

Interim Report 2007

for the six months ended 31 March 2007

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(front cover left to right)

Brickmakers, Norwich

Cubanas, Barry

Church House, Bollington

(back cover left to right)

Castle Inn, Caldicot

Brook House, Hayes

Thorverton Arms, Thorverton

Interim Results Highlights

	2007	2006	Increase
Pro-forma EBITDA*§	**£256m**	£246m	4.1%
EBITDA*	**£258m**	£268m	
Profit before tax and exceptionals	**£149m**	£153m	
Earnings per share‡	**25.7p**	19.0p	35.3%
Adjusted earnings per share‡#	**18.4p**	15.9p	15.7%
Interim dividend‡	**5.2p**	4.5p	15.6%
Average EBITDA per pub	**£33,300**	£31,200	6.7%
70.6m shares purchased at a cost of £446m (excluding costs)			

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

§ Adjusted for the effects of the disposal of 769 pubs to Admiral Taverns in September 2006 and of the Scottish estate of 137 pubs in December 2006. See note 3.

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

Excludes exceptional items.

Chairman's Interim Statement

I am delighted to report on our interim results for the six months to 31 March 2007 during which period pro-forma EBITDA was £256 million, an increase of 4.1% over the prior period. These pro-forma results take account of the effects of the disposal of 769 pubs to Admiral Taverns in September 2006 and of our Scottish estate of 137 pubs in December 2006 and therefore allow a like-for-like comparison of the performance of the Group.

Basic earnings per share increased by 35.3% to 25.7p and adjusted earnings per share rose by 15.7% to 18.4p. The Directors intend to pay an interim dividend of 5.2p per share, an increase of 15.6% over last year, on 4 July 2007 to shareholders on the register of members on 8 June 2007.

Free cash flow after interest, tax, dividend and capital expenditure amounted to £30 million. At the end of the period gross debt was £3,589 million with interest costs 95% fixed at an average rate of 6.4% for 12 years. Underlying net debt was £3,504 million which includes £85 million of cash held within the business.

We continue to enhance the quality of the pub estate through investment, acquisitions and disposals. During the period we invested £35 million in the estate which, alongside licensee expenditure, will improve the quality and potential of their pub businesses. We acquired 52 high quality pubs at a cost of £38 million and disposed of our entire Scottish estate of 137 pubs to Retail and Licensed Properties Limited. Including other individual disposals, our disposal programme during the period generated proceeds of £121 million and a profit over book value of £17 million. At 31 March 2007 the estate comprised 7,713 pubs.

At the preliminary results in November last year, we announced that, in the absence of material acquisitions and subject to market conditions, we intended to return, through share buy backs and dividends, at least the same amount of cash to shareholders during the year to 30 September 2007 as we did last year. During the six months to 31 March 2007 we bought 70.6 million shares at a cost of £446 million. When combined with the dividend payment in January of £52 million, a total of £498 million of cash has been returned to shareholders in the first half of this financial year, exceeding the total amount returned last year of £463 million. Since 31 March we have purchased 5.1 million shares at a cost of £33 million and we will continue to buy back shares taking into consideration the cash flow needs of the business.

It is too early to draw definitive conclusions on the impact of the total ban on smoking in pubs in Wales introduced on 2 April. We expect that good quality pubs will gain new customers and market share following the introduction of the smoking ban in both Wales and England. As a result of the continued investment by both the Company and our licensees, 90% of our pubs now have outside trading areas and we are encouraged by the way in which the food offering available across the estate is developing. We therefore feel confident that the majority of our licensees are well placed to meet the challenges of the ban and have the opportunity to grow profitability.

There has been much debate about the value for shareholders that might be created as a result of recent legislation in respect of Real Estate Investment Trusts (REITs) and we are carefully monitoring developments and investigating potential opportunities. There are many uncertainties surrounding the long-term value for shareholders arising from splitting the Company into an operating company and a property company, not least because value parameters have yet to be established by the market. We are, however, exploring with our advisers whether the existing Group could meet the qualifying criteria for admission as a REIT without the need for material restructuring of the business and whether such a conversion would be in the best long-term interests of our shareholders.

In the meantime, we are working on refinancing our existing balance sheet, where current market parameters suggest that we could raise some £750 million of additional debt. We expect this refinancing process to be completed by the end of the calendar year and to be structured in a way that would not adversely impact our ability to generate shareholder value through the implementation of any other corporate structures that might become attractive in the future.

These encouraging interim results reflect both another sound performance from our high quality pub estate and substantial investment in our rolling share buy-back programme. We continue to churn and invest in our pubs to support our drive for improved quality and profitability and ensure that we are well placed to meet the challenges of the smoking ban and changing consumer demands. The second half of the financial year has started well and we remain focused on improving our operational performance and delivering attractive returns for shareholders.

H V Reid
Chairman
15 May 2007

Group Income Statement

	Notes	Pre-exceptional items £m	Exceptional items £m	Total £m
		Unaudited six months ended 31 March 2007		
Revenue		453	—	453
Cost of sales		(177)	—	(177)
Gross profit		276	—	276
Administrative expenses		(18)	—	(18)
EBITDA*		258	—	258
Depreciation and amortisation		(4)	—	(4)
Group operating profit		254	—	254
Net profit on sale of property, plant and equipment		—	17	17
Movements from revaluation of pub estate		—	—	—
Interest receivable		4	—	4
Interest payable		(109)	—	(109)
Write-off of unamortised issue costs		—	—	—
Movement in fair value of interest rate swaps		—	17	17
Total finance costs		(109)	17	(92)
Profit before tax		149	34	183
Taxation	5	(44)	8	(36)
Profit after tax and attributable to members of the parent company		105	42	147
Earnings per Share‡				
Basic	6			25.7p
Diluted	6			25.5p
Adjusted	6	18.4p		
Adjusted diluted	6	18.2p		
Dividends‡				
Dividends paid and/or proposed per share in respect of the period	7			5.2p

* Earnings before interest, tax, depreciation and amortisation.

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

Unaudited six months ended 31 March 2006			Audited year ended 30 September 2006		
Pre-exceptional items £m	Exceptional items £m	Total £m	Pre-exceptional items £m	Exceptional items £m	Total £m
473	—	473	970	—	970
(186)	—	(186)	(387)	—	(387)
287	—	287	583	—	583
(19)	—	(19)	(36)	(2)	(38)
268	—	268	547	(2)	545
(4)	—	(4)	(8)	—	(8)
264	—	264	539	(2)	537
—	2	2	—	67	67
—	—	—	—	(2)	(2)
3	—	3	6	—	6
(114)	—	(114)	(230)	—	(230)
—	—	—	—	(3)	(3)
—	21	21	—	40	40
(114)	21	(93)	(230)	37	(193)
153	23	176	315	100	415
(47)	(2)	(49)	(95)	5	(90)
106	21	127	220	105	325
		19.0p			50.5p
		18.8p			50.0p
15.9p			34.2p		
15.7p			33.9p		
		4.5p			13.5p

Group Statement of Recognised Income and Expense

	Unaudited six months ended 31 March 2007 £m	Unaudited six months ended 31 March 2006 £m	Audited year ended 30 September 2006 £m
Unrealised surplus on revaluation of licensed estate	–	–	323
Movement in deferred tax liability related to revalued licensed estate	4	16	(91)
Gains on cash flow hedges	7	–	–
Deferred tax relating to gains on cash flow hedges	(2)	–	–
Deferred tax relating to share schemes recognised directly in equity	4	2	5
Net income recognised directly in equity	13	18	237
Profit for the period	147	127	325
Total recognised income and expense	160	145	562

Statement of Changes in Equity

	Unaudited six months ended 31 March 2007 £m	Restated* Unaudited six months ended 31 March 2006 £m	Restated* Audited year ended 30 September 2006 £m
Total equity at start of period	1,602	1,573	1,573
Total recognised income and expense for the period	160	145	562
Equity dividends paid	(52)	(42)	(70)
Consideration paid for purchase of own shares held in treasury	–	(192)	(230)
Consideration paid for own shares subsequently cancelled	(449)	–	(166)
Change in provision for share buy-backs	21	(50)	(74)
Purchase of shares to be held in employee benefit trust	–	(1)	–
Employee share option entitlements exercised in the period	3	4	4
Share-based expense recognised in operating profit	2	2	3
Total equity at end of period	1,287	1,439	1,602

* See note 2.

Group Balance Sheet

	Unaudited 31 March 2007 £m	Restated* Unaudited 31 March 2006 £m	Restated* Audited 30 September 2006 £m
Non-current assets			
Goodwill	**417**	417	417
Investments	**2**	—	2
Intangible assets: operating lease premiums	**20**	26	24
Property, plant and equipment	**5,304**	5,212	5,343
Financial assets	**9**	—	1
	5,752	5,655	5,787
Current assets			
Assets held for sale	**5**	8	6
Trade and other receivables	**92**	93	94
Cash	**85**	84	111
Financial assets	**1**	—	1
	183	185	212
Non-current assets held for sale	**8**	39	10
Total assets	**5,943**	5,879	6,009
Current liabilities			
Trade and other payables	**(193)**	(190)	(210)
Current tax payable	**(47)**	(55)	(52)
Financial liabilities	**(77)**	(116)	(128)
Provisions	**(1)**	(1)	(1)
	(318)	(362)	(391)
Non-current liabilities			
Financial liabilities	**(3,639)**	(3,484)	(3,316)
Accruals and deferred income	**(4)**	(5)	(4)
Provisions	**(4)**	(6)	(4)
Deferred tax	**(691)**	(583)	(692)
	(4,338)	(4,078)	(4,016)
Total liabilities	**(4,656)**	(4,440)	(4,407)
Net assets	**1,287**	1,439	1,602
Equity			
Called up share capital	**15**	17	16
Share premium account	**486**	486	486
Revaluation reserve	**841**	681	845
Capital redemption reserve	**10**	8	9
Merger reserve	**77**	77	77
Treasury share reserve	**(227)**	(191)	(227)
Other reserve	**(36)**	(47)	(42)
Cash flow hedge reserve	**5**	—	—
Profit and loss account	**116**	408	438
Total equity	**1,287**	1,439	1,602

* See note 2.

Group Cash Flow Statement

	Unaudited six months ended 31 March 2007 £m	Unaudited six months ended 31 March 2006 £m	Audited year ended 30 September 2006 £m
Cash flow from operations			
Operating profit	**254**	264	537
Depreciation and amortisation	**4**	4	8
Share-based expense recognised in profit	**2**	2	3
(Decrease)/increase in receivables	**2**	(9)	(10)
Decrease in payables	**(11)**	(5)	(2)
Decrease in provisions	**—**	(1)	(3)
Decrease/(increase) in current assets held for sale	**(1)**	(1)	1
	252	254	534
Tax paid	**(35)**	(29)	(69)
Net cash flows from operating activities	**217**	225	465
Cash flows from investing activities			
Payments to acquire public houses	**(38)**	(58)	(80)
Payments made on improvements to public houses	**(35)**	(26)	(54)
Payments to acquire other property, plant and equipment	**(2)**	(4)	(7)
Receipts from sale of property, plant and equipment	**121**	20	362
Net cash flows from investing activities	**46**	(68)	221
Cash flows from financing activities			
Interest paid	**(102)**	(116)	(234)
Interest received	**4**	3	7
Issue costs of long-term loans	**—**	—	(4)
Equity dividends paid	**(52)**	(42)	(70)
Payments to acquire shares held in employee benefit trust	**—**	(16)	(17)
Payments to acquire own shares	**(454)**	(192)	(388)
Receipts from exercise of share options	**4**	4	5
Restructuring of interest rate swaps	**(1)**	—	(30)
Debt due beyond one year			
— new long-term loans	**482**	326	602
— repayment of long-term loans	**(170)**	(136)	(542)
Net cash flows from financing activities	**(289)**	(169)	(671)
Net (decrease)/increase in cash	**(26)**	(12)	15
Cash at start of period	**111**	96	96
Cash at end of period	**85**	84	111

Reconciliation of Net Cash Flow to Movement in Net Debt

	Unaudited six months ended 31 March 2007 £m	Restated* Unaudited six months ended 31 March 2006 £m	Restated* Audited year ended 30 September 2006 £m
(Decrease)/increase in cash in the period	**(26)**	(12)	15
Cash inflow from change in debt	**(311)**	(190)	(30)
Issue costs of new long-term loans	**—**	—	4
Change in net debt resulting from cash flows	**(337)**	(202)	(11)
Amortisation of issue costs and discounts/premiums on long-term loans	**(1)**	(1)	(2)
Amortisation of securitised bonds	**2**	2	5
Change in fair value of interest rate swaps	**24**	21	40
Change in provision for share buy-backs	**21**	(50)	(74)
Change in finance lease creditors	**1**	—	—
Write-off of unamortised issue costs	**—**	—	(3)
Movement in net debt in the period	**(290)**	(230)	(45)
Net debt at start of period	**(3,331)**	(3,286)	(3,286)
Net debt at end of period	**(3,621)**	(3,516)	(3,331)

Analysis of Net Debt

	Unaudited six months ended 31 March 2007 £m	Restated* Unaudited six months ended 31 March 2006 £m	Restated* Audited year ended 30 September 2006 £m
Corporate bonds	**(1,185)**	(1,185)	(1,185)
Syndicated bank borrowings	**(818)**	(468)	(425)
Securitised bonds	**(1,586)**	(1,754)	(1,667)
Gross debt	**(3,589)**	(3,407)	(3,277)
Cash	**85**	84	111
Underlying net debt	**(3,504)**	(3,323)	(3,166)
Capitalised debt issue costs	**19**	21	20
Fair value adjustments on acquisition of bonds	**(65)**	(70)	(67)
Fair value of interest rate swaps	**(14)**	(88)	(39)
Provision for share buy-backs in close period	**(53)**	(50)	(74)
Finance lease creditors	**(4)**	(6)	(5)
Net debt	**(3,621)**	(3,516)	(3,331)
Balance sheet:			
Current financial assets	**1**	—	1
Non-current financial assets	**9**	—	1
Current financial liabilities	**(77)**	(116)	(128)
Non-current financial liabilities	**(3,639)**	(3,484)	(3,316)
Cash	**85**	84	111
Net debt	**(3,621)**	(3,516)	(3,331)

* See note 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 figures for the year ended 30 September 2006 are based on the statutory accounts for that year. 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

These interim results have been prepared in accordance with the International Financial Reporting Standards (IFRS) expected to apply at 30 September 2007 and which applied at 30 September 2006 with the exception of the treatment of contingent agreements entered into regarding share buy-backs during the close period for which we have adjusted the Balance Sheet for the period ended 31 March 2006 and the year ended 30 September 2006. In accordance with IAS 32 'Financial Instruments: Disclosure and Presentation' a financial liability has been recognised as the Company has entered into a contingent agreement with a third party which requires the Company to purchase shares during the close period. We have restated the Balance Sheet for the comparative periods to recognise the financial liability estimated to have existed at those dates.

As permitted, this interim report has been prepared in accordance with UK listing rules and not in accordance with IAS 34 'Interim Financial Reporting'.

3. Pro-forma EBITDA

The Group disposed of 769 pubs to Admiral Taverns on 6 September 2006 and its Scottish estate of 137 pubs to Retail & Licensed Properties Limited on 5 December 2006. The pubs disposed of generated a total of £2 million of EBITDA before exceptional items during the six months ended 31 March 2007, £40 million in the year ended 30 September 2006 and £22 million in the six months ended 31 March 2006. EBITDA has been revised for the effects of these disposals to allow a like-for-like comparison of the results of the Group.

Pro-forma EBITDA

	Pro-forma Six months ended 31 March 2007 £m	Pro-forma Six months ended 31 March 2006 £m	Pro-forma Year ended 30 September 2006 £m
Revenue	**450**	437	901
Cost of sales	**(176)**	(172)	(358)
Gross profit	**274**	265	543
Administrative expenses	**(18)**	(19)	(36)
EBITDA before exceptional items	**256**	246	507

Reconciliation of EBITDA

Six months ended 31 March 2007	As reported £m	Disposals £m	**Pro-forma £m**
Revenue	453	(3)	**450**
Cost of sales	(177)	1	**(176)**
Gross profit	276	(2)	**274**
Administrative expenses	(18)	—	**(18)**
EBITDA before exceptional items	258	(2)	**256**

Notes to the Unaudited Interim Results

3. Pro-forma EBITDA continued

Six months ended 31 March 2006	As reported £m	Disposals £m	**Pro-forma £m**
Revenue	473	(36)	**437**
Cost of sales	(186)	14	**(172)**
Gross profit	287	(22)	**265**
Administrative expenses	(19)	–	**(19)**
EBITDA before exceptional items	268	(22)	**246**

Year ended 30 September 2006	As reported £m	Disposals £m	**Pro-forma £m**
Revenue	970	(69)	**901**
Cost of sales	(387)	29	**(358)**
Gross profit	583	(40)	**543**
Administrative expenses	(36)	–	**(36)**
EBITDA before exceptional items	547	(40)	**507**

4. Exceptional items

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

Exceptional adminsitrative costs

The exceptional item shown within administrative costs in the year ended 30 September 2006 relates to restructuring costs.

Net profit on sale of property

The net profit arising from the sale of property, plant and equipment in the period amounts to £17 million. Of this, £13 million relates to the profit on sale of our Scottish estate of 137 pubs in December 2006.

Movements from revaluation of pub estate

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

The revaluation of the pub estate occurs only at the end of the full financial year and there have been no write-downs in the period. There is therefore no exceptional item in this category in the period.

Movement in fair value of interest rate swaps

The interest rate swaps are revalued to fair value at each Balance Sheet date and the movement is recognised in the Income Statement unless hedge accounting is adopted. The movement in the fair value of swaps where hedge accounting is not applied of £17 million is shown as an exceptional item. In addition to this, £7 million has been recognised in equity, in the 'cash flow hedge reserve' relating to the effective portion of the movement in fair value of swaps which are accounted for as hedging instruments in cash flow hedges. This is shown in the balance sheet net of deferred tax of £2 million.

Notes to the Unaudited Interim Results

4. Exceptional items continued

Tax

Under IFRS, a deferred tax liability has been recognised on the Balance Sheet relating to the pub estate. On transition to IFRS, the Group elected to apply IFRS 3 retrospectively to acquisitions from 1 January 1999. This led to an increase in goodwill in respect of this deferred tax. As this pre-acquisition liability reduces due to capital gains indexation relief, a credit is recognised in the Income Statement. This credit of £18 million has been classified as an exceptional item. All other movements in respect of this deferred tax liability are accounted for in equity and recognised in the Statement of Recognised Income and Expense.

A deferred tax charge of £10 million relating to other exceptional items is also included in exceptional items. The total exceptional tax credit combines the £18 million indexation credit and £10 million deferred tax charge and is therefore £8 million.

5. Taxation

The pre-exceptional tax charge of £44 million for the six months equates to an effective tax rate of 29.5%. The effective tax rate does not include the effect of exceptional items.

The future tax charge would be affected by the proposed changes to the corporation tax rate and capital allowances announced in the budget statement in March 2007. The impact of these changes will be reflected in the financial statements of the Group when the Finance Bill 2007 has been 'substantively enacted' in line with IAS 12 'Income Taxes'. We anticipate this to occur before the end of the financial year.

6. Earnings per Ordinary Share

Basic earnings per ordinary share is based on earnings of £147 million (2006: six months £127 million, full year £325 million) and on 571.1 million (2006: six months 666.8 million*, full year 644.2 million*) 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 £105 million (2006: six months £106 million, full year £220 million) and on 571.1 million (2006: six months 666.8 million*, full year 644.2 million*) ordinary shares in issue excluding shares held by trusts relating to employee share options.

Diluted earnings per share is based on basic earnings of £147 million (2006: six months £127 million, full year £325 million) and adjusted earnings of £105 million (2006: six months £106 million, full year £220 million) and on 576.2 million (2006: six months 673.8 million*, full year 649.4 million*) ordinary shares in issue adjusting for shares held by trusts relating to employee share options.

7. Dividends

An interim dividend of 5.2 pence per Ordinary Share is proposed (2006: interim 4.5 pence*; final 9.0 pence*) which amounts to £27 million (2006: interim £29 million; final £52 million). This will be payable on 4 July 2007 to shareholders on the register of members on 8 June 2007.

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

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 2007 which comprises Group Income Statement, Group Statement of Recognised Income and Expense, Statement of Changes in Equity, Group Balance Sheet, Group Cash Flow Statement, Reconciliation of Net Cash Flow to Movement in Net Debt, Analysis of Net Debt, and the related notes 1 to 7. 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 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 preceeding 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 have been 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 International Standards on Auditing (UK and Ireland) 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 2007.

Ernst & Young LLP
Birmingham

15 May 2007

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

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