—	—	—	66	66
Other comprehensive income	—	—	(111)	—	—	—	(16)	—	(127)
Total comprehensive income	—	—	(111)	—	—	—	(16)	66	(61)
Transfer of realised revaluation surplus	—	—	(4)	—	—	—	—	4	—
Realisation of investment through dividends received	—	—	—	—	—	(4)	—	4	—
Equity dividends paid (note 18)	—	—	—	—	—	—	—	(52)	(52)
Transfer of Enterprise Pubs Five Limited dividend not distributable outside of the Company	—	—	—	—	—	30	—	(30)	—
Directors' share option entitlements exercised in the year	—	—	—	—	—	2	—	(2)	—
Tax related to share schemes recognised directly in equity*	—	—	—	—	—	—	—	1	1
At 30 September 2009	14	486	635	11	(227)	384	(16)	994	2,281
Profit for the year	—	—	—	—	—	—	—	123	123
Other comprehensive income	—	—	(39)	—	—	—	14	—	(25)
Total comprehensive income	—	—	(39)	—	—	—	14	123	98
Transfer of realised revaluation surplus	—	—	(24)	—	—	—	—	24	—
Reclassification of movement in financial instruments	—	—	—	—	—	—	(1)	1	—
Directors' share option entitlements exercised in the year	—	—	—	—	—	3	—	(3)	—
Share-based expense recognised in operating profit	—	—	—	—	—	—	—	2	2
At 30 September 2010	**14**	**486**	**572**	**11**	**(227)**	**387**	**(3)**	**1,141**	**2,381**

* Tax related to share schemes recognised directly in equity has been moved from the Statement of Comprehensive Income to the Statement of Changes in Equity due to a change in IAS 1 'Presentation of Financial Statements'.

Cash Flow Statement

for the year ended 30 September 2010

	2010 £m	2009 £m
Cash flow from operating activities		
Operating profit	**223**	253
Depreciation and amortisation	**9**	8
Share-based expense recognised in profit	**2**	—
(Increase)/decrease in receivables	**(1)**	18
Increase/(decrease) in payables	**4**	(9)
Decrease in provisions	—	(1)
Decrease in current assets held for sale	—	1
	237	270
Tax paid	**(32)**	(44)
Net cash flows from operating activities	**205**	226
Cash flows from investing activities		
Payments to acquire public houses	**(73)**	(3)
Payments made on improvements to public houses	**(31)**	(33)
Payments to acquire other property, plant and equipment	**(1)**	(2)
Receipts from sale of property, plant and equipment	**255**	47
Dividend from trading investment	**62**	70
Net cash flows from investing activities	**212**	79
Cash flows from financing activities		
Interest paid	**(123)**	(127)
Issue costs of long-term loans	**(12)**	—
Cancellation and restructuring of interest rate swaps	**(46)**	—
Equity dividends paid	—	(52)
Debt due in less than one year — new short-term loans	—	107
Debt due in less than one year — repayment of short-term loans	**(123)**	(38)
Debt due beyond one year — new long-term loans	**367**	581
Debt due beyond one year — repayment of long-term loans	**(483)**	(779)
Net cash flows from financing activities	**(420)**	(308)
Net decrease in cash	**(3)**	(3)
Cash at 1 October	**11**	14
Cash at 30 September	**8**	11

Notes to the Company Accounts

at 30 September 2010

1. Accounting Policies

The financial statements of Enterprise Inns plc for the year ended 30 September 2010 were authorised for issue by the Board on 15 November 2010. 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 landlord's 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.

Landlord's fixtures and fittings are split into two categories, long life landlord's fixtures and fittings and short life landlord's fixtures and fittings. Both are held at cost less accumulated depreciation. The useful economic life of additions to long life landlord's fixtures and fittings has been calculated at 30 years and short life landlord's fixtures and fittings has been calculated at 5 years. Depreciation is charged on a straight-line basis to write off the total cost less residual value over their useful economic life.

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

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

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

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

Notes to the Company Accounts
at 30 September 2010

1. Accounting Policies (continued)

Leases

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Pubs acquired under finance leases are capitalised at the lower of their fair value and the present value of future minimum lease payments. The corresponding liability is included in the Balance Sheet as a finance lease 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: lease premiums' within non-current assets and are amortised over the lease term.

The Company enters into sale and leaseback transactions where a Pub has been sold and the Company has immediately entered into a lease agreement with the acquiree. These Pubs have been classified as operating leases. They are no longer included within Property, Plant and Equipment and the rentals paid are charged on a straight-line basis to the Income Statement 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 initially recognised at fair value and then held at this value subject to an annual impairment test.

Current assets held for sale

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

Financial instruments

i) Cash and cash equivalents

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

ii) Borrowings

Borrowings which include bank borrowings, 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.

Notes to the Company Accounts
at 30 September 2010

1. Accounting Policies (continued)

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 re-stated 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. To the extent that the forecast transaction is no longer expected to occur any related cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective shall be reclassified from equity to the Income Statement as a reclassification adjustment.

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.

v) Trade debtors and creditors

Trade debtors and creditors are held at amortised cost.

Net debt

Net debt is the total of all financial assets and liabilities (not including trade receivables and trade payables) 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.

Notes to the Company Accounts
at 30 September 2010

1. Accounting Policies (continued)

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 Comprehensive Income.

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, re-issued or disposed of. Any proceeds received are also taken to shareholders' equity. No gain or loss is recognised in the Income Statement on the purchase, sale, issue or cancellation of own shares held.

Revenue recognition
Revenue represents amounts receivable for goods and services provided in the normal course of business, net of discounts, volume rebates 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. In valuing equity-settled transactions, no account is taken of any service and performance (vesting conditions), other than performance conditions linked to the price of the shares of the Company (market conditions). Any other conditions which are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value. 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.

Notes to the Company Accounts
at 30 September 2010

1. Accounting Policies (continued)
No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance or service conditions are satisfied.

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 following new standards, interpretations and amendments:

- 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 October 2009
- Amendment to IFRS 2 — Vesting Conditions and Cancellations — effective 1 October 2009
- Amendment to IAS 39 — Eligible Hedged Items — effective 1 July 2009
- Amendment to IFRS 7 — Financial Statement Disclosures — effective 1 October 2009

The revision to IAS 1 separates owner and non-owner changes in equity. The Statement of Changes in Equity is now shown as a primary statement. The Company has chosen to present the new 'Statement of Comprehensive Income' as a linked statement to the Income Statement rather than as one single statement.

Other than the amendment to IAS 1 the above have not had a material impact on the results of the Company.

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. The effective dates below represent the latest date that the Company will be required to implement the standard:

- IFRS 9: Financial Instruments — effective 1 January 2013 (not yet endorsed)
- IFRS 7: Financial Instrument Disclosures — effective 1 July 2011
- Amendment to IAS 17 — Leases — effective for accounting periods starting after 1 January 2010

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:

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.

Notes to the Company Accounts
at 30 September 2010

1. Accounting Policies (continued)

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 Company 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.

2. Investments

	2010 £m	2009 £m
Cost or valuation:		
At 1 October	1,833	2,368
Realisation of investment through dividends received	—	(4)
Company reorganisation	—	(531)
At 30 September	1,833	1,833
Provision		
At 1 October	—	(23)
Company reorganisation	—	23
At 30 September	—	—
Net book value:		
At 30 September	1,833	1,833

During the year to 30 September 2009 the Company went through a simplification exercise resulting in a reduction in the number of subsidiaries and dormant companies within the Company. As a result of this exercise nine companies were struck off the register and dissolved pursuant to s1003 of the Companies Act 2006 and 24 companies entered into member voluntary liquidation, these 24 companies were all dissolved and removed from the register of companies in September 2010.

Notes to the Company Accounts
at 30 September 2010

2. Investments (continued)

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%	

3. Intangible assets: operating lease premiums

	2010 £m	2009 £m
Cost:		
At 1 October	8	9
Transfer to non-current assets held for sale	—	(1)
At 30 September	8	8
Amortisation:		
At 1 October	2	2
At 30 September	2	2
Net book value:		
At 30 September	6	6
At 1 October	6	7

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 101 years.

Notes to the Company Accounts

at 30 September 2010

4. Property, plant and equipment

	Licensed land and buildings £m	Landlord's fixtures and fittings £m	Other assets £m	Total £m
Cost or valuation				
At 1 October 2008	2,993	159	29	3,181
Additions	16	23	2	41
Revaluation:				
— Recognised in the Statement of Comprehensive Income	(147)	—	—	(147)
— Recognised in the Income Statement	(48)	—	—	(48)
Write-down to fair value less costs to sell:		—	—	
— Recognised in the Statement of Comprehensive Income	(12)	—	—	(12)
— Recognised in the Income Statement	(12)	—	—	(12)
Transfers to non-current assets held for sale	(58)	(11)	—	(69)
At 1 October 2009	2,732	171	31	2,934
Additions	86	19	1	106
Revaluation:				
— Recognised in the Statement of Comprehensive Income	(41)	—	—	(41)
— Recognised in the Income Statement	(37)	—	—	(37)
Write-down to fair value less costs to sell:				
— Recognised in the Statement of Comprehensive Income	(18)	—	—	(18)
— Recognised in the Income Statement	(37)	—	—	(37)
Transfers to non-current assets held for sale	(190)	(20)	—	(210)
Disposals	—	(2)	—	(2)
At 30 September 2010	2,495	168	32	2,695
Depreciation				
At 1 October 2008	3	11	6	20
Charge for the year	1	4	3	8
Write-off	—	(1)	—	(1)
At 1 October 2009	4	14	9	27
Charge for the year	1	4	3	8
Transfers to non-current assets held for sale	—	(1)	—	(1)
At 30 September 2010	5	17	12	34
Net book value				
At 30 September 2010	**2,490**	**151**	**20**	**2,661**
At 30 September 2009	2,728	157	22	2,907

Notes to the Company Accounts
at 30 September 2010

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 2010 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 Enterprise Inns plc have been valued by Humberts Leisure Limited (2,076 pubs). The balance of the estate held in Enterprise Inns plc has been valued by the Head of Estates (1,423 pubs). The results of this internal valuation have been compared to that of the external valuers. This review ensured that the results are consistent.

Pubs identified for disposal which are classified in the balance sheet as 'non-current assets held for sale' are held at 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 2010	
Cost	1,798
Accumulated depreciation	(28)
Net book value	1,770
At 30 September 2009	
Cost	1,949
Accumulated depreciation	(30)
Net book value	1,919

The carrying value of property held under finance leases at 30 September 2010 was £103 million (2009 — £116 million). Additions during the year include £1 million of property held under finance leases (2009 — £1 million).

At 30 September 2010, the Company had entered into contractual commitments to purchase £2 million (2009 — £2 million) of property, plant and equipment.

Notes to the Company Accounts
at 30 September 2010

5. Current assets held for sale

Fixtures and fittings purchased from tenants	2010 £m	2009 £m
Cost		
At 1 October	5	9
Transferred to Landlord's Fixtures and Fittings	(1)	(5)
Additions	5	7
Disposals	(6)	(6)
At 30 September	3	5
Provision		
At 1 October	1	2
Transferred to Landlord's Fixtures and Fittings	—	(1)
Charge for the year	1	1
Utilised during the year	(2)	(1)
At 30 September	—	1
Net realisable value	3	4

6. Trade and other receivables

	2010 £m	2009 £m
Trade receivables	38	44
Amounts owed by subsidiary undertakings	410	403
Prepayments and accrued income	6	3
Other receivables	9	8
	463	458

The ageing of trade receivables at 30 September was as follows:	2010 £m	2009 £m
Not past due	34	38
Up to 30 days overdue	2	3
31–60 days overdue	2	1
61–90 days overdue	—	1
More than 90 days	—	1
	38	44

Notes to the Company Accounts
at 30 September 2010

7. Non-current assets held for sale

	2010 £m	2009 £m
At 1 October	20	3
Net transfer from property, plant and equipment (note 4)	209	68
Disposals	(214)	(50)
Write-down to fair value less costs to sell	—	(1)
At 30 September	15	20
Representing:		
Property, plant and equipment	15	20
	15	20

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 £1 million (2009 — £2 million) in relation to these pubs is held within the revaluation reserve representing revaluation surpluses.

8. Trade and other payables

	2010 £m	2009 £m
Trade payables	64	67
Amount due to subsidiary undertakings	359	378
Accruals and deferred income	43	45
Other payables	65	57
	531	547

Included within other payable is a balance of £24 million (2009 — £25 million) held by the Company in the form of cash deposits. See the credit risk section of note 9.

Notes to the Company Accounts
at 30 September 2010

9. Financial assets and liabilities

Financial assets	2010 £m	2009 £m
Non-current		
Amounts owed by subsidiary undertakings	69	47
Total financial assets	69	47

Financial liabilities	2010 £m	2009 £m
Current		
Bank borrowings	61	—
Interest rate swaps	—	30
Amounts owed to subsidiary undertakings	—	100
	61	130
Non-current		
Bank borrowings	614	801
Corporate bonds	1,181	1,181
Interest rate swaps	—	24
Finance lease payables	2	2
	1,797	2,008
Total financial liabilities	1,858	2,138
Total financial assets and liabilities	1,789	2,091

Notes to the Company Accounts
at 30 September 2010

9. 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. The fair value of the interest rate swaps is calculated by discounting future cash flows using prevailing interest rates. The fair value of the debenture and bonds is measured at market price. 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	2010 Nominal value £m	2010 Book value £m	2010 Fair value £m	2009 Nominal value £m	2009 Book value £m	2009 Fair value £m
Bank borrowings	LIBOR + 1.2%	686	675	675	802	801	802
Corporate bonds:							
Debenture – issued 3 February 1999	6%	60	60	55	60	60	51
Secured bond – issued 9 May 2000	6.875%	125	124	100	125	124	93
Secured bond – issued 15 February 2001	6.875%	125	124	105	125	124	95
Secured bond – issued 26 February 2002	6.375%	275	272	201	275	272	197
Secured bond – issued 3 March 2003	6.5%	600	601	513	600	601	483
		1,185	1,181	974	1,185	1,181	919
Interest rate swaps:							
£275m swap expiring 1 June 2012	6.662%	–	–	–	–	32	32
£350m swap expiring 30 September 2011	4.887%	–	–	–	–	22	22
		–	–	–	–	54	54
		1,871	1,856	1,649	1,987	2,036	1,775
Finance lease payables (note 11)		–	2	2	–	2	2
Intercompany:							
Amounts owed by subsidiary undertakings			(69)	(69)		(47)	(47)
Amounts owed to subsidiary undertakings			–	–		100	100
Total debt		1,871	1,789	1,582	1,987	2,091	1,830
Cash		(8)	(8)		(11)	(11)	
Underlying net debt/net debt		1,863	1,781		1,976	2,080	

Bank borrowings, 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. 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 2010

9. Financial assets and liabilities (continued)
Interest rate swaps
On 30 September 2010, the £350 million swap expiring 30 September 2011 was cancelled. The Company paid £14 million to eliminate the fair value of the swap at the date of cancellation. This swap was previously designated as an effective hedge.

On 27 May 2010, the £275 million swap expiring 1 June 2012 was cancelled. The Company paid £30 million to eliminate the fair value of the swap at the date of cancellation. This swap was not designated as an effective hedge. Prior to cancelling a further £2 million was paid to restructure this interest rate swap.

On 29 September 2006 the Company designated the £350 million swap referred to above as an effective cash flow hedge under IAS 39. As a result, changes in the fair value of the effective portion of this swap were recognised directly in equity with changes in the fair value of the ineffective portion of the hedge recognised in the Income Statement.

In line with Company accounting policy, to the extent that the forecast transaction, being the underlying debt, is no longer expected to occur, any related cumulative losses held in the cash flow hedge reserve are reclassified to the Income Statement. As a result of the Group refinancing in May 2010 a significant portion of the debt against which the interest rate swap is hedged, is no longer expected to exist due to planned reductions in the level of the debt. This has resulted in a reclassification from the cash flow hedge reserve to the Income Statement of £19 million. After taking into account a £5 million fair value credit the net charge to the Income Statement in relation to this interest rate swap is £14 million.

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

	2010 £m	2009 £m
At 1 October	**54**	10
Cancellation of interest rate swaps	**(46)**	—
Fair value movements:		
— ineffective portion and swaps not designated as effective hedges recognised in Income Statement	**(6)**	22
— effective portion recognised in Cash Flow Hedge Reserve	**(2)**	22
At 30 September	**—**	54

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 has entered into derivative transactions, specifically interest rate swaps. The purpose of such transactions was to manage the interest rate risk arising from the Company's sources of finance.

Notes to the Company Accounts

at 30 September 2010

9. Financial assets and liabilities (continued)

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 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 bank facilities

At 30 September 2010, the nominal value of the Company's borrowings (excluding interest rate swaps and finance lease payables) comprised:

	2010	2009
Bank borrowings	**37%**	40%
Corporate bonds	**63%**	60%

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

	2010			2009		
	Debt £m	**Interest £m**	**Total £m**	Debt £m	Interest £m	Total £m
In more than five years	**1,125**	**534**	**1,659**	1,125	608	1,733
In more than two years but not more than five years	**685**	**250**	**935**	60	235	295
In more than one year but not more than two years	**—**	**104**	**104**	802	101	903
In one year or less or on demand	**61**	**104**	**165**		115	115
	1,871	**992**	**2,863**	1,987	1,059	3,046

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, and unamortised fees; 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.

Notes to the Company Accounts
at 30 September 2010

9. Financial assets and liabilities (continued)

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

Bank borrowings	2011
Forward start facility	2012–2013
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:	**2010 £m**	2009 £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	—	198
In one year or less or on demand	**114**	—
	114	198

The new Forward Start Facility that was signed in May 2010 is fully committed and will commence in May 2011 when the current bank facility matures. The new facility of £625 million comprises a tranche of £206 million which expires in December 2012 and a tranche of £419 million which expires in December 2013. The overall facility will amortise at an amount of £25 million every six months, commencing in December 2011. A margin of 3.5% is now being paid on current borrowings by lenders who are participating in the new facility.

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 through the monitoring of forecast interest rates. At 30 September 2010, the Company's borrowings had an average interest rate of 6.4% for eight years (2009 — average rate of 6.6% for eight years). The interest payable was 63% fixed (2009 — 91% fixed after including the impact of interest rate swaps).

Interest rate sensitivity

In estimating the sensitivity of the financial instruments we have assumed a reasonable potential change in interest rates. The method used assumes that all other variables are held constant to determine the impact on profit before tax. The analysis is for illustrative purposes only, as in practice market rates rarely change in isolation.

Notes to the Company Accounts
at 30 September 2010

9. Financial assets and liabilities (continued)

Actual results in the future may differ materially from these estimates due to the movements in the underlying transactions, actions taken to mitigate any potential losses, the interaction of more than one sensitivity occurring, and further developments in global financial markets. As such this table should not be considered as a projection of likely future gains and losses in these financial instruments.

	Interest receivable	Interest Payable	Movement in fair value of interest rate swap	
	Income statement		Income statement	Equity
	£m	£m	£m	£m
At 30 September 2010				
Effect if interest rates increased by 50 basis points (0.5%)	1	(4)	–	–
Effect if interest rates decreased by 50 basis points (0.5%)	(1)	4	–	–
At 30 September 2009				
Effect if interest rates increased by 50 basis points (0.5%)	1	(3)	7	4
Effect if interest rates decreased by 50 basis points (0.5%)	(1)	3	(7)	(4)

Credit risk

There are no significant concentrations of credit risk within the Company. The Company is exposed to a small amount of credit risk that is primarily attributable to trade receivables and cash balances. The Company's objective is to minimise this risk by dealing with third parties with high credit ratings and carrying out credit checks where appropriate. The amount of trade and other receivables included in the balance sheet are net of a bad debt provision which has been 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 2010 the value of collateral is £24 million (2009 – £25 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.

	2010 £m	2009 £m
Provision as at 1 October	2	2
Increase in provision during the year	1	2
Provision utilised during the year	(1)	(1)
Provision released during the year	(1)	(1)
Provision as at 30 September	1	2

There are no indications as at 30 September 2010 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. The Company's credit risk on liquid funds is limited because the Company only invests with banks and financial institutions with high credit ratings.

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 Company, 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 2010 is — Property, Plant and Equipment £2,641 million (2009 — £2,885 million), operating lease premiums £6 million (2009 — £6 million) and pubs held for sale £15 million (2009 — £20 million).

Covenants

The Company is subject to a number of covenants in relation to its borrowing facilities. They include a covenant on net debt to EBITDA, minimum EBITDA to interest ratio and asset and debt ratios. The Company tests these covenants on a regular basis and forecasts are prepared during the budgeting process. These are reviewed at Board level.

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 business 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.

The Board considers capital structure when recommending dividends. Given the current degree of market uncertainty, the Board does not consider that the resumption of dividends would now be appropriate.

	2010 £m	2009 £m
Total debt	**1,789**	2,091
Cash	**(8)**	(11)
Net debt	**1,781**	2,080
Equity	**2,381**	2,281
Net debt ratio	**43%**	48%

Notes to the Company Accounts
at 30 September 2010

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

	2010 £m	2009 £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 (2009 — 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 £22 million (2009 — £29 million).

Operating leases

	2010 £m	2009 £m
Operating lease rentals recognised as an expense in the year	5	2

	2010 £m	2009 £m
Future minimum lease payments due under operating leases:		
Within one year	9	2
After one year but not more than five years	36	8
In more than five years	166	28
	211	38

Pubs that are leased from landlords under operating leases are let to tenants. Future minimum rentals receivable from non-cancellable sub-leases on the above properties are £78 million (2009 — £13 million).

Notes to the Company Accounts
at 30 September 2010

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

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

	2010 £m	2009 £m
Future minimum lease rentals receivable under operating leases:		
Within one year	104	113
After one year but not more than five years	308	344
In more than five years*	411	459
	823	916

* Leases with future minimum lease rentals receivable under operating leases in more than five years have an average term of 12 years (2009 — 12 years) remaining on their agreements.

12. Provisions

	2010 £m	2009 £m
At 1 October:		
Non-current	2	3
	2	3
Movement during the year:		
Utilisation	—	(1)
	—	(1)
At 30 September:		
Non-current	2	2
	2	2

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 1 to 60 years.

Notes to the Company Accounts
at 30 September 2010

13. Deferred tax

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

	2010 £m	2009 £m
Unrealised surplus on revaluation of fixed assets and rolled over gains	**195**	225
Accelerated capital allowances	**84**	84
Fair value of interest rate swaps	**(3)**	(15)
Share-based payments	**(2)**	(2)
Other temporary differences	**—**	1
	274	293

In June 2010, the UK government announced its intention to propose Parliament reduce the main rate of UK corporation tax from 28% to 24% by 1 April 2014 by enacting, every year until 2014, a reduction of 1%. At 30 September 2010 the first of these reductions, being a change in UK corporation tax rate from 28% to 27% on 1 April 2011, had been substantively enacted therefore the deferred tax assets and liabilities included within these Financial Statements have been calculated based on this reduced current UK corporation tax rate of 27%. The forecast effect of the further above proposed reductions in rate by 2014 would be to decrease the net deferred tax liability by £31 million. £9 million is expected to be recognised in the Income Statement and £22 million in equity.

The government also announced that the main rate of capital allowances will fall from 20% to 18% with effect from 1 April 2012, with the rate in respect of integral features falling from 10% to 8%. The impact on the timing of the capital allowance receipts has not been quantified as it is not practicable to do so.

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 scheme

Please see note 28 of the Group accounts for details of the pension liability.

15. Share capital

Authorised:	**2010 No.**	**2010 £m**	2009 No.	2009 £m
Ordinary shares of 2.5p each	1,000,000,000	**25**	**1,000,000,000**	25

Allotted, called up and fully paid:	**2010 No.**	**2010 £m**	2009 No.	2009 £m
Ordinary shares of 2.5p each	555,977,435	**14**	**555,977,435**	14

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

At 30 September 2010, the Company owned 50 million (2009 — 50 million) of its own shares as treasury shares with a nominal value of £1 million (2009 — £1 million) and a market value of £54 million (2009 — £62 million).

In addition, at 30 September 2010 the Company held 7,021,056 shares with a nominal value of £0.2 million and a market value of £8 million (2009 — 7,992,048 shares, nominal value £0.2 million, market value £10 million). These shares are held by the Employee Benefit Trust and are shares used to satisfy awards made under the Enterprise Inns Incentive Plans and other share option schemes (note 30).

Notes to the Company Accounts
at 30 September 2010

16. Reserves

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 19).

The reserve also includes the increase in value of subsidiaries acquired at fair value under IAS 27 and the dividends received from Enterprise Pubs Five Limited that cannot be distributed outside the Company.

Cash flow hedge reserve
The cash flow hedge reserve contains the effective portion of the interest rate swaps that are designated as effective cash flow hedges under IAS 39, net of tax.

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 408 of the Companies Act 2006. Profit after tax during the year amounted to £123 million (2009 — £66 million).

£152,000 was paid to the auditors for the audit of the Parent Company. Fees paid to the auditors in respect of non audit services are not disclosed in the individual accounts of the Company because Group financial statements are prepared which are required to disclose fees on a consolidated basis. See note 6 of the Group accounts.

18. Dividends paid and proposed

Paid during the year	2010 £m	2009 £m
Equity dividends on ordinary shares:		
Final dividend relating to prior year nil pence (2009 — 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.

The Board is not proposing to recommend a final dividend for 2010.

Notes to the Company Accounts
at 30 September 2010

19. Share-based payments

The Company operates share-based payment schemes for both directors and other employees. Details of the Short-Term Incentive Plan (STIP) and Long-Term Incentive Plan (LTIP) which form part of the remuneration of the executive directors are given in the Directors' Remuneration Report on pages 33 to 45.

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

20. Related parties

Compensation of key management personnel

	2010 £'000	2009 £'000
Short-term employee benefits	**3,185**	2,240
Post-employment benefits	**352**	352
Share-based payments	**1,126**	1,103
	4,663	3,695

Key management personnel comprises both executive and non-executive directors. Key management of the Company are the same as the key management personnel of the Group. Short-term employee benefits comprises fees, salaries, benefits and performance related bonus as reported in the Directors' Remuneration Report. Post-employment benefits comprise payments made to the directors' own personal pension schemes and salary supplements in lieu of a contribution to a personal pension scheme. Share-based payment comprises the fair value of STIP and LTIP awards charged in the year. Further information about the remuneration of individual directors is available in the Director's Remuneration Report on pages 33 to 45.

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 £23 million (2009 — £20 million). Interest payable on these loans was £0.2 million (2009 — £3 million).

The following loans were outstanding at the year end:

	2010 £m	2009 £m
Loans due to subsidiary undertakings	**69**	47
Loans due from subsidiary undertakings	—	(100)
	69	(53)

The Company entered into other trading transactions with its subsidiary undertakings of £59 million (2009 — £87 million) which includes an Asset Management Fee and a Procurement Fee.

The following balances were outstanding at the year end:

	2010 £m	2009 £m
Amounts due from subsidiary undertakings	**410**	403
Amounts due to subsidiary undertakings	**(359)**	(378)
	51	25

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 (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 Company and the performance and cash flows 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;
- 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 Company 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 Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 2010 which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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

As explained more fully in the Directors' Responsibilities Statement set out on page 125 the directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2010;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent Auditors' Report to the Members of Enterprise Inns plc

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Enterprise Inns plc for the year ended 30 September 2010.

Ronald John Bowker

(Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Birmingham

15 November 2010

Analysis of Ordinary Shareholders
at 30 September 2010

Range	Number of shareholders	%	Shares held	%
1–1,000	689	32.4	328,804	0.1
1,001–10,000	877	41.2	3,263,739	0.6
10,001–50,000	251	11.8	5,956,948	1.1
50,001–100,000	70	3.3	5,288,718	0.9
100,001–150,000	31	1.5	3,897,429	0.7
150,001–500,000	92	4.3	27,873,585	5.0
500,001–1,000,000	42	2.0	30,200,383	5.4
1,000,001–5,000,000	43	2.0	100,294,336	18.0
5,000,001 and over	32	1.5	378,873,493	68.2
	2,127	100.0	555,977,435	100.0

The total numbers of shares held above includes 50,000,000 shares held in treasury and 7,021,056 held in an Employee Benefit Trust.

Financial Calendar

	2010
Preliminary announcement of annual results to 30 September 2010	16 November
	2011
Annual General Meeting	20 January
Announcement of interim results	17 May
Preliminary announcement of annual results to 30 September 2011	22 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.

You will be able to:

- View all of your holding details for companies registered with Computershare.
- View the market value of your portfolio.
- Update your contact address and personal details.
- Access current and historical market prices.
- Access trading graphs.
- Add additional shareholdings to your portfolio.

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.computershare.com/dealing/uk 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.

Shareholder Information

ShareGift

If you only have a small number of shares whose value makes it difficult to sell, you may wish to consider donating to charity through ShareGift, an independent charity share donation scheme. For further information, please contact either Computershare Investor Services PLC or ShareGift, telephone +44 (0) 20 7930 3737 or see the website at www.sharegift.org

Share Price Information

The Company's Ordinary shares are listed on the London Stock Exchange. Share price information can be found on the website www.enterpriseinns.com, in newspapers such as the Financial Times or through your broker.

ISIN Number **GB00B1L8B624**

SEDOL Number **B1L8B62**

EPIC Number **ETI**

Contact Details

If you would like to contact us:

Enterprise Inns plc, 3 Monkspath Hall Road, Solihull, West Midlands, B90 4SJ

Telephone: 0121 733 7700

E-mail: investorrelations@enterpriseinns.plc.uk

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 2011 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 Thursday, 20 January 2011 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 2010 and the auditors' report on the accounts.
2. To approve the directors' remuneration report for the year ended 30 September 2010.
3. To reappoint Mr G E Tuppen as a director.
4. To reappoint Mrs S E Murray as a director.
5. 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.
6. To authorise the directors to determine Ernst & Young LLP's remuneration as auditors of the Company.
7. To authorise the directors generally and unconditionally pursuant to section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company (together 'relevant securities') up to an aggregate nominal amount of £8,432,113.96 comprising:

   (a) an aggregate nominal amount of £4,216,056.98 (whether in connection with the same offer or issue as under (b) below or otherwise); and

   (b) an aggregate nominal amount of £4,216,056.98, in the form of equity securities (within the meaning of section 560(1) of the Companies Act 2006) in connection with an offer or issue by way of rights, 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,

   such authority to expire (unless renewed, varied or revoked by the Company in general meeting) on the earlier of fifteen months from the date this resolution is passed and the conclusion of the Annual General Meeting of the Company to be held in 2012, except that the Company may before such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities pursuant to any such offer or agreement as if such authority had not expired.

Special Resolutions

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

8. To empower the directors pursuant to section 570 of the Companies Act 2006 to allot equity securities (as defined in section 560(1) of that Act) for cash pursuant to the general authority conferred on them by resolution 7 above and/or to sell equity securities held as treasury shares for cash pursuant to section 727 of that Act, in each case as if section 561(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 offer or issue by way of rights or other pre-emptive offer or issue, open for acceptance for a period fixed by the directors, to holders of ordinary shares (other than the Company) on the register

Notice of Annual General Meeting

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 paragraph (a) above, of equity securities having 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 amount, not exceeding the sum of £694,971.78.

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

9. That the Company be and is generally and unconditionally authorised to make market purchases (as defined in section 693(4) of the Companies Act 2006) of its ordinary shares of 2½ pence each provided that in doing so it:

(a) purchases no more than 75,846,017 ordinary shares of 2½ pence each in aggregate;

(b) pays not less than 2½ pence (excluding expenses) per ordinary share of 2½ pence each; and

(c) pays a price per share that is not more (excluding expenses) per ordinary share than the higher of (i) 5% above the average of the middle market quotations for the ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately before the day on which it purchases that share; and (ii) the price stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation (EC 2273/2003).

This authority shall expire fifteen months after the date of the passing of this resolution or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2012, except that the Company may, if it agrees to purchase ordinary shares under this authority before it expires, complete the purchase wholly or partly after this authority expires.

10. That the Articles of Association of the Company contained in the document produced to the meeting and signed by the Chairman for the purposes of identification be approved and adopted as the new Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association, with effect from the conclusion of the 2011 Annual General Meeting.

11. To authorise the directors to call a general meeting of the Company, other than an Annual General Meeting, on not less than 14 clear days' notice.

The directors believe that the proposals in resolutions 1 to 11 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

J A Poole

Company Secretary

2 December 2010
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 member who is an individual is entitled to attend, speak and vote at the meeting or to appoint one or more other persons as his proxy to exercise all or any of his rights on his behalf. Further details of how to appoint a proxy, and the rights of proxies, are given in the paragraphs below. A member that is a company can appoint one or more corporate representatives (such as a director or employee of the company) whose attendance at the meeting is treated as if the company were attending in person, or it can appoint one or more persons as its proxy to exercise all or any of its rights on its behalf. In each case, a person attending the meeting will need to provide the Company or its registrars, Computershare Investor Services PLC, with evidence of their identity and, if applicable, their appointment as a proxy or corporate representative with authority to vote on behalf of a member.

2. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. 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 11 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 18 January 2011. To appoint more than one proxy, you will need to complete a separate proxy form in relation to each appointment. A personalised form of proxy for use in connection with the Annual General Meeting is enclosed with this document. 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.

3. 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.

4. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in paragraph 11 below) will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.

5. 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).

6. 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.

7. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1, 2 and 3 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.

8. 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

Notice of Annual General Meeting

6.00 p.m. on 18 January 2011 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 18 January 2011, 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.

9. As at 9.00 a.m. on 2 December 2010, 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 2010 is 555,977,435.

10. 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 (available via www.euroclear.com/CREST). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a 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.

11. 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 instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is 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 2 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

12. 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 shall be 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.

13. Under section 527 of the Companies Act 2006 members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes

Notice of Annual General Meeting

the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

14. Any member attending the meeting has the right to ask questions. The Company must answer any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
15. If you have sold or otherwise transferred all your ordinary shares in the Company, please forward this annual report and accounts 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.
16. The service agreements of the executive directors and copies of the letters of appointment of the non-executive directors are available for inspection during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) at the registered office of the Company and will be available for inspection for fifteen minutes prior to and during the Annual General Meeting.
17. You may not use any electronic address provided in this Notice, or any related documents including the proxy form, to communicate with the Company for any purposes other than those expressly stated.
18. A copy of this Notice, and other information required by section 311A of the Companies Act 2006, can be found at www.enterpriseinns.com.

Explanatory Notes to the Notice of Annual General Meeting

The notice of the Annual General Meeting of the Company to be held on Thursday, 20 January 2011 is set out on pages 131 to 135 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 7 are ordinary resolutions. These resolutions will be passed if more than 50% of the votes cast for or against are in favour.

Resolution 1 — Laying of Accounts

The directors are required by the Companies Act 2006 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 2010. 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 11.

Resolution 2 — Remuneration Report

The Companies Act 2006 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 33. If shareholders vote against the report the directors will still be paid, but the Remuneration Committee will reconsider its policy.

Resolutions 3 and 4 — Reappointment of Mr G E Tuppen and Mrs S E Murray

The Company's articles of association require that any director who was not appointed or reappointed at either of the last two annual general meetings before this meeting must retire, although they may offer themselves for reappointment. Accordingly, Mr G E Tuppen and Mrs S E Murray are retiring and seeking reappointment. Biographical information for Mr G E Tuppen and Mrs S E Murray is shown on pages 9 and 10 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 11.

Resolution 5 — Auditors' reappointment

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 28. After considering relevant information the Audit Committee recommended to the Board of directors that Ernst & Young LLP be reappointed.

Resolution 6 — 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 7 — Authority to the directors to allot shares

The Companies Act 2006 provides that the directors may only allot shares if authorised by shareholders to do so. Resolution 7 will, if passed, authorise the directors to allot the Company's unissued shares up to a maximum nominal amount of £8,432,113.96, which represents an amount which is approximately equal to two-thirds of the issued ordinary share capital of the Company as at 2 December 2010 (excluding treasury shares), the latest practicable date prior to the publication of the notice.

As provided in paragraph (a) of the resolution, up to half of this authority (equal to one-third of the issued ordinary share capital of the Company) will enable directors to allot and issue new shares in whatever manner (subject to pre-emption rights) they see fit. Paragraph (b) of the resolution provides that the remainder of the authority (equal to a further one-third of the issued ordinary share capital of the Company) may only be used in connection with a rights issue in favour of ordinary shareholders. As paragraph (a) imposes no restrictions on the way the authority may be exercised, it could be used in conjunction with

Explanatory Notes to the Notice of Annual General Meeting

paragraph (b) so as to enable the whole two-thirds authority to be used in connection with a rights issue. Where usage of the authority exceeds the one-third threshold in the circumstances set out in the guidance issued by the Association of British Insurers (the 'ABI') the directors will stand for re-election at the following AGM, to the extent required by the ABI.

The authority will expire at the earlier of the date that is fifteen months after the date of the passing of the resolution and the conclusion of the next Annual General Meeting of the Company.

Passing resolution 7 will ensure that the directors continue to have the flexibility to act in the best interests of shareholders, when opportunities arise, by issuing new shares. There are no current plans to issue new shares except in connection with employee share schemes.

As at 2 December 2010, 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 8, 9, 10 and 11 are special resolutions. These resolutions will be passed if not less than 75% of the votes cast for and against are in favour.

Resolution 8 — Partial disapplication of statutory pre-emption rights

The Companies Act 2006 requires that, if the Company issues new shares for cash or sells any treasury shares, it must first offer them to existing shareholders in proportion to their current holdings. It is proposed that the directors be authorised to issue shares for cash and/or sell shares from treasury up to an aggregate nominal amount of £694,971.78 (representing approximately 5% of the Company's issued ordinary share capital as at 2 December 2010, the latest practicable date prior to the publication of the notice) without offering them to shareholders first, and to modify statutory pre-emption rights to deal with legal, regulatory or practical problems that may arise on a rights or other pre-emptive offer or issue. If resolution 8 is passed, this authority will expire at the same time as the authority to allot shares given pursuant to resolution 7.

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

Resolution 9 — Purchase of own shares by the Company

If passed this resolution will grant the Company authority for a period of up to fifteen 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 2010, 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 business 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, 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 if they believe that to do so would result in an increased earnings per share and would be in the interests of the shareholders generally.

As at 2 December 2010, the latest practicable date prior to the publication of the notice, options were outstanding over 23,600,012 ordinary shares of 2½ pence each in the Company, representing approximately 4.66% 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 5.49% of the Company's issued share capital (excluding treasury shares).

Explanatory Notes to the Notice of Annual General Meeting

Resolution 10 — Adoption of new Articles of Association

It is proposed in resolution 10 to adopt new articles of association (the '**New Articles**') in order to update the Company's current articles of association (the '**Current Articles**') to reflect the implementation of the Shareholder Rights Directive in the UK in August 2009 and to take account of the implementation of the last parts of the Companies Act 2006.

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

A copy of the Current Articles and New Articles will be available for inspection during normal business hours on Monday to Friday (public holidays excepted) at the registered office of the Company from the date of posting of this document up to, and including, the date of the Annual General Meeting and will also be available at the offices of CMS Cameron McKenna LLP, Mitre House, 160 Aldersgate Street, London EC1A 4DD.

Resolution 11 — Approving the notice period for General Meetings

Following implementation of the Shareholder Rights Directive, in order to maintain its ability to call general meetings (other than an Annual General Meeting) on 14 clear days' notice, the Company must offer all shareholders the ability to appoint a proxy electronically (via the website of the Company or its registrars) and must obtain the approval of its shareholders by means of a special resolution passed each year. Resolution 11 seeks such approval. It is intended that a similar resolution will be proposed at future Annual General Meetings.

Summary of Principal Changes to the Current Articles of Association

1. Articles which duplicate statutory provisions

Provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 are in the main to be removed in the New Articles. The principal amendments to reflect this approach are included in the changes detailed below.

2. Redeemable shares

Under the Companies Act 1985, if the Company wished to issue redeemable shares, it had to include in its articles the terms and the manner of redemption. The Companies Act 2006 enables directors to determine such matters instead, provided they are so authorised by the articles. The New Articles contain such an authorisation. The Company has no plans to issue redeemable shares but if it did so the Board would need shareholders' authority to issue new shares in the usual way.

3. Variation of class rights

The Current Articles contain provisions regarding the variation of class rights. The proceedings and specific quorum requirements for a meeting convened to vary class rights are contained in the Companies Act 2006. The relevant provisions have therefore been deleted in the New Articles.

4. Authority to purchase own shares, consolidate and sub-divide shares and reduce share capital

Under the Companies Act 1985, the Company required specific enabling provisions in its articles to purchase its own shares, to consolidate or sub-divide its shares or to reduce its share capital. The Current Articles include these enabling provisions. Under the Companies Act 2006, the Company only requires shareholder authority to do any of these things and it will no longer be necessary for articles to contain enabling provisions. Accordingly, the relevant enabling provisions have been removed in the New Articles.

5. Adjournments for lack of quorum

Under the Companies Act 2006, general meetings adjourned for lack of a quorum must be held at least ten clear days after the original meeting. The New Articles reflect this requirement.

6. Voting by proxies on a show of hands

The Companies Act 2006 provides that each proxy appointed by a member has one vote on a show of hands unless the proxy is appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution. The New Articles reflect these changes and contain a provision clarifying how a proxy may vote on a show of hands where the proxy is mandated to vote one way by one appointor and given discretion as to how to vote by another appointor. The New Articles also provide that the Company is not responsible for ensuring that a proxy is complying with his duty under the Companies Act 2006 to comply with the appointor's voting instructions.

7. Time for deposit of proxies

The New Articles take advantage of a change introduced by the Companies Act 2006 under which, when setting the latest time for delivery of proxies, the Board may fix a period of up to 48 hours but ignoring any part of a day that is not a working day.

Enterprise Inns award-winning pubs 2010

Albion, Clifton *MA Top 50 Gastropub Awards 2010*

Anglesea Arms, Hammersmith *MA Top 50 Gastropub Awards 2010*

Avalon, London *MA Great British Pub Awards 2010 - Regional Winner, Best Creative Outdoor Area (London)*

Publican Awards 2010 — Finalist, Pub Design of the Year Award

Bay Horse, Huddersfield *Publican Awards 2010 — Finalist, Music Pub of the Year*

Bay Horse, Hurworth *MA Top 50 Gastropub Awards 2010*

MA Gastropub Chef of the Year 2010 — Winner

Beaumont, Clayton Le Woods *ACE Awards (Alcohol Certificate of Excellence) — Gold Award, Best Pub (Chorley)*

Brickmakers, Norwich *MA Great British Pub Awards 2010 — Regional Winner, Best Entertainment Pub (East Anglia) and Best Live Music (East Anglia)*

Bulls Head Hotel, Sale *CAMRA Winter Pub of the Year 2010 — Winner*

Entry into the Good Beer Guide

Butchers Arms, Greens Norton *MA Great British Pub Awards 2010 — Regional Winner, Best Family Pub (East and West Midlands)*

Butchers Arms, Hepworth *MA Great British Pub Awards 2010 —Winner, Best Gastropub (Yorkshire and North East) and Category Winner*

Publican Awards 2010 — Finalist, Newcomer of the Year Award and Food Pub of the Year Award

Butchers Arms, Towcester *MA Great British Pub Food Awards 2010 - Highly Commended, Indian Food Pub of the Year*

Canbury Arms, Kingston upon Thames *MA Great British Pub Awards 2010 — Regional Winner — Best Tenanted/Leased Pub (London) and Best Family Pub*

Canton Arms, Stockwell *MA Top 50 Gastropub Awards 2010*

Castle Eden Inn, Castle Eden *BBC 1 Masterchef the Professionals - Finalist*

Castle Inn, Cold Ash West Berkshire *Community Pub 2010 — Winner*

Clapham, North Clapham *Taste of London 2010 — Winner, Best Hidden Gem Award*

Cricket Inn, Totley *MA Top 50 Gastropub Awards 2010*

Cross Scythes, Totley *MA Great British Pub Awards 2010 - Regional Winner - Best Tenanted/Leased Pub (Yorkshire and North East)*

Earl of March, Lavant Southern *Media Group Business Awards 2010 — Winner, Restaurant of the Year*

Famous Lord Nelson, Burton Joyce *MA Gastropub Awards 2010 — Finalist and Winner of the MA Business Innovation Award*

Fox and Hounds, Newmillerdam *Five Star Rating from County Council*

Golden Boar, Freckenham *Velvet Magazine — Fine Dining Awards 2010 — Winner, Fine Dining Restaurant (Newmarket, Cambridge, Bury St Edmunds and the surrounding areas)*

Graziers Arms, Wakefield *Wakefield Civil Society Awards — Runner up, Outside Trading Area*

Great Eastern, Brighton *Publican Food and Drinks Awards 2010 — Finalist, Spirits Pub of the Year*

Halsey Arms, Pulham *MA Great British Pub Awards 2010 - Regional Winner, Best Community Pub (West Country)*

Harwood Arms, Fulham *MA Top 50 Gastropub Awards 2010*

Michelin Guide 2010 — First star awarded

Time Out Eating and Drinking Awards 2010 — Winner, Best New Gastropub

Hootananny, Brixton *MA Great British Pub Awards 2010 — Winner, Best Live Music Pub of the Year (UK)*

Horns, Watford *MA Great British Pub Awards 2010 — Regional Winner, Best Live Music (South East)*

Horseshoe, Shipston on Stour *CAMRA — Winner, Shakespeare Pub of the Summer 2010*

Hume Arms, Torksey *MA Great British Pub Awards 2010 — Regional Winner, Best Newcomer (East and West Midlands)*

Inn @ West End, Woking *BII Licensee of the Year Awards 2010 — Finalist*

The Good Pub Guide 2011 — Dining Pub (Surrey)

Mark Cross, Crowborough *Publican Awards 2010 — Finalist, Customer Service Pub of the Year and Bar Person of the Year*

Publican Food and Drinks Awards 2010 — Finalist, British Food Pub of the Year

Maypole Inn, Thurloxton *MA Great British Pub Awards 2010 — Regional Winner - Best Green Pub (West Country)*

Noel Arms Rutland *Radio Awards 2010 - Winner, Best Restaurant/Pub and Best Customer Service*

Parkers Arms, Newton *MA Great British Pub Awards 2010 — Regional Winner, Best Turnaround Pub (North West)*

Publican Food and Drinks Awards 2010 — Finalist, Chef of the Year

Pear Tree, Bamber Bridge *ACE Awards (Alcohol Certificate of Excellence) — Gold Award, Best Pub (South Ribble) and Best Pub (Southern Division)*

Phoenix Tavern, Faversham *MA Great British Pub Awards 2010 — Regional Winner, Best Newcomer (South East)*

Piper, Kettering *CAMRA — Winner, Pub of the Winter (Northamptonshire)*

Potting Shed, Crudwell *Sawday's Pubs and Inns of England and Wales Guide 2011 — Winner, The Local, Seasonal and Organic Produce*

The Good Pub Guide 2010 — National New Pub of the Year

The Good Pub Guide 2011 — National Dinning Pub of the Year

MA Top 50 Gastropub Awards 2010

Raven, Wakefield *Wakefield Civil Society Awards — Runner up, Outdoor Signage and Patio Beer Garden*

Riflemans Arms, Glastonbury *MA Great British Pub Awards 2010 — Regional Winner, Best Live Music (West Country)*

Ring O Bells Inn, Thornton *MA Great British Pub Food Awards 2010 — Runner up, Seafood Pub Chef of the Year*

Royal Oak Inn, Appleby-in-Westmoreland *MA Great British Pub Awards 2010 — Regional Winner, Best Tenanted/Leased Pub (North West)*

Royal Oak, Horfield *The Bristol Evening Post Awards 2010 — Winner, Best Garden and Best Overall Pub*

Saint James, Brighton *Publican Food and Drinks Awards 2010 — Finalist, Spirits Pub of the Year*

MA 200 Best Drinks Offer Awards 2010 — Winner

Sandrock, Wrecclesham *MA Great British Pub Food Awards 2010 — Runner up, Game Pub Chef of the Year*

Station Hotel, Andover *Hampshire City Council and Visit England — Winner, Hospitality Award*

Station Inn, Derby *National Pubwatch Awards 2010 — Personality of the Year*

Station Inn, Whitby *MA Great British Pub Awards 2010 — Regional Winner, Best Cask Beer Pub (Yorkshire and North East)*

Talbot Inn, Calne *Wiltshire Gazette and Herald — Best Pub Sunday Lunch (Wiltshire)*

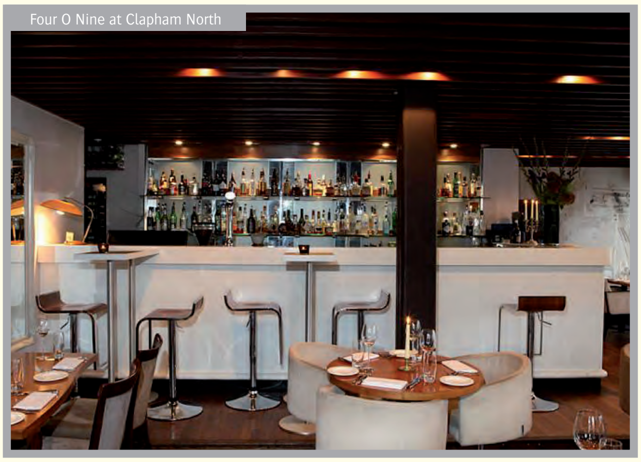
Thomas Lord, Petersfield *MA Top 50 Gastropub Awards 2010*

White Horse Inns, Ramsden Heath *MA Great British Pub Awards 2010 — Winner, Best Family Pub and Regional Winner, Best Family Pub (East Anglia)*

Whitehouses Inn, Retford *MA Great British Pub Awards 2010 — Regional Winner, Best Food Pub (East and West Midlands)*

Windmill, Peterborough *MA Great British Pub Awards 2010 — Regional Winner, Best Tenanted/Leased Pub (East Anglia)*

MA 200 Winners — Best Individual (Independent Multiple Retailers)



Four O Nine at Clapham North

Four O Nine at Clapham North, Clapham

Taste of London 2010 – **Winner, Best Hidden Gem**

Multiple operator, Sarah Wall, has invested heavily to create this gem above the Clapham North pub. Hidden from Clapham's busy high street, the Four O Nine is accessible through a private entrance, with only a discreet brass plaque to invite diners to enter the Manhattan loft-style restaurant. Sarah's chef, Chris Sutherland, enchants guests with his beautifully presented French cuisine.

Hootananny, Brixton

MA Great British Pub Awards 2010 –
Winner, Best Live Music Pub of the Year (UK)

The Hootananny may have the largest beer garden in South London, but sister and brother duo Sophia Yates and Kit Fraser have ensured the pub is best known for its variety of live music. Customers flock from far and wide to enjoy the unique atmosphere in the beautiful Victorian building.

Hootananny

Harwood Arms

Harwood Arms, Fulham

MA Top 50 Gastropub Awards 2010
Michelin Guide 2010 – **First Star Awarded**
Time Out Eating and Drinking Awards 2010 –
Winner, Best New Gastropub

Since September 2008, co-owners Brett Graham, Mike Robinson and Edwin Vaux have reinvented this pub in Fulham. Specialising in a British menu, the pub has won a number of awards in the last couple of years including Best New Gastropub at the 2010 Time Out awards and has also become the first pub in London to be awarded a coveted Michelin star.

Potting Shed

Potting Shed, Crudwell

Sawdays Pubs & Inns of England & Wales 2010/11 – **Winner, Local, Seasonal & Organic Produce**
Good Pub Guide 2010 – **National New Pub of the Year**
Good Pub Guide 2011 – **National Dining Pub of the Year**
MA Top 50 Gastropub Awards 2010

Licensees Jonathan Barry and Julian Muggridge's concept for the Potting Shed was designed to reflect the British institution of growing your own produce. Not only do they grow their own herbs and vegetables, but also loan out vegetable plots to local families to ensure the Potting Shed remains at the heart of its community.

Back cover pictures left to right
Royal Oak, Prestbury
5 Wharf Street, Godalming
George Hotel, Pangbourne

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