Interim Report 2010

for the six months ended 31 March 2010

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Front cover pictures left to right

Green Dragon, Downend

Windmill, Peterborough

Woolpack, Sopley

Highlights

- EBITDA (pre-exceptional items) £204 million (2009: £226 million)
- Average net income per pub £31.2k (2009: £32.2k)
- 86% of the pub estate let on substantive agreements, up from 83% at 30 September 2009
- £135 million gross proceeds from disposals, realising an exceptional profit of £32 million
- Underlying net debt reduced by £163 million

Successful refinancing

- Successful refinancing of bank debt, signing a new £625 million forward start facility
- Amortising facility starts in May 2011, with final maturity of December 2013

Statutory results

- Profit before tax and exceptional items £86 million (2009: £104 million)
- Profit before tax £91 million (2009: £9 million)
- Adjusted earnings per share 12.6p (2009: 15.3p)

Chief Executive's Review

I am pleased to report on our interim results for the six months to 31 March 2010, during which the team delivered EBITDA of £204 million, a solid result in testing trading conditions. Average net income per pub is down by just 3%, compared to an 8% decline during the same period last year and on a like-for-like basis fell by just 2% in the 86% of our pubs let on substantive agreements.

The Board is pleased that the refinancing of our existing bank facility has been successfully concluded using a forward start facility which is fully committed and will commence in May 2011. In the meantime, we shall continue to focus on our debt reduction programme and therefore, despite the solid operating and financial performance of the business, the Board has decided not to pay an interim dividend. However, the resumption of dividends remains a key objective and the Board will review the position on a regular basis and resume the payment of dividends when appropriate.

Trading review

Against a difficult background, these solid trading results are a tribute to the quality of our pub estate, the resilience of the leased and tenanted business model and, above all, the skills and determination of our retail partners and the Enterprise team.

Improving net income trend

Average net income per pub across the whole estate is 3% down compared to the same period last year, continuing the improving trend which has seen last year's decline of 8% reduced to 4% at the time of our AGM statement in January 2010 and now 3% overall for the first half. There continue to be significant regional variations in performance, with average net income per pub down by 5% in the north, 3% in the midlands and 1% in the south.

Substantive estate performance stable

86% of our pubs, representing 94% of net income, are now let on substantive agreements and, as trading in these pubs appears to be stabilising, our like-for-like income per pub remains steady at around 2% down on the same period last year. We continue to support good quality, deserving licensees who are prepared to work with us to achieve mutual long term success and this support, generally in the form of rent concessions and special discounts, has cost ETI around £7 million during the first half of the year, broadly similar to the same period last year.

Reducing number of pubs under temporary management

Our temporary management agreement (TMA) programme has now largely served its purpose, having taken control of failed pubs and moved them quickly through a refurbishment and re-launch programme to a condition where they could be re-let on substantive agreements. There were 134 TMA pubs this time last year, increasing to a peak of 218 during the third quarter of the last financial year. This number had reduced to 84 at 31 March 2010 and we expect to see further reductions during the second half.

Rate of business failures declining

Business failures are both a massive disappointment for our licensees and the ETI team and an expense to the business, as a result of lost income and additional

overhead costs. While the continuing difficulties facing the trade mean that failures are inevitable, we are encouraged that the rate of failure is declining, and is lower in the first half of the year compared with the same period last year, a trend which we expect to continue. The level of bad debts remains low and has slightly reduced during the first half, to just 0.3% of turnover, whilst overdue balances remain stable at approximately 1% of turnover.

Strong demand for new tenancies

At the same time, we are pleased that the improved flexibility of our suite of lease and tenancy agreements continues to attract record numbers of applicants, up by more than 100% over the same period last year. Even including the 568 new agreements that were signed by new and existing licensees during the first half, the average length of tenure in the substantive estate is over five years, confirming our view that the vast majority of our licensees are committed to their pubs and are working hard to remain successful during these difficult times.

Balance sheet and cash flow

Pub values stable

The ETI pub estate now comprises 7138 pubs, valued at £5.3 billion, an average of £740,000 per pub. We own the freehold of 97% by number and 99% by value of the pub estate and total annualised leasehold rent payable amounts to approximately £6 million, including the impact of the recent sale and leaseback programme.

Based upon evidence in the market and discussions with our independent valuers, we do not consider there to have been a material change in the valuation of the estate at the half year and therefore no interim revaluation has been undertaken.

The quality of our pubs 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 for the time being, we continue to invest in the estate, spending £27 million on over 1000 projects during the first half of the year, working alongside our licensees to improve the quality, profitability and long term potential of our pubs.

Profitable disposal programme

At the same time, we have accelerated our disposal programme, focusing resources on disposing of poorer quality and potentially unviable pubs which do not fit the future profile of our business. During the first half of the year, we disposed of 261 pubs, together with various other property assets for a total consideration of £86 million, generating a profit of £16 million. During the year ended 30 September 2009, the EBITDA of these pubs was £4 million. Whilst it is encouraging that we have been able to make these sales at a profit and generate strong cash flow as part of our debt reduction programme, the key benefit for the business has been the removal of underperforming assets that take up a disproportionate amount of the ETI team resource. Our programme for disposing of underperforming pubs continues apace and we expect to generate proceeds of at least £140 million by the year end.

Chief Executive's Review (continued)

We have also 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, non index-linked lease back under which ETI retains a substantive economic interest in the pub business. These auctions have proved very successful and by the half year we had completed the sale of 26 pubs for £49 million. A further 11 pubs had exchanged contracts at the half year and proceeds of £16 million were received during April. In total, the proceeds from sales exchanged or completed during the first half amounted to £65 million, achieving a substantial profit over book value and an average yield of 6.4%. We expect to offer a further 30 pubs at auction under our sale and leaseback programme during the second half of the year.

Flexible and tax efficient financing structure

ETI has a flexible and tax efficient financing structure comprising securitised bonds, corporate bonds and bank debt. At 31 March 2010, underlying net debt was £3,399 million compared to £3,562 million at the beginning of the financial year.

The £1,536 million of securitised bonds amortise over 21 years and currently attract a fixed rate of interest of 6.3%. The Group is £73 million ahead of the amortisation schedule and we expect to continue to make repayments of the Floating Rate Notes (FRN's) in advance until they are repaid in full by 2012. Repayments of the fixed rate securitised debt commence in 2013.

The £1,185 million corporate bonds are non-amortising, are secured on ring-fenced portfolios of freehold pubs and attract a fixed rate of interest averaging 6.5%, with the next scheduled maturities being £60 million in February 2014 and £600 million in March 2018. These corporate bonds and our securitised bonds trade at a relatively small discount to par and, whilst we could generate some short term gain by repurchasing them at a discount, 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.

Successful refinancing of bank facility

We have reduced our bank debt by £110 million, to £792 million, in the first half of this financial year and are pleased to report that we have now signed a forward start facility (FSF) of £625 million with ten of the banks from our existing syndicate. This new facility is fully committed and will commence in May 2011 when our current 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. A margin of 3.5% is now payable on current borrowings by lenders who are participating in the new FSF and financial covenants are unchanged. The overall facility will amortise at an amount of £25 million every six months, commencing in December 2011. In addition we shall be cancelling our £275 million, 6.66% interest rate swap in the second half of the year.

A strong and sustainable business model

Tie aligns interest of landlord and tenant

For many decades, the tied tenancy or lease business model has operated for the benefit of the vast majority of licensees and consumers and has been approved time

Chief Executive's Review (continued)

and again by the UK and European competition authorities, most recently by the Office of Fair Trading in October 2009 and the European Commission in April 2010. 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 the brewer or pub company which owns the freehold of the pub. Tied tenants benefit from substantially lower fixed rental costs as a proportion of the total cost of ownership 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.

Lower rate of closure in tied estates

There is clear evidence that tied pubs owned by pub companies and brewers have a far greater chance of succeeding in difficult times, hardly surprising given the mutual interest that the pub owners share with their licensees to see their pubs trade successfully and evidenced by the level of financial assistance and other support that they have provided. ETI alone has spent more than £30 million over the last two years providing discretionary rent concessions and special discounts where appropriate. Despite as many as 52 pubs closing per week across the industry during 2009, it has been unequivocally proven that pubs operating under tied lease or tenancy agreements have been better able to withstand the most challenging of trading conditions. The rate of closure amongst the 25,000 pubs owned by the seven largest pub companies, regional and family brewers has been approximately one third of that of the remaining 32,000 predominantly freehouse and managed pubs making up the rest of the industry. In this regard, the underlying strength of the tied business model and the benefits it brings to tenants and consumers alike have been clearly evident.

Substantial existing opportunities to source free-of-tie

Whereas most ETI pubs are tied for the supply of beer, some 18% are already free-of-tie for the supply of cider and 65% for the supply of wines, spirits and minerals. Although all ETI pubs are free to source all other product requirements, including food, from suppliers of their choice, many choose to take advantage of the service provided by our independent buying group which has been available exclusively to ETI licensees for over 9 years. In the last 12 months alone, over 5,000 licensees have used the ETI buying group to secure substantial savings on purchases of a vast range of goods and services including everything from fresh and frozen food to bar sundries, dispense gases and cleaning supplies.

New agreements give tenants additional flexibility

The ETI business model has continually evolved in order to take account of the competitive market in which we operate and the need to attract and retain the best retailers to run ETI pubs. Over the past eighteen months, we have been developing a new suite of flexible lease and tenancy agreements which have been taken up by more than 1300 existing and new licensees. Flexible terms have included standard discounts on beer ranging from £50 to £110 per barrel, incentive discounts of up to £155 triggered by the achievement of pre-agreed volume targets and an option for release from the tie for wines, sprits and minerals.

Chief Executive's Review (continued)

The knowledge that we have gained over this period, together with discussions with representative groups of licensees, has allowed us to develop further the flexibility of ETI agreements to ensure that we present the most attractive and competitive package to prospective retailers. We are therefore introducing additional benefits and tie-release options which will become available for all new agreements.

New RPI-linked lease agreement with no rent reviews

We will from July this year be offering an entirely new RPI-linked lease agreement of 10 to 20 years, during which term there will be no rent reviews. The rent agreed between ETI and the licensee at the outset of the agreement will be adjusted annually by reference to the Retail Price Index only, thereby removing any potential disagreement over the valuation of tenants' improvements or trading goodwill that may arise at the time of rent review.

Increased discounts and free-of-tie options

For new lease agreements from July this year, the range of discounts potentially available for beer and cider will be increased to a maximum of £155 per barrel where appropriate, in line with our view of free-of-tie pricing. In addition to our existing tie release option for wines, spirits and minerals, we shall be implementing for all agreements a similar option for bottled beers, bottled ciders and FABs. Furthermore, a tie release option will be available in selected circumstances for the supply and operation of gaming machines. We already have a small estate of pubs which are entirely free of all supply ties and we will be consulting with key groups of retailers on the implications of extending our free-of-tie option and the means by which such an option might be implemented for new agreements.

Free-of-tie options on guest ales extended

Cask-conditioned ale is a key differentiator for pubs as it remains the only category of beer which cannot be sourced from supermarkets. The range of cask ales available to ETI retailers is unparalleled in the UK market and our commitment to locally produced cask ales is such that ETI pubs now account for 70% of all volumes delivered through the Society of Independent Brewers' (SIBA) Direct Delivery Scheme. By focusing on quality and sustainability, as well as diversity, SIBA has played a valuable role in the recovery of the cask ale market in the UK, the resurgence of local brewers and the resulting increase in consumer choice. In all new agreements from July 2010, we will be offering a free-of-tie guest ale option exclusively for locally sourced cask ales supplied by brewer members of SIBA located within an approximate 20-mile radius of each pub. In addition, we will offer the same free-of-tie option for all cask ale to SIBA brewer members wishing to take on an ETI pub. As well as providing further impetus to our existing support for UK-brewed cask ale, we believe that these initiatives will enable locally produced cask ales to be delivered to our estate with a lower environmental impact than would otherwise be the case.

Chief Executive's Review (continued)

Agreement conversion option for existing licensees

All of these changes will be available in respect of new agreements from July this year. 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.

Current trading and outlook

Trading since the half year has been steady and in line with our expectations. As we continue to dispose of underperforming pubs which do not fit the future profile of the business, our team can devote more time to working alongside our licensees to develop their businesses and improve profitability. The World Cup in June and July offers a great opportunity for many licensees to get more people into their pubs to enjoy the match day atmosphere and we have many support packages on offer to help licensees maximise this opportunity.

The British public want a thriving and diverse community pub sector, not just cheap beer sold by supermarkets and huge town centre pubs. In the light of the changing economic, social and competitive background, we have looked carefully at all aspects of our business relationship with our licensees and are making changes where appropriate. We sincerely hope that the new Government will recognise the vital and positive contribution of community pubs and take positive steps to ensure their continuing success.

In the meantime, we remain confident in our strategy and, despite trading conditions which will doubtless remain challenging, we expect to deliver results for the full year in line with our expectations.

Board composition

Jo Stewart, Senior Independent Director, will be retiring from the Board at the conclusion of the Annual General Meeting in January 2011. Jo joined the Board in May 2001 and has made a most valuable contribution to the Company over the past 9 years. David Harding, who has served on the Board since November 2003, will succeed Jo as Senior Independent Director with effect from 1 June 2010.

We intend to issue an Interim Management Statement on 20 July 2010.

G E Tuppen
Chief Executive
11 May 2010

Group Income Statement

	Notes	Unaudited Six months ended 31 March 2010 Pre-exceptional items £m	Exceptional items £m	Total £m
Revenue		**371**	**3**	**374**
Cost of sales		**(149)**	**(2)**	**(151)**
Gross profit		**222**	**1**	**223**
Administrative expenses		**(18)**	**(5)**	**(23)**
EBITDA*		**204**	**(4)**	**200**
Depreciation and amortisation		**(7)**	**—**	**(7)**
Group operating profit		**197**	**(4)**	**193**
Profit on sale of property, plant and equipment	4	**—**	**32**	**32**
Goodwill allocated to disposals	5	**—**	**(7)**	**(7)**
Net profit/(loss) on sale of property plant and equipment		**—**	**25**	**25**
Movements in valuation of pub estate	6	**—**	**(19)**	**(19)**
Interest receivable		**1**	**—**	**1**
Interest payable		**(112)**	**—**	**(112)**
Movement in fair value of financial instruments	7	**—**	**3**	**3**
Total finance costs		**(112)**	**3**	**(109)**
Profit before tax		**86**	**5**	**91**
Taxation	8,9	**(23)**	**14**	**(9)**
Profit after tax and attributable to members of the Parent Company		**63**	**19**	**82**
Earnings per Share				
Basic	10			**16.5p**
Diluted	10			**16.4p**
Adjusted†	10	**12.6p**		
Adjusted diluted†	10	**12.6p**		

* Earnings before interest, tax, depreciation and amortisation

† Excludes exceptional items

‡ Restated — see note 14a

Unaudited Six months ended 31 March 2009			Audited Year ended 30 September 2009		
Restated‡ Pre-exceptional items £m	Restated‡ Exceptional items £m	Total £m	Pre-exceptional items £m	Exceptional items £m	Total £m
402	2	404	811	7	818
(158)	(1)	(159)	(325)	(4)	(329)
244	1	245	486	3	489
(18)	(2)	(20)	(36)	(8)	(44)
226	(1)	225	450	(5)	445
(5)	—	(5)	(12)	—	(12)
221	(1)	220	438	(5)	433
—	1	1	—	1	1
—	—	—	—	(8)	(8)
—	1	1	—	(7)	(7)
—	(54)	(54)	—	(151)	(151)
2	—	2	3	—	3
(119)	—	(119)	(233)	—	(233)
—	(41)	(41)	—	(34)	(34)
(119)	(41)	(160)	(233)	(34)	(267)
104	(95)	9	208	(197)	11
(28)	19	(9)	(55)	50	(5)
76	(76)	—	153	(147)	6
		—p			1.2p
		—p			1.2p
15.3p			30.7p		
15.2p			30.6p		

Group Statement of Comprehensive Income

	Unaudited Six months ended 31 March 2010 £m	Unaudited Six months ended 31 March 2009 £m	Audited Year ended 30 September 2009 £m
Profit for the period	**82**	–	6
Unrealised deficit on revaluation of pub estate	–	(149)	(278)
Movement in deferred tax liability relating to revalued pub estate	**(3)**	37	80
Write down of assets held for sale	**(7)**	(3)	(14)
Movement in cash flow hedges	**2**	(25)	(22)
Deferred tax relating to movement in cash flow hedges	**(1)**	7	6
Tax relating to share schemes recognised directly in equity	–	(1)	1
Net expense recognised directly in equity	**(9)**	(134)	(227)
Total recognised income and expense for the period attributable to members of the Parent Company	**73**	(134)	(221)

Group Balance Sheet

	Unaudited 31 March 2010 £m	Restated* Unaudited 31 March 2009 £m	Audited 30 September 2009 £m
Non-current assets			
Goodwill	**402**	417	409
Intangible assets: operating lease premiums	**14**	17	15
Property, plant and equipment	**5,221**	5,588	5,336
	5,637	6,022	5,760
Current assets			
Assets held for sale	**5**	16	6
Trade and other receivables	**71**	75	69
Cash	**114**	103	101
	190	194	176
Non-current assets held for sale	**54**	55	43
Total assets	**5,881**	6,271	5,979
Current liabilities			
Trade and other payables	**(201)**	(203)	(198)
Current tax payable	**(23)**	(32)	(29)
Financial liabilities	**(36)**	(135)	(141)
	(260)	(370)	(368)
Non-current liabilities			
Financial liabilities	**(3,583)**	(3,772)	(3,639)
Accruals and deferred income	**(2)**	(3)	(3)
Provisions	**(2)**	(3)	(2)
Deferred tax	**(584)**	(660)	(591)
Pension scheme	**(1)**	(1)	(1)
	(4,172)	(4,439)	(4,236)
Total liabilities	**(4,432)**	(4,809)	(4,604)
Net assets	**1,449**	1,462	1,375
Equity			
Called up share capital	**14**	14	14
Share premium account	**486**	486	486
Revaluation reserve	**936**	1,061	960
Capital redemption reserve	**11**	11	11
Merger reserve	**77**	77	77
Treasury share reserve	**(227)**	(227)	(227)
Other reserve	**(23)**	(25)	(26)
Cash flow hedge reserve	**(16)**	(18)	(16)
Profit and loss account	**191**	83	96
Enterprise Inns shareholders' equity	**1,449**	1,462	1,375

* Restated — see note 14b.

Group Statement of Changes in Equity

	Share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption £m
At 1 October 2009	**14**	**486**	**960**	**11**
Total recognised income and expense for the period	—	—	(10)	—
Transfer of realised revaluation surplus	—	—	(14)	—
Directors' share option entitlements exercised in the period	—	—	—	—
Reclassification of movement in financial instruments	—	—	—	—
Share based payment recognised in operating profit	—	—	—	—
At 31 March 2010	**14**	**486**	**936**	**11**
At 1 October 2008	14	486	1,178	11
Total recognised income and expense for the period	—	—	(115)	—
Transfer of realised revaluation surplus	—	—	(2)	—
Equity dividends paid	—	—	—	—
Directors' share option entitlements exercised in the period	—	—	—	—
At 31 March 2009	14	486	1,061	11

	Merger reserve £m	Treasury share reserve £m	Other reserve £m	Cash flow hedge reserve £m	Profit and loss account £m	Total £m
	77	**(227)**	**(26)**	**(16)**	**96**	**1,375**
	—	—	—	**1**	**82**	**73**
	—	—	—	—	**14**	—
	—	—	**3**	—	**(3)**	—
	—	—	—	**(1)**	**1**	—
	—	—	—	—	**1**	**1**
	77	**(227)**	**(23)**	**(16)**	**191**	**1,449**
	77	(227)	(28)	—	137	1,648
	—	—	—	(18)	(1)	(134)
	—	—	—	—	2	—
	—	—	—	—	(52)	(52)
	—	—	3	—	(3)	—
	77	(227)	(25)	(18)	83	1,462

Group Cash Flow Statement

	Unaudited Six months ended 31 March 2010 £m	Unaudited Six months ended 31 March 2009 £m	Audited Year ended 30 September 2009 £m
Cash flow from operating activities			
Operating profit	**193**	220	433
Depreciation and amortisation	**7**	5	12
Share-based expense recognised in profit	**1**	—	—
(Increase)/decrease in receivables	**(2)**	2	8
Decrease in payables	—	(14)	(12)
Decrease in provisions	—	—	(1)
Increase in current assets held for sale	**(1)**	(6)	—
	198	207	440
Tax paid	**(26)**	(34)	(59)
Net cash flows from operating activities	**172**	173	381
Cash flows from investing activities			
Payments to acquire public houses	—	(3)	(4)
Payments made on improvements to public houses	**(27)**	(23)	(52)
Payments to acquire other property, plant and equipment	—	(1)	(2)
Receipts from sale of property, plant and equipment	**131**	42	103
Net cash flows from investing activities	**104**	15	45
Cash flows from financing activities			
Interest paid	**(109)**	(110)	(235)
Interest received	**1**	2	3
Equity dividends paid	—	(52)	(52)
Cancellation of interest rate swap	**(5)**	—	—
Debt due in less than one year			
— new short-term loans	—	107	107
— repayment of short-term loans	**(100)**	(38)	(38)
Debt due beyond one year			
— new long-term loans	**216**	79	581
— repayment of long-term loans	**(266)**	(171)	(789)
Net cash flows from financing activities	**(263)**	(183)	(423)
Net increase in cash	**13**	5	3
Cash at start of period	**101**	98	98
Cash at end of period	**114**	103	101

Reconciliation of Net Cash Flow to Movement in Net Debt

	Unaudited Six months ended 31 March 2010 £m	Unaudited Six months ended 31 March 2009 £m	Audited Year ended 30 September 2009 £m
Increase in cash in the period	**13**	5	3
Cash outflow from change in debt	**150**	23	139
Change in net debt resulting from cash flows	**163**	28	142
Amortisation of issue costs and discounts/premiums on long-term loans	**(1)**	(1)	(2)
Amortisation of securitised bonds	**2**	2	4
Change in fair value of interest rate swaps	**10**	(66)	(56)
Movement in net debt in the period	**174**	(37)	88
Net debt at start of period	**(3,679)**	(3,767)	(3,767)
Net debt at end of period	**(3,505)**	(3,804)	(3,679)

Analysis of Net Debt

	Unaudited Six months ended 31 March 2010 £m	Unaudited Six months ended 31 March 2009 £m	Audited Year ended 30 September 2009 £m
Corporate bonds	**(1,185)**	(1,185)	(1,185)
Bank borrowings	**(792)**	(1,008)	(902)
Cash	**22**	18	7
	(1,955)	(2,175)	(2,080)
Securitised bonds	**(1,536)**	(1,586)	(1,576)
Cash	**92**	85	94
Underlying net debt	**(3,399)**	(3,676)	(3,562)
Capitalised debt issue costs	**14**	16	15
Fair value adjustments on acquisition of bonds	**(51)**	(55)	(53)
Fair value of interest rate swaps	**(65)**	(85)	(75)
Finance lease payables	**(4)**	(4)	(4)
Net debt	**(3,505)**	(3,804)	(3,679)
Balance sheet:			
Current financial liabilities	**(36)**	(135)	(141)
Non-current financial liabilities	**(3,583)**	(3,772)	(3,639)
Cash	**114**	103	101
Net debt	**(3,505)**	(3,804)	(3,679)

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

Notes

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 the Companies Act 2006. The figures for the year ended 30 September 2009 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

These interim results have been prepared in accordance with the International Financial Reporting Standards (IFRS) and accounting policies set out in the 30 September 2009 Annual Report and Accounts.

This interim report has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 'Interim Financial Reporting'.

During the period the Group has adopted IAS 1 (revised) 'Presentation of Financial Statements'. This has resulted in a number of presentational changes. There has been no impact on the Group's reported profit or net assets.

Prior year comparatives have been restated. Please see note 14 for further information.

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

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 are explained further in notes 3 to 8 below.

Notes (continued)

3. Exceptional items recognised in operating profit

	Unaudited Six months ended 31 March 2010 £m	Unaudited Six months ended 31 March 2009 £m	Audited Year ended 30 September 2009 £m
Impact of operating Temporary Management Agreements (TMA):			
Revenue	**3**	2	7
Cost of sales	**(2)**	(1)	(4)
Administrative costs	**(3)**	(2)	(8)
Net cost of operating TMAs	**(2)**	(1)	(5)
Reorganisation and regulatory costs	**(2)**	—	—
	(4)	(1)	(5)

The exceptional revenue, cost of sales and administrative costs relating to the operation of TMAs have been presented as exceptional 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.

TMAs were introduced during the year to 30 September 2009, allowing the Group to take control of pubs where the operator has failed and move them quickly through a refurbishment and re-launch programme. Management companies are paid a fee to run the pub and the Group underwrites losses incurred at pub level and benefits from profits at pub level.

An exceptional charge of £2 million has been incurred relating to reorganisational costs and costs incurred in respect of regulatory matters.

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

	Unaudited Six months ended 31 March 2010 £m	Unaudited Six months ended 31 March 2009 £m	Audited Year ended 30 September 2009 £m
Normal disposals			
Profits on sale of property, plant and equipment	**20**	9	17
Losses on sale of property, plant and equipment	**(4)**	(8)	(16)
	16	1	1
Sale and leaseback disposals			
Profits on sale of property, plant and equipment	**16**	—	—
Total net profit on sale of property, plant and equipment	**32**	1	1

Notes (continued)

4. Net profit on sale of property, plant and equipment (continued)

In the period 261 pubs and various other plots of land with a book value of £64 million were sold generating gross proceeds of £86 million which, after taking account of disposal costs, resulted in an overall profit of £16 million.

A total of 158 pub disposals realised a profit over book value and generated gross proceeds of £64 million, whilst the remaining 103 pub disposals generated gross proceeds of £22 million and were sold for consideration equal to or below book value.

In addition to the above, 26 pubs were sold as part of the Group's sale and leaseback programme. These pubs generated gross proceeds of £49 million and resulted in a profit over book value, after fees, of £16 million. These pubs were immediately leased back by the Group and are now classified as pubs held under operating leases.

5. Goodwill allocated to disposals

In accordance with IAS 36 'Impairment of Assets' purchased goodwill has been allocated to pubs disposed of, based on the relative value of the disposal to pubs retained. Accordingly goodwill of £7 million (31 March 2009: £nil million, 30 September 2009: £8 million) has been allocated to the 261 pubs disposed of during the period.

6. Movements in valuation of pub estate

	Unaudited Six months ended 31 March 2010 £m	Unaudited Six months ended 31 March 2009 £m	Audited Year ended 30 September 2009 £m
Movements from revaluation of pub estate	—	(46)	(124)
Write down of non-current assets held for sale to fair value less costs to sell:			
— Property, plant and equipment	**(18)**	(8)	(23)
— Operating lease premiums	**(1)**	—	(1)
Costs associated with non-current assets held for sale	—	—	(3)
	(19)	(54)	(151)

The movements from revaluation of the pub estate recognised in the prior year reflected a write down of property, plant and equipment below historic cost. Based upon evidence in the market and discussions with our independent valuers, we do not consider there to have been a material change in the valuation of the estate at the half year and therefore no interim revaluation has been undertaken.

When assets are identified for disposal they are reclassified from property, plant and equipment to non-current assets held for sale and they are valued at the lower of book value and fair value less costs to sell. The £19 million charge in the period to 31 March 2010 reflects this write down where the fair value falls below historic cost.

Notes (continued)

7. Movement in fair value of financial instruments

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 applied. The movement in the fair value of interest rate swaps where hedge accounting is not applied is shown as an exceptional item.

The Group has five interest rate swaps which expire between 2011 and 2013. The fair value of these interest rate swaps is a liability of £65 million at 31 March 2010 and was a liability of £75 million at 30 September 2009. The movement in the fair value of the interest rate swaps in the period to 31 March 2010 has been accounted for as follows:

	£m
At 1 October 2009	75
Cancellation of interest rate swap	(5)
Fair value movements:	
— Income Statement	(3)
— Cash flow hedge reserve	(2)
At 31 March 2010	**65**

8. Exceptional Taxation

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 which led to an increase in goodwill in respect of this deferred tax of £330 million. As this pre-acquisition liability changes due to capital gains indexation relief, the movement is recognised in the Income Statement. This exceptional tax charge/credit is calculated based on the movement in the Retail Price Index (RPI). In the period to 31 March 2009 and the year to 30 September 2009 RPI decreased which resulted in a charge to the Income Statement, however in the period to 31 March 2010 RPI increased which has resulted in a credit to the Income Statement.

This credit of £16 million has been classified as an exceptional 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.

An exceptional tax debit of £2 million has been recognised in relation to all other exceptional items in the Income Statement. The total exceptional tax credit is therefore £14 million.

Notes (continued)

9. Taxation

The pre-exceptional tax charge of £23 million for the six months equates to an effective tax rate of 27% which is estimated to be the tax rate for the year ended 30 September 2010. The effective tax rate does not include the effect of exceptional items.

10. Earnings per Ordinary Share

The basic earnings per ordinary share is based on earnings after exceptional items of £82 million (2009 six months: nil earnings, full year: earnings of £6 million) and on 498.3 million (2009 six months: 497.6 million, full year: 497.8 million) ordinary shares being the weighted average number of equity shares in issue during the period excluding shares held by trusts relating to employee share options.

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 £63 million (2009 six months: earnings of £76 million*, full year: earnings of £153 million) and on 498.3 million (2009 six months: 497.6 million, full year: 497.8 million) shares being the weighted average number of equity shares in issue during the period excluding shares held by trusts relating to employee share options.

The diluted earnings per share is based on earnings after exceptional items of £82 million (2009 six months: nil earnings, full year: earnings of £6 million) and adjusted earnings of £63 million (2009 six months: earnings of £76 million*, full year: earnings of £153 million) and on 500.3 million (2009 six months: 499.6 million, full year: 499.3 million) shares being the weighted average number of equity shares in issue during the period adjusted for the dilutive ordinary shares relating to employee share options.

* Restated — see note 14a.

11. Related party transactions

There have been no related party transactions during the period.

12. Commitments for the purchase of property, plant and equipment

At 31 March 2010, the Group had entered into contractual commitments to purchase £7 million (31 March 2009: £9 million, 30 September 2009: £3 million) of property, plant and equipment.

13. Seasonality of operations

The business is subject to minor seasonal fluctuations dependant on public holidays and the weather.

Notes (continued)

14. Prior year adjustments

a) TMA costs

At 30 September 2009 the net cost of operating TMAs of £5 million was categorised as exceptional however this had not been reflected in the 31 March 2009 results. These results have now been reanalysed to show the net cost of £1 million at 31 March 2009 as exceptional as outlined below:

	Unaudited 31 March 2009 Pre-exceptional items		
	As previously stated £m	TMA costs £m	As restated £m
Revenue	404	(2)	402
Cost of sales	(159)	1	(158)
Gross profit	**245**	**(1)**	**244**
Administrative expenses	(20)	2	(18)
EBITDA	**225**	**1**	**226**
Profit after tax attributable to members of the Parent Company	**75**	**1**	**76**
Earnings per share			
Adjusted	15.1p		15.3p
Diluted adjusted	15.0p		15.2p

b) Deferred tax

During the year to 30 September 2009 the method of calculating the deferred tax liability recognised in relation to the pub estate was revised which resulted in a £30 million adjustment to prior year balances.

The effect of this restatement on the 31 March 2009 results is as follows:

	Unaudited 31 March 2009		
	As previously stated £m	Deferred tax £m	As restated £m
Total assets	6,271	–	6,271
Deferred tax	(630)	(30)	(660)
Other liabilities	(4,149)	–	(4,149)
Net assets	**1,492**	**(30)**	**1,462**
Revaluation reserve	1,078	(17)	1,061
Profit and loss account	96	(13)	83
Other reserves	318	–	318
Shareholders' equity	**1,492**	**(30)**	**1,462**

15. Risks and uncertainties

There have been no changes in the assessment of principal risks and uncertainties facing the Group from those disclosed in the 30 September 2009 Annual Report and Accounts.

Statement of Directors' Responsibilities

The directors confirm to the best of their knowledge that this condensed set of financial statements has been prepared in accordance with IAS 34, as adopted by the European Union, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8.

By order of the Board

Ted Tuppen
Chief Executive
10 May 2010

David George
Chief Financial Officer
10 May 2010

Independent Review Report to Enterprise Inns plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2010 which comprises Group Income Statement, Group Statement of Comprehensive Income, 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 15. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in the International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" 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 half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with ISRE 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Ernst & Young LLP
Birmingham

10 May 2010

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Interim Report 2010

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