Enterprise Inns plc

Interim Report 2005

for the six months ended 31 March 2005



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Interim Results Highlights

- Operating profit £253.3 million (2004: £149.7 million) **Up 69%**
- Profit before tax and exceptionals £143.6 million (2004: £93.7 million) **Up 53%**
- Adjusted earnings per share 29.6 pence (2004: 19.5 pence) **Up 52%**
- Interim dividend of 5.6 pence (2004: 3.6 pence) **Up 56%**
- Average operating profit per pub **Up 9%**
- The integration of the Unique business, acquired in March 2004, has now been completed in all respects.

Chairman's Interim Statement

I am delighted to report on our interim results for the six months to 31 March 2005, which reflect continuing improvements in the quality and profitability of the pub estate and which have benefited from a full contribution from the Unique Pub Company Limited (Unique), the acquisition of which we completed on 31 March 2004. Unique has now been successfully integrated in all respects and we expect synergies of some £27 million to be largely realised during the current year.

Total operating profit in the period increased by 69% to £253.3 million and profit before tax and exceptional items rose by 53% to £143.6 million. Adjusted earnings per share increased by 52% to 29.6 pence.

The directors intend to pay an interim dividend of 5.6 pence per share on 4 July 2005 to shareholders on the register of members on 10 June 2005. This payment represents an increase of 56% over the prior year and is in line with our stated policy for this financial year of setting dividend levels broadly in line with earnings growth. Future dividend policy and the potential for additional cash returns is being reviewed taking account of the needs of the business and consultations with our shareholders. We will publish the outcome of this review with our preliminary results for the full year, which we expect to announce in November.

The Company has continued to enhance the quality of the pub estate, through investment, acquisitions and disposals. During the period we completed 540 capital investment schemes across the estate at a cost of £24.8 million, investing alongside licensees to improve the quality and potential of their pub businesses. Furthermore, 11 good quality pubs were purchased at a cost of £6.5 million and 94 pubs and parcels of surplus land were sold for a total of £27.1 million. At the end of the period the estate comprised 8,644 pubs.

We continue to review acquisition opportunities that may become available in the market, evaluating these against our stringent quality, return on capital and earnings enhancement criteria.

Average operating profit per pub in the first half of the year amounted to £29,200, based on an average of 8,687 pubs in the period. This represents an annual increase of 9%, compared to the pro forma average operating profit per pub of £26,800 for the first half of the prior financial year. This strong like for like performance is driven by core growth, synergies and estate investment and churn.

Free cash inflow after interest, tax, dividend and capital expenditure on the pub estate amounted to £58 million in the period, an annual increase of 66%. At the end of the period net borrowings were £3,213 million, with interest costs 100% fixed at an average rate of 6.9% for an average life of 14 years.

On 25 February, Unique issued £170 million of Class A4 Asset Backed Notes due 2027. These notes are at a fixed interest rate of 5.7% and the proceeds were used to repay a short-term bridge facility put in place upon the acquisition of Unique. At the

Chairman's Interim Statement (continued)

same time, favourable market conditions enabled the refinancing of £393 million of floating rate notes, which resulted in an interest rate saving of £1.2 million per annum. The associated unamortised debt issue costs of £4.6 million have been written off as an exceptional interest charge.

In common with all other listed companies, we are preparing for the introduction of IFRS. This will affect our reported results from next financial year with the first results announcement on this basis due in May 2006. We are working with our auditors to determine the likely impact on reported results, but at the present time we anticipate only minor adjustments to earnings. There will be no impact on cash flows in the business or on our debt covenants.

These are strong interim results and performance since the period end reinforces our expectation of being able to report another year of solid progress. We are continuing our drive for increased profitability through improvements in all aspects of our business and will further enhance shareholder value through the optimal use of the strong cash flows which are generated.

H V Reid
Chairman

Summarised Consolidated Profit and Loss Account

	Notes	**Unaudited six months ended 31 March 2005 £m**	Unaudited six months ended 31 March 2004 £m	Audited year ended 30 September 2004 £m
Turnover		**453.9**	240.3	712.7
Group operating profit before exceptional items		**253.3**	130.7	383.7
Exceptional administrative expenses		—	—	(14.8)
Group operating profit after exceptional items		**253.3**	130.7	368.9
Share of operating profit from associated undertakings		—	19.0	19.0
Total operating profit		**253.3**	149.7	387.9
Exceptional item: net profit on disposal of tangible fixed assets		**0.5**	0.2	1.3
Share of associate's net profit on disposal of tangible fixed assets		—	0.1	0.1
		253.8	150.0	389.3
Net interest payable		**(109.7)**	(42.3)	(157.8)
Share of associate's net interest payable		—	(13.7)	(13.7)
Exceptional interest payable and similar charges		**(4.6)**	(4.6)	(4.6)
Profit on ordinary activities before taxation		**139.5**	89.4	213.2
Taxation	3	**(42.7)**	(25.9)	(64.1)
Share of associate's tax		—	(1.6)	(1.6)
Profit attributable to members of the parent company		**96.8**	61.9	147.5
Ordinary dividend on equity shares	4	**(19.2)**	(12.5)	(41.2)
Retained profit for the period		**77.6**	49.4	106.3
Earnings per share				
— basic	5	**28.2p**	18.2p	43.0p
— adjusted*	5	**29.6p**	19.5p	47.5p
— diluted	5	**27.8p**	18.0p	42.3p

* Adjusted Earnings Per Share excludes exceptional items and goodwill amortisation

Consolidated Statement of Total Recognised Gains and Losses

	Unaudited six months ended 31 March 2005 £m	Unaudited six months ended 31 March 2004 £m	Audited year ended 30 September 2004 £m
Profit for the period excluding share of associated undertakings	**96.8**	58.1	143.7
Share of profit in associated undertakings	**–**	3.8	3.8
Profit for the period attributable to members of the parent company	**96.8**	61.9	147.5
Unrealised surplus on revaluation of licensed estate	**–**	–	133.3
Share of unrealised surplus on revaluation of licensed estate in associate	**–**	–	4.7
Actuarial loss recognised in the defined benefit scheme of subsidiary	**–**	–	(0.7)
Movement in deferred tax asset related to pension scheme deficit	**–**	–	0.1
Total recognised gains and losses relating to the period	**96.8**	61.9	284.9

Reconciliation of Movements in Shareholders' Funds

	Unaudited six months ended 31 March 2005 £m	Unaudited six months ended 31 March 2004 £m	Audited year ended 30 September 2004 £m
Total recognised gains and losses	**96.8**	61.9	284.9
Dividends	**(19.2)**	(12.5)	(41.2)
	77.6	49.4	243.7
New share capital subscribed	**—**	0.5	0.5
Premium on issue of shares	**—**	50.5	50.7
Consideration paid for purchase of own shares	**(22.3)**	—	(24.3)
Proceeds received for disposal of own shares	**2.4**	—	—
Share-based expense recognised in operating profit	**1.2**	0.7	1.6
Net addition to shareholders' funds	**58.9**	101.1	272.2
Opening shareholders' funds	**1,353.6**	1,081.4	1,081.4
Closing shareholders' funds	**1,412.5**	1,182.5	1,353.6

Consolidated Balance Sheet

	Notes	**Unaudited six months ended 31 March 2005 £m**	Unaudited six months ended 31 March 2004 £m	Audited year ended 30 September 2004 £m
Fixed assets				
Intangible fixed assets		**77.5**	89.9	79.6
Tangible fixed assets		**4,931.0**	4,816.7	4,931.8
Investments in associated undertakings		**0.2**	0.2	0.2
		5,008.7	4,906.8	5,011.6
Current assets				
Assets held for resale		**5.0**	7.6	4.6
Debtors		**85.0**	75.8	85.7
Cash at bank and in hand		**100.5**	161.0	146.7
		190.5	244.4	237.0
Creditors: amounts falling due within one year				
— Bank overdrafts and loans		**(31.9)**	(55.6)	(26.9)
— Other		**(272.5)**	(232.9)	(282.5)
		(304.4)	(288.5)	(309.4)
Net current liabilities		**(113.9)**	(44.1)	(72.4)
Total assets less current liabilities		**4,894.8**	4,862.7	4,939.2
Creditors: amounts falling due after more than one year				
— Bank loans and debentures		**(3,398.3)**	(3,630.4)	(3,509.2)
Provisions for liabilities and charges		**(82.5)**	(49.8)	(73.7)
Net assets excluding pension liability		**1,414.0**	1,182.5	1,356.3
Pension liability	6	**(1.5)**	—	(2.7)
		1,412.5	1,182.5	1,353.6
Capital and reserves				
Called up share capital		**17.5**	17.5	17.5
Share premium account		**485.5**	485.3	485.5
Revaluation reserve		**541.1**	402.9	541.8
Capital redemption reserve		**7.6**	7.6	7.6
Merger reserve		**77.0**	77.0	77.0
Other reserve — treasury shares		**(43.7)**	(3.8)	(28.1)
Profit and loss account		**327.5**	196.0	252.3
Equity shareholders' funds		**1,412.5**	1,182.5	1,353.6

Consolidated Statement of Group Cash Flows

	Unaudited six months ended 31 March 2005 £m	Unaudited six months ended 31 March 2004 £m	Audited year ended 30 September 2004 £m
Net cash inflow from operating activities	**254.7**	139.0	403.2
Return on investments and servicing of finance			
— Interest received	**6.2**	9.1	13.1
— Interest paid	**(129.0)**	(61.6)	(171.4)
— Issue costs of long-term loans	**(1.1)**	(8.2)	(9.9)
	(123.9)	(60.7)	(168.2)
Taxation	**(20.0)**	(16.4)	(36.3)
Capital expenditure and financial investment:			
— Payments to acquire public houses	**(6.5)**	(7.7)	(12.9)
— Receipts from sales of tangible fixed assets	**27.1**	20.1	110.5
— Payments made on improvements to public houses	**(24.8)**	(15.7)	(50.9)
— Payments to acquire other fixed assets	**(0.4)**	(0.2)	(1.8)
— Payments to acquire investments – own shares	**(22.3)**	—	(24.3)
— Receipts from sale of investments – own shares	**2.4**	—	—
	(24.5)	(3.5)	20.6
Acquisitions and disposals:			
— Purchase of subsidiaries*	**—**	(247.4)	(247.4)
— Net cash acquired with subsidiaries	**—**	191.3	191.3
— Expenses of acquisition paid	**—**	(1.3)	(2.6)
	—	(57.4)	(58.7)
Equity dividends paid	**(28.9)**	(19.3)	(31.8)
Cash inflow/(outflow) before financing	**57.4**	(18.3)	128.8
Financing			
Issue of ordinary share capital	**—**	50.9	51.5
Share issue costs	**—**	—	(0.3)
Debt due within 1 year:			
— new short-term loans	**—**	30.0	30.0
— repayment of short-term loans	**(30.0)**	(130.0)	(160.0)
Debt due beyond 1 year:			
— new long-term loans	**680.9**	1,003.5	1,028.2
— repayment of long-term loans	**(754.5)**	(417.5)	(573.9)
Repayment of Deep Discounted Bonds*	**—**	(361.5)	(361.5)
(Decrease)/increase in cash	**(46.2)**	157.1	142.8

* Principal elements of cash consideration of purchase of subsidiary totalling £608.9m.

Reconciliation of Net Cash Flow to Movement in Net Debt

	Unaudited six months ended 31 March 2005 £m	Unaudited six months ended 31 March 2004 £m	Audited year ended 30 September 2004 £m
(Decrease)/increase in cash in the period	**(46.2)**	157.1	142.8
Decrease/(increase) in debt and lease financing	**103.6**	(124.5)	37.1
Issue costs of long-term loans	**1.1**	8.2	9.9
Change in net debt resulting from cash flows	**58.5**	40.8	189.8
Debt acquired with subsidiaries	**—**	(2,158.4)	(2,171.0)
Amortisation and write-off of issue costs and discounts on long-term loans	**(2.3)**	(4.3)	(4.0)
Amortisation of interest rate swap	**8.6**	1.7	7.7
Provision against interest rate swap	**(0.5)**	—	(2.5)
Write-off of unamortised issue costs	**(4.6)**	—	(4.6)
Movement in net debt in the period	**59.7**	(2,120.2)	(1,984.6)
Net debt at 1 October	**(3,389.4)**	(1,404.8)	(1,404.8)
Net debt at 31 March/30 September	**(3,329.7)**	(3,525.0)	(3,389.4)

Reconciliation of Operating Profit to Operating Cash Flows

	Unaudited six months ended 31 March 2005 £m	Unaudited six months ended 31 March 2004 £m	Audited year ended 30 September 2004 £m
Operating profit	**253.3**	130.7	368.9
Depreciation and amortisation	**4.1**	2.1	6.1
Share-based expense recognised in operating profit	**1.2**	0.7	1.6
Decrease/(increase) in debtors	**1.7**	3.4	(7.3)
(Decrease)/increase in creditors	**(4.0)**	1.6	31.5
Decrease in provisions	**(1.2)**	—	—
(Increase)/decrease in assets held for resale	**(0.4)**	0.5	2.4
Net cash inflow from operating activities	**254.7**	139.0	403.2

Notes to the Unaudited Interim Results

1. Publication of non-statutory accounts

The financial information contained in this interim statement, which is unaudited, does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The financial information for the full preceding year is based on the statutory accounts for the financial year ended 30 September 2004. These accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

2. Accounting policies and basis of preparation of interim financial information

The unaudited interim financial information has been prepared on the basis of the accounting policies set out in the Company's statutory accounts for the year ended 30 September 2004. Fixed annual charges are apportioned to the interim period on the basis of time elapsed. Other expenses are accrued in accordance with the same principles as used in the annual accounts. The tax charge for the period has been calculated at the effective rate expected to apply for the full year.

3. Taxation

The total taxation charge of £42.7m for the six months equates to an effective tax rate of 30.6% which is in line with the expected effective rate for the full year.

4. Dividends

An interim dividend of 5.6 pence per Ordinary Share is proposed (2004: interim 3.6 pence, final 8.4 pence), which will be payable on 4 July 2005 to shareholders on the register of members on 10 June 2005.

5. Earnings per Ordinary Share

Basic earnings per ordinary share is based on earnings of £96.8m (2004: six months £61.9m, full year £147.5m) and on 343,397,210 (2004: six months 339,702,129, full year 342,806,374) ordinary shares in issue excluding shares held by trusts relating to employee share options.

Adjusted earnings per share is based on earnings adjusted for the effects of exceptional items, net of tax, of £101.7m (2004: six months £66.1m, full year £163.0m) and on 343,397,210 (2004: six months 339,702,129, full year 342,806,374) ordinary shares in issue excluding shares held by trusts relating to employee share options.

Diluted earnings per share is based on earnings of £96.8m (2004: six months £61.9m, full year £147.5m) and on 347,932,936 (2004: six months 343,885,273, full year 348,935,535) ordinary shares in issue adjusting for shares held by trusts relating to employee share options.

Notes to the Unaudited Interim Results

6. Pension liability

The most recent full actuarial valuation of the defined benefit pension section of the pension scheme was at 5 April 2002. This was updated to 30 September 2004. The valuation used the projected unit method and was carried out by William J Mercer, independent professionally qualified actuaries.

The liability as at 31 March 2005 has been reduced by the amount of top-up pension payments made to the scheme during the period. The valuation has not otherwise been updated on the grounds of materiality. A full actuarial valuation is being carried out as at 5 April 2005 and the results of this valuation will be reflected in the accounts for the year to 30 September 2005.

International Financial Reporting Standards

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

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

We expect to publish our transition balance sheet with the financial statements for the year ended 30 September 2005. This will include a full reconciliation of the balance sheet under UK standards as published at 30 September 2004 to the opening balance sheet under IFRS. The restated balance sheet and results for the periods to 31 March 2005 and 30 September 2005 will be published as comparatives to the interim results at 31 March 2006.

Independent Review Report to Enterprise Inns plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 31 March 2005, which comprises the Summarised Consolidated Profit and Loss Account, Consolidated Statement of Total Recognised Gains and Losses, Reconciliation of movements in shareholders' funds, Consolidated Balance Sheet, Consolidated Statement of Group Cash Flows and related notes 1 to 6. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by the law, we do not accept or assume responsibility to anyone other than the Company for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 March 2005.

Ernst & Young LLP
Birmingham

17 May 2005

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Enterprise Inns plc

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

Tel:+44 (0)121 733 7700
Fax:+44 (0)121 733 6447

www.enterpriseinns.com