Continuing the journey towards growth

Enterprise Inns plc
Interim Report 2012
for the six months ended 31 March 2012

Contents

Highlights

FINANCIAL HIGHLIGHTS

- EBITDA* (pre-exceptional items) £168m (H1 2011: £179m)
- Like-for-like net income in substantive estate up 1.5% (H1 2011: down 1.5%)
- Like-for-like net income in total estate down 1.6% (H1 2011: down 5.0%)
- £89m of disposal proceeds has contributed to a reduction in net debt to £2.9bn (H1 2011: £3.1bn)
- Purchase and cancellation of £29m Unique A4 securitised bonds ahead of schedule; purchase and cancellation of additional £10m A4 and £2m A3 bonds since period end
- Appointment of Robert Walker as Chairman

STATUTORY RESULTS

- Profit before tax and exceptional items £64m (H1 2011: £74m)
- Profit before tax £64m (H1 2011: £61m)
- Adjusted earnings per share 9.6p† (H1 2011: 10.8p)

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

Chief Executive's Review

I am pleased to report on our interim results for the six months to 31 March 2012, during which we delivered pre-exceptional EBITDA of £168 million, 6% down on the same period last year, which reflects in part a reduction in the number of pubs in our estate together with the impact of leasehold costs incurred as a result of our successful sale and leaseback programme.

During the first half of the year we have strengthened and expanded the operations team, recruiting an additional managing director and creating four new geographic divisions in order to enable our field based teams to spend more time helping publicans improve pub performance. At the same time we have redirected our property team, under the guidance of a new managing director, to ensure we gain maximum value from our large and diverse freehold property portfolio.

The Board believes that, given current economic uncertainty, it is not appropriate to resume the payment of dividends at this time. Furthermore, there are certain restrictions on returning cash to shareholders whilst Tranche B of our bank borrowings is in place. The Board regularly evaluates the best use of available cash in terms of deleveraging and potential returns to shareholders through dividends or other means.

TRADING REVIEW

Total estate like-for-like income performance

Whilst average income per pub (up 3.2%) and like-for-like growth in the substantive estate (up 1.5%) are indicators of our progress, the team is fully engaged and motivated to improve like-for-like income performance across the entire estate. Total like-for-like income for the 6,143 pubs trading at 31 March 2012 continues to improve, down by 1.6% compared to a 5% decline in the same period last year.

The flexibility of our agreements, allowing for a range of supply and discount options at initial letting, rent review or agreement renewal, continues to help us to attract high quality publicans to run our pubs, and with an average of over 50 enquiries per week, the pipeline of applicants for pubs under Enterprise Inns plc (ETI) agreements remains strong.

Substantive estate like-for-like performance in growth

Over 94% of net income comes from pubs let on substantive agreements and like-for-like income in these pubs is showing steady improvement at 1.5% growth year on year. There continue to be regional variations in performance, with substantive like-for-like income growing at around 2% in the Midlands and South and, encouragingly, greater stability in the North where performance was flat during the period.

It is a reassuring indication of the improving stability of our estate that the costs of discretionary financial support have continued to reduce, alongside a further reduction in business failures, bad debts and overdue balances.

Non-substantive estate

Whilst just 6% of net income derives from the balance of the estate comprising pubs which are either closed or operating on tenancy-at-will agreements, the team has a clear strategy for the non-substantive estate to improve income generation or maximise cash proceeds on disposal.

Chief Executive's Review

The non-substantive estate includes approximately 155 pubs which are currently operating under, or planned for conversion to, our Beacon format and they will remain in the non-substantive estate until we are confident that we have the right combination of retail proposition and publican for conversion to a substantive agreement. This value-led trading style has proved effective in delivering improved performance in locations where the sustainability of those pubs at the heart of their communities was severely threatened. On average these Beacon conversions deliver a 30% improvement in pub income compared to the three month period prior to conversion.

This part of the estate also includes those pubs which we have chosen to operate under a short term agreement whilst we explore opportunities to maximise value through alternative use development or disposal with vacant possession.

PUB ESTATE

£39 million spend on continuing investment in estate quality

The quality of our pub estate is critical to the success of our business, attracting the most discerning and professional publicans and giving them the best foundations on which to develop a profitable business. During the period we invested £39 million, working alongside our publicans to deliver a wide range of schemes, large and small across more than 1,100 pubs. We will continue to invest in our estate to enhance asset quality and drive income but we would envisage that the current run rate of expenditure will reduce over time to a normalised level of £50 million per annum.

£89 million raised from the disposal of pubs

We have now largely completed our accelerated disposal programme of assets which do not fit the future profile of the business. This programme has generated cash proceeds of £264 million from the disposal of 1,045 pubs over the two years to 30 September 2011. Underperforming assets will still be sold but we expect this to be at normalised levels which will generate £40-50 million of proceeds per annum. Furthermore, as a result of our increased focus on the most appropriate use of capital within the business, we have identified for sale a number of exceptional properties which can realise cash proceeds above book value and at healthy multiples of earnings.

In the first half of this financial year, we have disposed of some 78 underperforming pubs for proceeds of £16 million, achieving a small profit on disposal, having previously written down the value of these pubs by £15 million when they were moved to assets held for resale. We also completed a sale and leaseback package of 17 pubs for £24 million, achieving a profit on disposal of £1 million. In addition, we have sold 36 exceptional properties for proceeds of £49 million, at an average multiple of 14 times income and at a profit of £9 million over book value. Total proceeds received in the first half therefore total £89 million after disposal costs, generating a profit on disposal of £10 million in the period (2011: £28 million).

In the period we have written down the value of pubs moved to assets held for resale by £16 million (2011: £45 million) of which £10 million (2011: £32 million) was charged to the Income Statement.

For the full year we expect to deliver total disposal proceeds of around £200 million, followed by a further £150 million next year.

Chief Executive's Review

SECURE FINANCING AND ROBUST CASH FLOW

ETI has a secure, flexible and tax efficient financing structure comprising securitised bonds, corporate bonds and bank borrowings. At 31 March 2012, net debt was £2,910 million compared to £3,130 million at the same time last year.

Securitisation and corporate bonds represent fixed rate, manageable and tax efficient debt

The £1,386 million of securitised bonds amortise over 20 years, attract an average fixed interest rate of 6.4% and are secured on pub assets with a net book value of £2,152 million. As at 31 March 2012, the Group was £91 million ahead of the amortisation schedule of the "A class" securitised bonds through early prepayment and market purchases.

We have now prepaid a total of £62 million of the floating rate A2N securitised bonds ahead of schedule and we expect to make advance repayments of the remaining £29 million floating rate securitised bonds until they are fully repaid later this year.

In addition we have purchased and cancelled £29 million Unique A4 securitised bonds in the period at an average purchase price of 76p for each £1 of nominal value. Subsequent to 31 March 2012 we have purchased a further £10 million A4 and £2 million A3 bonds, taking the total purchased and cancelled to £41 million. This represents over half of the planned purchase and cancellation of approximately £74 million (nominal value) of Unique A class fixed rate securitised bonds that we expect to complete by September 2013 in order to stay one year ahead of the scheduled debt profile. Prepayment and cancellation of these fixed rate notes will minimise the risk of a potential cash trap in Unique and enable Unique to continue to pay excess cash as dividends to ETI.

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

Reduced levels of bank debt and discussions to extend maturity

Strong cash generation from the business plus the benefit of strategic disposals have continued to reduce the level of borrowing under our bank facility, even after a one-off £17 million adverse impact on working capital of changed supply terms as we moved to benefit from taking greater control of order processing and supply chain management. Despite this one off outflow, and having invested £39 million into capital improvements, £22 million in early repayments of the A2N securitised bonds and £22 million in funding the purchase and cancellation of Unique A4 securitised bonds, we have reduced bank borrowings net of cash (excluding deferred issue costs) to £397 million at 31 March 2012 (£446 million at 30 September 2011). Total facilities available at 31 March 2012 were £465 million, of which Tranche B represents only £61 million. Subsequent to the half year we have prepaid and cancelled a further £16 million of Tranche B leaving only £45 million outstanding, which we expect to have fully repaid ahead of its maturity on 15 December 2012.

Chief Executive's Review

We have commenced discussions with our bank group to extend our bank facilities with a new forward start facility that would commence on expiration of the existing facilities on 15 December 2013.

CURRENT TRADING AND OUTLOOK

The second half of the year has started well and whilst we expect trading conditions to remain challenging, we are confident that a summer of significant national events will stimulate business activity, providing a welcome boost in trade for many of our publicans. The Royal Jubilee celebrations, the UEFA European Championship and the Olympic Games are all opportunities for communities to gather in their local pubs and celebrate national success.

Our strategy is clear and the quality of our pub estate and the resilience of our publicans will ensure that we deliver results for the full year in line with our expectations. As we continue to move the business towards growth, we remain confident that in the medium term the business will be in a good position to deliver positive returns to shareholders.

We intend to issue an Interim Management Statement on 9 August 2012.

G E Tuppen CBE
15 May 2012

Group Income Statement

	Notes	Pre-exceptional items £m	Exceptional items £m	Total £m
		Unaudited Six months ended 31 March 2012		
Revenue		**342**	**–**	**342**
Cost of sales		**(156)**	**–**	**(156)**
Gross profit		**186**	**–**	**186**
Administrative expenses		**(18)**	**(1)**	**(19)**
EBITDA*		**168**	**(1)**	**167**
Depreciation and amortisation		**(7)**	**–**	**(7)**
Operating profit		**161**	**(1)**	**160**
Profit on sale of property, plant and equipment	4	**–**	**10**	**10**
Goodwill allocated to disposals	5	**–**	**(6)**	**(6)**
Net profit on sale of property, plant and equipment		**–**	**4**	**4**
Movements in valuation of pub estate and related assets	6	**–**	**(10)**	**(10)**
Interest receivable		**–**	**–**	**–**
Interest payable		**(97)**	**–**	**(97)**
Movement in fair value of financial instruments	7	**–**	**–**	**–**
Gain on purchase of own debt	12	**–**	**7**	**7**
Total financing costs		**(97)**	**7**	**(90)**
Profit before tax		**64**	**–**	**64**
Taxation	8,9	**(16)**	**5**	**(11)**
Profit after tax attributable to members of the Parent Company		**48**	**5**	**53**
Earnings per share				
Basic	10			**10.6p**
Diluted	10			**10.6p**
Adjusted basic†	10	**9.6p**		
Adjusted diluted†	10	**9.6p**		

* Earnings before interest, tax, depreciation and amortisation

† Excludes exceptional items

	Unaudited Six months ended 31 March 2011			Audited Year ended 30 September 2011		
	Pre-exceptional items £m	Exceptional items £m	Total £m	Pre-exceptional items £m	Exceptional items £m	Total £m
	346	–	346	711	–	711
	(149)	–	(149)	(312)	–	(312)
	197	–	197	399	–	399
	(18)	–	(18)	(33)	(2)	(35)
	179	–	179	366	(2)	364
	(7)	–	(7)	(14)	–	(14)
	172	–	172	352	(2)	350
	–	28	28	–	41	41
	–	(9)	(9)	–	(15)	(15)
	–	19	19	–	26	26
	–	(32)	(32)	–	(191)	(191)
	1	–	1	1	–	1
	(99)	–	(99)	(196)	(3)	(199)
	–	–	–	–	(1)	(1)
	–	–	–	–	–	–
	(99)	–	(99)	(196)	(4)	(200)
	74	(13)	61	157	(171)	(14)
	(20)	30	10	(40)	78	38
	54	17	71	117	(93)	24
			14.2p			4.8p
			14.2p			4.8p
	10.8p			23.4p		
	10.8p			23.4p		

Group Statement of Comprehensive Income

	Unaudited Six months ended 31 March 2012 £m	Unaudited Six months ended 31 March 2011 £m	Audited Year ended 30 September 2011 £m
Profit for the period	**53**	71	24
Other comprehensive income:			
Unrealised deficit on revaluation of pub estate	**–**	–	(56)
Movement in deferred tax liability relating to revaluation of pub estate	**1**	(4)	20
Write down of assets held for sale	**(6)**	(13)	(26)
Actuarial loss on defined benefit scheme	**–**	–	(1)
Movement in cash flow hedge reserve	**–**	2	3
Restatement of deferred tax liability related to revaluation of pub estate for change in UK tax rate	**11**	13	25
Other comprehensive income for the period net of tax	**6**	(2)	(35)
Total comprehensive income for the period attributable to members of the Parent Company	**59**	69	(11)

Group Balance Sheet

	Unaudited 31 March 2012 £m	Unaudited 31 March 2011 £m	Audited 30 September 2011 £m
Non-current assets			
Goodwill	**371**	383	377
Intangible assets: operating lease premiums	**12**	13	12
Property, plant and equipment	**4,487**	4,832	4,572
	4,870	5,228	4,961
Current assets			
Assets held for sale	**7**	5	5
Trade and other receivables	**62**	67	64
Cash	**115**	101	114
	184	173	183
Non-current assets held for sale	**47**	36	27
Total assets	**5,101**	5,437	5,171
Current liabilities			
Trade and other payables	**(182)**	(198)	(205)
Current tax payable	**(19)**	(16)	(16)
Financial liabilities	**(96)**	(4)	(42)
Provisions	**(7)**	(6)	(6)
	(304)	(224)	(269)
Non-current liabilities			
Financial liabilities	**(2,929)**	(3,227)	(3,075)
Provisions	**(3)**	(4)	(3)
Deferred tax	**(408)**	(505)	(426)
Pension scheme	**–**	–	(1)
	(3,340)	(3,736)	(3,505)
Total liabilities	**(3,644)**	(3,960)	(3,774)
Net assets	**1,457**	1,477	1,397
Equity			
Called up share capital	**14**	14	14
Share premium account	**486**	486	486
Revaluation reserve	**847**	899	859
Capital redemption reserve	**11**	11	11
Merger reserve	**77**	77	77
Treasury share reserve	**(227)**	(227)	(227)
Other reserve	**(20)**	(23)	(23)
Cash flow hedge reserve	**–**	(1)	–
Profit and loss account	**269**	241	200
Enterprise Inns shareholders' equity	**1,457**	1,477	1,397

Group Statement of Changes in Equity

(unaudited)

	Share capital £m	Share premium account £m	Revaluation reserve £m
At 1 October 2011	**14**	**486**	**859**
Profit for the period	**–**	**–**	**–**
Other comprehensive income	**–**	**–**	**6**
Total comprehensive income	**–**	**–**	**6**
Transfer of realised revaluation surplus	**–**	**–**	**(18)**
Transfer of shares from Employee Benefit Trust to Share Incentive Plan	**–**	**–**	**–**
Share based expense recognised in operating profit	**–**	**–**	**–**
At 31 March 2012	**14**	**486**	**847**
At 1 October 2010	14	486	922
Profit for the period	–	–	–
Other comprehensive income	–	–	(4)
Total comprehensive income	–	–	(4)
Transfer of realised revaluation surplus	–	–	(19)
Share based expense recognised in operating profit	–	–	–
At 31 March 2011	14	486	899
At 1 April 2011	14	486	899
Profit for the period	–	–	–
Other comprehensive income	–	–	(33)
Total comprehensive income	–	–	(33)
Transfer of realised revaluation surplus	–	–	(7)
Share based expense recognised in operating profit	–	–	–
At 30 September 2011	14	486	859

Capital redemption reserve £m	Merger reserve £m	Treasury share reserve £m	Other reserve £m	Cash flow hedge reserve £m	Profit and loss account £m	Total £m
11	**77**	**(227)**	**(23)**	**–**	**200**	**1,397**
–	**–**	**–**	**–**	**–**	**53**	**53**
–	**–**	**–**	**–**	**–**	**–**	**6**
–	**–**	**–**	**–**	**–**	**53**	**59**
–	**–**	**–**	**–**	**–**	**18**	**–**
–	**–**	**–**	**3**	**–**	**(3)**	**–**
–	**–**	**–**	**–**	**–**	**1**	**1**
11	**77**	**(227)**	**(20)**	**–**	**269**	**1,457**
11	77	(227)	(23)	(3)	150	1,407
–	–	–	–	–	71	71
–	–	–	–	2	–	(2)
–	–	–	–	2	71	69
–	–	–	–	–	19	–
–	–	–	–	–	1	1
11	77	(227)	(23)	(1)	241	1,477
11	77	(227)	(23)	(1)	241	1,477
–	–	–	–	–	(47)	(47)
–	–	–	–	1	(1)	(33)
–	–	–	–	1	(48)	(80)
–	–	–	–	–	7	–
–	–	–	–	–	–	–
11	77	(227)	(23)	–	200	1,397

Group Cash Flow Statement

	Unaudited Six months ended 31 March 2012 £m	Unaudited Six months ended 31 March 2011 £m	Audited Year ended 30 September 2011 £m
Cash flow from operating activities			
Operating profit	**160**	172	350
Depreciation and amortisation	**7**	7	14
Share-based expense recognised in profit	**1**	1	1
Decrease in receivables	**2**	–	–
Decrease in payables	**(25)**	(8)	(12)
Increase in provisions	**1**	2	1
Increase in current assets held for sale	**(2)**	(1)	(1)
	144	173	353
Tax paid	**(13)**	(11)	(27)
Net cash flows from operating activities	**131**	162	326
Cash flows from investing activities			
Payments made on improvements to public houses	**(39)**	(30)	(71)
Payments to acquire other property, plant and equipment	**–**	–	(1)
Receipts from sale of property, plant and equipment	**89**	138	238
Net cash flows from investing activities	**50**	108	166
Cash flows from financing activities			
Interest paid	**(94)**	(97)	(192)
Interest received	**–**	1	1
Issue costs of long-term loans	**–**	(1)	(2)
Cancellation and restructuring of interest rate swaps	**(2)**	(4)	(6)
New loans	**130**	432	1,134
Repayment of loans	**(192)**	(608)	(1,421)
Purchase of own debt	**(22)**	–	–
Net cash flows from financing activities	**(180)**	(277)	(486)
Net increase/(decrease) in cash	**1**	(7)	6
Cash at start of period	**114**	108	108
Cash at end of period	**115**	101	114

Reconciliation of Net Cash Flow to Movement in Net Debt

	Unaudited Six months ended 31 March 2012 £m	Unaudited Six months ended 31 March 2011 £m	Audited Year ended 30 September 2011 £m
Increase/(decrease) in cash in the period	**1**	(7)	6
Cash outflow from change in debt	**84**	176	287
Issue costs of new long-term loans	**–**	1	2
Change in net debt resulting from cash flows	**85**	170	295
Amortisation of issue costs and discounts/ premiums on long-term loans	**(3)**	(3)	(6)
Gain on purchase of own debt	**7**	–	–
Amortisation of securitised bonds	**2**	2	5
Change in fair value of interest rate swaps	**2**	6	8
Movement in net debt in the period	**93**	175	302
Net debt at start of period	**(3,003)**	(3,305)	(3,305)
Net debt at end of period	**(2,910)**	(3,130)	(3,003)

Analysis of Net Debt

	Unaudited Six months ended 31 March 2012 £m	Unaudited Six months ended 31 March 2011 £m	Audited Year ended 30 September 2011 £m
Corporate bonds	**(1,185)**	(1,185)	(1,185)
Bank borrowings	**(424)**	(545)	(464)
Securitised bonds	**(1,386)**	(1,466)	(1,436)
Gross debt	**(2,995)**	(3,196)	(3,085)
Cash	**115**	101	114
Underlying net debt	**(2,880)**	(3,095)	(2,971)
Capitalised debt issue costs	**17**	22	20
Fair value adjustments on acquisition of bonds	**(41)**	(47)	(44)
Fair value of interest rate swaps	**(2)**	(6)	(4)
Finance lease payables	**(4)**	(4)	(4)
Net debt	**(2,910)**	(3,130)	(3,003)
Balance sheet:			
Current financial liabilities	**(96)**	(4)	(42)
Non-current financial liabilities	**(2,929)**	(3,227)	(3,075)
Cash	**115**	101	114
Net debt	**(2,910)**	(3,130)	(3,003)

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 half-yearly financial report, which is unaudited, does not constitute statutory accounts in accordance with the Companies Act 2006. The financial information for the year ended 30 September 2011 is extracted from the statutory accounts for that year which have been delivered to the Registrar, on which the auditors issued an unqualified opinion which did not include an emphasis of matter reference or statements under section 498(2) or (3) of the Companies Act 2006.

2. Accounting policies

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' and reflects the accounting policies set out in the 30 September 2011 Annual Report and Accounts which have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

The following new standards, interpretations and amendments have been introduced since 30 September 2011:

- Amendments to IFRS 7: Financial Instruments Disclosures
- Amendments to IAS 24 (revised): Related Party Disclosures
- Amendments to IFRIC 14: Prepayments Of A Minimum Funding Requirement

The adoption of these standards and interpretations has not had a material impact on the results or financial position of the Group.

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

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

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 7, 9 and 12 below.

Notes

3. Exceptional items recognised in operating profit

	Unaudited Six months ended 31 March 2012 £m	Unaudited Six months ended 31 March 2011 £m	Audited Year ended 30 September 2011 £m
Reorganisation and regulatory costs	**(1)**	–	(2)
	(1)	–	(2)

4. Profit on sale of property, plant and equipment

	Unaudited Six months ended 31 March 2012 £m	Unaudited Six months ended 31 March 2011 £m	Audited Year ended 30 September 2011 £m
Normal disposals			
Profits on sale of property, plant and equipment	**11**	12	23
Losses on sale of property, plant and equipment	**(2)**	(3)	(12)
	9	9	11
Sale and leaseback disposals			
Profits on sale of property, plant and equipment	**1**	19	30
Total profit on sale of property, plant and equipment	**10**	28	41

During the period 114 pubs (31 March 2011: 212 pubs, 30 September 2011: 466 pubs) and various other plots of land were sold generating gross proceeds of £67 million (31 March 2011: £54 million, 30 September 2011: £117 million) which, after taking account of disposal costs, resulted in an overall profit of £9 million (31 March 2011: £9 million, 30 September 2011: £11 million).

In addition to the above, 17 pubs (31 March 2011: 71 pubs, 30 September 2011: 105 pubs) were sold as part of the Group's sale and leaseback programme. These pubs generated gross proceeds of £24 million (31 March 2011: £92 million, 30 September 2011: £133 million) and resulted in a profit over book value, after fees, of £1 million (31 March 2011: £19 million, 30 September 2011: £30 million). These pubs were immediately leased back by the Group and are now classified as pubs held under operating leases.

Notes

5. Goodwill allocated to disposals

In accordance with IAS 36 'Impairment of Assets' purchased goodwill is allocated to pubs disposed of, based on the relative value of the disposal to pubs retained. Accordingly, goodwill of £6 million (31 March 2011: £9 million, 30 September 2011: £15 million) has been allocated to the 131 pubs disposed of during the period.

6. Movements in valuation of pub estate and related assets

	Unaudited Six months ended 31 March 2012 £m	Unaudited Six months ended 31 March 2011 £m	Audited Year ended 30 September 2011 £m
Movements from revaluation of pub estate	**–**	–	(117)
Write down of non-current assets held for sale to fair value less costs to sell:			
– Tangible assets: Property, plant & equipment	**(10)**	(32)	(73)
– Intangible assets: Operating lease premiums	**–**	–	(1)
	(10)	(32)	(191)

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 £10 million charge in the period to 31 March 2012 reflects this write down where the fair value falls below historic cost.

Following discussions with our external valuers, corroborated by market evidence, no exceptional item has been recorded for movements from the revaluation of the pub estate to 31 March 2012. A full valuation of the total pub estate is undertaken at the end of each financial year.

7. Movement in fair value of financial instruments

Under IFRS, 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 the swaps where hedge accounting is not applied is shown as an exceptional item.

At 31 March 2012 the Group has three interest rate swaps which expire between 2012 and 2013. The fair value of these interest rate swaps is a liability of £2 million at 31 March 2012 (£6 million at 31 March 2011, £4 million at 30 September 2011).

Notes

8. Taxation

The pre-exceptional tax charge of £16 million for the six months equates to an effective tax rate of 25.6% which is estimated to be the tax rate for the year ended 30 September 2012. The effective tax rate does not include the effect of exceptional items.

9. Exceptional taxation

The UK government reduced the rate of corporation tax by 2% per annum from 26% to 24% effective from 1 April 2012 and announced its intention to reduce the rate further by 1% to 23% by 1 April 2013 and an additional 1% to 22% by 1 April 2014. The change in corporation tax from 26% to 24% has been substantively enacted and therefore the deferred tax assets and liabilities included within these results have been based on the reduced rate of 24%. An exceptional tax credit of £6 million has been recognised resulting from this restatement of deferred tax balances to 24% at 31 March 2012 (30 September 2011, deferred tax was provided at 25%).

The forecast effect of the proposed reductions in the corporation tax rate by 2014 would be to decrease the net deferred tax liability by £34 million. £12 million is expected to be recognised in the Income Statement and £22 million in Other Comprehensive Income.

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 and disposals, the movement is recognised in the Income Statement. This exceptional tax credit is calculated based on the movement in the Retail Price Index (RPI).

All other movements in respect of deferred tax have been accounted for in the Income Statement, except to the extent that they relate to transactions or events recognised directly in Other Comprehensive Income.

All other exceptional items in the Income Statement have resulted in a net exceptional tax charge of £1 million.

The total exceptional tax credit shown in the Income Statement is £5 million.

10. Earnings per ordinary share

The basic earnings per ordinary share is based on earnings after exceptional items of £53 million (six months to 31 March 2011: £71 million, full year to 30 September 2011: £24 million) and on 499.5 million (six months to 31 March 2011: 499.0 million, full year to 30 September 2011: 499.0 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 £48 million (six months to 31 March 2011: earnings of £54 million, full year to 30 September 2011: earnings of

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£117 million) and on 499.5 million (six months to 31 March 2011: 499.0 million, full year to 30 September 2011: 499.0 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 £53 million (six months to 31 March 2011: £71 million earnings, full year to 30 September 2011: earnings of £24 million) and adjusted earnings of £48 million (six months to 31 March 2011: earnings of £54 million, full year to 30 September 2011: earnings of £117 million) and on 500.5 million (six months to 31 March 2011: 500.7 million, full year to 30 September 2011: 499.8 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.

11. Related party transactions

There have been no related party transactions requiring disclosure during the period.

12. Capital disclosures and analysis of changes in net debt

The capital structure is managed to support the Group's objective of maximising long-term shareholder value through ready access to debt and capital markets, cost effective borrowing and flexibility to fund business and acquisition opportunities whilst maintaining appropriate leverage to optimise the cost of capital.

The capital structure of the Group is based upon management's judgement of the appropriate balancing of all key elements of its financial strategy in order to meet the Group's operational and strategic requirements. This includes a strategy on dividends, share and bond buy backs and monitoring liquidity risk. The overall financing strategy of the Group is presented to the Board annually as part of the budgeting exercise.

The Board considers capital structure when recommending dividends. The terms and conditions of the bank borrowings include a clause that states the Company shall not declare, make or pay any dividend on or in respect of its share capital whilst there are any Tranche B Loans outstanding.

At 31 March 2012 the Tranche B facility is £61 million, expiring in December 2012, which the Board intends to repay in advance of its expiry date to remove this restriction. In April 2012, a further £16 million was prepaid and cancelled, leaving only £45 million of the Tranche B facility outstanding.

During the 6 months ended 31 March 2012, £29 million Unique A4 securitised bonds were purchased and cancelled at an average purchase price of 76p for each £1 of nominal value generating a gain of £7 million, shown in the Income Statement as an exceptional item. In April 2012, a further £10 million Unique A4 and £2 million Unique A3 securitised bonds were purchased at an average purchase price of 76p and 83p respectively, for each £1 of nominal value, taking the total purchased and cancelled to £41 million.

The Group monitors capital on the basis of a net debt ratio, being net debt divided by net debt plus equity. Net debt is defined as the book value of the Group's debt less cash. Equity is defined as total shareholders' funds.

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12. Capital disclosures and analysis of changes in net debt (continued)

	Unaudited Six months ended 31 March 2012 £m	Unaudited Six months ended 31 March 2011 £m	Audited Year ended 30 September 2011 £m
Total debt	**3,025**	3,231	3,117
Cash	**(115)**	(101)	(114)
Net debt	**2,910**	3,130	3,003
Equity	**1,457**	1,477	1,397
Net debt ratio	**67%**	68%	68%

Please refer to the Chief Executive's Review for changes to and further information regarding the Group's financing arrangements.

13. Operating leases

	Unaudited Six months ended 31 March 2012 £m	Unaudited Six months ended 31 March 2011 £m	Audited Year ended 30 September 2011 £m
Operating lease rentals recognised as an expense in the period:	**10**	6	16
Future minimum lease payments due under operating leases:			
Within one year	**21**	16	19
After one year but not more than five years	**82**	65	75
In more than five years	**392**	298	342
	495	379	436

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

At 31 March 2012, the Group had entered into contractual commitments to purchase £6 million (31 March 2011: £13 million, 30 September 2011: £6 million) of property, plant and equipment.

15. Seasonality of operations

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

16. Pension scheme

As outlined in the Annual Report for the year ended 30 September 2011, the Group has received the preliminary results of the triennial valuation of the RetailLink Management Limited defined benefit pension scheme and is currently finalising the valuation and agreeing the funding strategy with the actuaries and scheme Trustees. Current annual contributions total £0.8 million.

In accordance with IAS 19, the Group recorded an accounting deficit of £0.7 million at 30 September 2011, which will be updated at 30 September 2012. The current best available estimate of the total funding cost of the scheme on a buy-out basis, which uses a more prudent basis to discount scheme liabilities than is required by IAS 19 and also reflects the current estimated cost of acquiring annuities, is £11 million.

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

G E Tuppen
Chief Executive
14 May 2012

N R Smith
Chief Financial Officer
14 May 2012

Additional Information

Auditors

As indicated in the 2011 Annual Report, the Company decided to undertake a full tender for audit and advisory services.

This process was successfully completed during the six months ending 31 March 2012. As a result of this, Ernst & Young LLP have been retained as auditors to the Company, whilst KPMG LLP have been appointed to provide taxation advisory services.

Principal risks and uncertainties

The principal risks and uncertainties affecting the business activities of the Group, and the relevant mitigating activities, in respect of the remaining six months of the year to 30 September 2012 remain as stated on pages 22 to 25 of the Annual Report for the year ended 30 September 2011, a copy of which is available at the Company's website at www.enterpriseinns.com

In summary the principal risks and uncertainties are:

Financial risks, whether from the availability of funding or changes in interest rates, may cause adverse effects on the Group's liquidity and earnings. Operational risks are present in the Group's business including the risk of a failure of our information technology systems or our supply chain and our reliance on our employees and Publicans. Economic risks and financial market conditions may have an adverse effect on our Publicans and suppliers with resulting cash flow implications for the Group. Valuations of the Group's property portfolio could be affected by general economic conditions with resulting downwards pressure on maintainable income streams and the ability to meet key financial covenants.

Government regulation in our business sector could impact on the tied pub model, our operational strategy and our relationship with our Publicans. Reputational risk arises from the possibility of legal or statutory proceedings, including health and safety incidents. Finally there is a risk that changes to the licensing regulations relating to the sale of alcohol could have an impact on the Group's business and the ability of our Publicans to operate their pubs.

These risks are mitigated by:

Regular reviews by the Board of detailed financial and covenant forecasts, close monitoring of the on-going debt reduction programme to ensure there is sufficient headroom on funding and the financial covenants. The Group adopts a number of policies, including maintaining a rigorous business continuity plan, adopting a partnership approach with key suppliers and ensuring robust recruitment and training programmes for employees and Publicans to minimise operational risks.

Investment by the Group on developing and improving our pubs to ensure that we remain competitively placed in the market is ensured by regularly monitoring and reviewing the performance and valuation of the estate by the Board with external valuers and advisers. The Group is committed to the tied pub model and works closely with a number of stakeholders to support the pub sector, evolve the tied pub model and ensure it operates an appropriate Code of Practice to promote a mutually beneficial relationship with its Publicans.

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 2012 which comprises Group Income Statement, Group Statement of Comprehensive Income, Group 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 16. 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 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 for use in the United Kingdom. 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 2012 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
14 May 2012

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