

22<sup>nd</sup> July 2008

## **Enterprise Inns plc**

### **Interim Management Statement**

Enterprise Inns plc (ETI) publishes its Interim Management Statement for the 42 weeks to 19<sup>th</sup> July 2008.

#### **Current Trading**

The ETI leased and tenanted business model remains robust despite difficult trading conditions.

The first anniversary of the smoking ban in England has now passed and across the sector, whilst food sales are growing, on - trade beer sales continue to be subdued, with industry sources suggesting close to double digit volume declines in the period from April to June. Consumer confidence is low and the rising costs of food, fuel, mortgage costs and taxes have put increasing pressures on disposable income and discretionary spend.

At the same time the Government's ill-conceived increase in alcohol duty will adversely impact all responsible licensees and pub goers and do little to address the much publicised problems of anti social behaviour and binge drinking. In this regard, we would once again call into question the strategy of the major supermarkets, some of whom continue to use alcohol as a traffic builder, often selling multi packs at below cost into a market place where consumption is almost entirely unregulated. In the absence of responsible retailing, we would expect the Government to introduce sensible legislation to address this issue.

The continuing declines in on-trade beer volumes, together with increased levels of assistance to licensees who are having to cope with difficult trading conditions, has inevitably put some pressure on Group EBITDA. In the first half of the year, the additional costs of our Business Recovery Scheme, which offers licensees support through rent concessions and special discounts, amounted to more than £3.5 million, a level which has increased in the second half.

Nevertheless, thanks to the quality of our pub estate, where food sales represent an increasing proportion of pub turnover, the resilience and innovation of the majority of licensees and our continuing support where appropriate, we are pleased that there has been no material deterioration in the key indicators of our licensees' financial health and sustainability.

#### **Pub Estate**

During the 42 week period, ETI has acquired 51 high quality pubs for £44 million and has invested almost £60 million, alongside our licensees, in improvements to the estate. During the same period, ETI has disposed of 45 pubs and plots of surplus land for a total consideration of £25 million, realising a small net profit over book value. Whilst the market for pub disposals is less buoyant than in recent years, we are reassured by the level of sales and the fact that book values have been matched or exceeded. We are further reassured by our independent valuers, who advise that our pub estate is likely to show a modest valuation uplift at 30<sup>th</sup> September 2008.

#### **Real Estate Investment Trust (REIT)**

On 7<sup>th</sup> May we announced that, subject to an internal reorganisation of the ETI group, HM Revenue and Customs (HMRC) had confirmed that ETI was eligible to convert to REIT status. Since then we have made good progress with HMRC and our advisers in completing the detailed work and technical analysis that was outstanding and we are now confident that the necessary internal reorganisation is achievable from a legal, tax and accounting perspective.

We are therefore now in a position to seek the necessary approvals required from our various stakeholders.

Once these steps are completed, the Board will decide on the relative merits of electing into the REIT regime. A further announcement will be made in due course.

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

“These are testing times for the pub industry but I am constantly reassured by the quality of our pub estate and our licensees and the security of our balance sheet. Our cash flows remain strong, providing adequate funds for investment and the reduction of borrowings as required.

The majority of our licensees are coping well with the current consumer downturn. Where appropriate, we have the resources to help licensees who are experiencing short term trading difficulties, thereby demonstrating an essential strength of the leased and tenanted pub model.

We remain confident that ETI will continue to deliver real long term growth in value for shareholders”.

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