



# Interim Results

31 March 2011

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**Neil Smith**  
**Chief Financial Officer**

# Financial performance

6 months to 31 March 2011

- EBITDA pre exceptional items £179m (H1 2010 - £204m)
- Average net income per pub flat at £31.2k (H1 2010 - down 3%)
- Profit before tax & exceptional items £74m (H1 2010 - £86m)
- Adjusted EPS 10.8p (H1 2010 - 12.6p)
- £138m proceeds from disposals
- Strong cash generation has reduced net debt by £175m in six months
- Forward start facility commenced 16 May 2011 at £625m
- Drawn bank debt of £545m

# Profit & loss

EBITDA reduction of 12% partially offset by interest cost savings

£m	6 months to 31 March 2011			6 months to 31 March 2010			Year to 30 Sept 2010
	Pre excep	Excep	Total	Pre excep	Excep	Total	Total
EBITDA	179	-	179	204	(4)	200	400
Depreciation	(7)	-	(7)	(7)	-	(7)	(13)
Operating profit	172	-	172	197	(4)	193	387
Property	-	(13)	(13)	-	6	6	(190)
Interest	(98)	-	(98)	(111)	3	(108)	(228)
Profit before Tax	74	(13)	61	86	5	91	(31)
Taxation	(20)	30	10	(23)	14	(9)	57
Profit after Tax	54	17	71	63	19	82	26
Adjusted EPS (p)	10.8			12.6			25.9
Weighted average no. of shares (m)	499.0			498.3			498.6

# Profit & loss - exceptional items

Exceptional items relate to property and taxation

£m	6 months to 31 March		Year to 30 Sept 2010
	2011	2010	
Trading related:			
Net cost of operating TMA's	-	(2)	(2)
Reorganisation and regulatory	-	(2)	(3)
Total trading related	-	(4)	(5)
Property related:			
Profit on sale of pubs	28	32	52
Goodwill allocated	(9)	(7)	(17)
Movement in valuation of pub estate	(32)	(19)	(225)
Total property related	(13)	6	(190)
Interest & tax:			
SWAPs	-	3	(11)
Tax relating to exceptional items	30	14	103
Total interest & tax	30	17	92
Total exceptional items	17	19	(103)

# EBITDA (pre exceptional)

EBITDA impacted by disposals and sale and leaseback

£m	6 months to 31 March		Year to 30 Sept
	2011	2010	2010
Revenue	346	371	753
Cost of sales	(139)	(144)	(299)
<b>Net income</b>	<b>207</b>	<b>227</b>	<b>454</b>
Property costs: Leasehold rent	(7)	(3)	(7)
R&M	(3)	(2)	(5)
Gross profit	197	222	442
Administrative expenses	(18)	(18)	(37)
<b>EBITDA</b>	<b>179</b>	<b>204</b>	<b>405</b>
Average no. of pubs	6,659	7,307	7,138
Net income per pub	31.2	31.2	63.9

# Net income analysis

Margins impacted by increased discounts

<u>£m</u>	Beer, cider & fabs	Contractual discounts	Net beer, cider & fabs	Rental income	Discretionary concessions	Wines, spirits & minerals	Machines & other	Total
<u>H1 2011</u>								
Turnover	261	(31)	230	103	(8)	15	6	346
Cost of sales	(127)	-	(127)	-	-	(12)	-	(139)
Net income	134	(31)	103	103	(8)	3	6	207
	51.3%		44.8%					59.8%
<u>H1 2010</u>								
Turnover	270	(26)	244	110	(7)	17	7	371
Cost of sales	(131)	-	(131)	-	-	(13)	-	(144)
Net income	139	(26)	113	110	(7)	4	7	227
	51.5%		46.3%					61.2%

- 82% of pubs now receive a contractual or discretionary wet discount

# Analysis of gross profit

94% of like-for-like income from pubs let on substantive agreements

	No. of pubs at 31 March 2011	H1 11 £m	Change £m	H1 10 £m	Change %
All substantives	5,644	196	(3)	199	(2)
Non substantives	853	13	(8)	21	(38)
<b>Like-for-like income</b>	<b>6,497</b>	<b>209</b>	<b>(11)</b>	<b>220</b>	<b>(5)</b>
Permanently closed pending disposal	110	-	(2)	2	
2010 and 2011 disposals		1	(6)	7	
Unallocated costs		(3)	(1)	(2)	
<b>Net income</b>		<b>207</b>	<b>(20)</b>	<b>227</b>	
Property costs		(10)	(5)	(5)	
<b>Gross profit</b>		<b>197</b>	<b>(25)</b>	<b>222</b>	



# Analysis of like-for-like income - occupation

Strong performance from established publicans

Years in occupation	No. of pubs at 31 March 2011	Income H1 11 £m	% of Income	Income H1 10 £m	H1 FY11 Income change %
<1 year	845	23	11	24	(4)
1-5 years	2,321	79	38	79	-
Over 5 years	2,478	94	45	96	(2)
Total substantives	5,644	196	94	199	(2)
Non substantives	853	13	6	21	(38)
<b>Total</b>	<b>6,497</b>	<b>209</b>	<b>100</b>	<b>220</b>	<b>(5)</b>

- 83% of income is with publicans on a substantive agreement greater than one year

# Substantive like-for-like income - geography

South remains resilient but north continues to be challenged

Location	No. of pubs at 31 March 2011	% of pubs	Income H1 11 £m	% of Income	Income H1 10 £m	H1 11 Income change %
North	1,730	31	58	30	61	(5)
Midlands	1,518	27	50	25	51	(2)
South	2,396	42	88	45	87	1
<b>Total</b>	<b>5,644</b>	100	<b>196</b>	100	<b>199</b>	<b>(2)</b>

- 70% of substantive income in midlands and south geographies

# Cash flow statement

Strong cash generation of £174m

£m	6 months to 31 March		Year to 30 Sept
	2011	2010	2010
Operating profit	172	193	387
Operating cash inflow	173	198	410
Interest	(96)	(108)	(219)
Tax	(11)	(26)	(43)
Free cash flow pre investment	66	64	148
Capital expenditure	(30)	(27)	(55)
Disposals	138	131	270
Cash generation	174	168	363
Non cash items	1	6	11
Movement in Group net debt	175	174	374

# Disposals

£138m of cash generated from disposals

	6 months to 31 March		Year to 30 Sept
£m	2011	2010	2010
Non viable pubs:			
No of pubs	212	261	579
Net cash proceeds	47	82	158
Net profit/(loss) on sale	9	16	21
Sale and leaseback:			
No of pubs	71	26	71
Net cash proceeds	91	49	112
Net profit/(loss) on sale	19	16	31

# Balance sheet

Debt reduction continuing

<u>£m</u>	As at 31 March		As at
	2011	2010	30 Sept
			2010
Goodwill & investments	383	402	392
Pubs & other assets	4,881	5,289	5,015
Net debt	(3,130)	(3,505)	(3,305)
Net other liabilities	(152)	(153)	(158)
Deferred tax	(505)	(584)	(537)
Net assets	1,477	1,449	1,407

# Debt structure

Group net debt reduced by £175m during H1 2011

<u>£m</u>	As at 31 March		As at 30 Sept
	2011	2010	2010
Bank debt	(545)	(792)	(686)
Unique securitised bonds	(1,466)	(1,536)	(1,501)
Corporate bonds	(1,185)	(1,185)	(1,185)
Cash	101	114	108
Underlying Group net debt	(3,095)	(3,399)	(3,264)
Issue costs and fair value adjustments	(35)	(106)	(41)
<b>Group net debt</b>	<b>(3,130)</b>	<b>(3,505)</b>	<b>(3,305)</b>

# Bank facility

New forward start facility (FSF) agreed in May 2010

- At 31 March 2011 the old bank facility remained in place, although cancelled down to £625m
- New FSF of £625m - commenced 16 May 2011
- Initial margin of 3.5% pa on Tranche A and 4.5% on Tranche B
- Tranche A - £419m expires December 2013
- Tranche B - £206m expires December 2012, £48m already cancelled
- Restrictions on dividend payments whilst Tranche B is drawn
- Repayment and cancellation of Tranche B planned well in advance of expiry date
- No change to financial covenants

# Financial covenants

Comfortable headroom

		As at 31 March	
	Covenant	2011	2010
<b>Bank facility</b>			
Net debt:EBITDA	<b>6.50x</b>	5.75x	6.17x
Interest cover	<b>2.00x</b>	2.69x	2.53x
First charge asset cover	<b>1.00x</b>	1.78x	1.54x
Total property assets cover	<b>1.50x</b>	2.69x	2.18x
<b>Unique securitisation</b>			
Debt service cover	<b>1.10x</b>	1.75x	1.64x
Net worth (£m)	<b>150</b>	1,220	1,296
<b>Corporate bonds</b>			
Required to be supported by £1.9bn of assets and £135m annual income			





**Simon Townsend**  
**Chief Operating Officer**

# Trading update

Continued progress in enhancing estate quality

- Proactive management and investment
- Flexible solutions to optimise income
- New Code of Practice
- Focus on sustainable publican profitability

# Operating performance

Key indicators stable despite market challenges

- Average net income per pub flat (H1 2010 - down 3%)
- Total discretionary support increased to £8m (H1 2010 - £7m)
- Rate of business failures reduced
- 380 rent reviews completed at an average annual reduction of 1.6%
- 61% of substantive agreements linked to RPI
- 87% of estate let on substantive agreements (H1 2010 - 86%)
- Average length of occupation is over 5 years
- Overdue balances and bad debts reduced

# Recent external pressures on pubs

Impact on publican profitability over past three years

- Duty on beer up 35%
- Gas and electricity bills up 23%
- Water bills up 8%
- Minimum wage up 6%
- National insurance up 1%
- Business rates up 12%
- Additional cost and burden of regulation

*Source: British Beer and Pub Association*

# Recent external pressures on pubs

Impact on potential Enterprise publican profitability

£k		2010	2008	% change
Turnover	Wet	255	246	
	Food	78	70	
	Other	13	14	
Total turnover		346	330	5
Gross margin		191	182	5
Overheads		(121)	(108)	(12)
Pre rent profit		70	74	(5)
Rent		(35)	(37)	(5)
Cash profit		35	37	(5)
Domestic accommodation		10	10	-
Post rent publican profit		45	47	(4)

Source: FMT assessment at Sept 2010 estate review

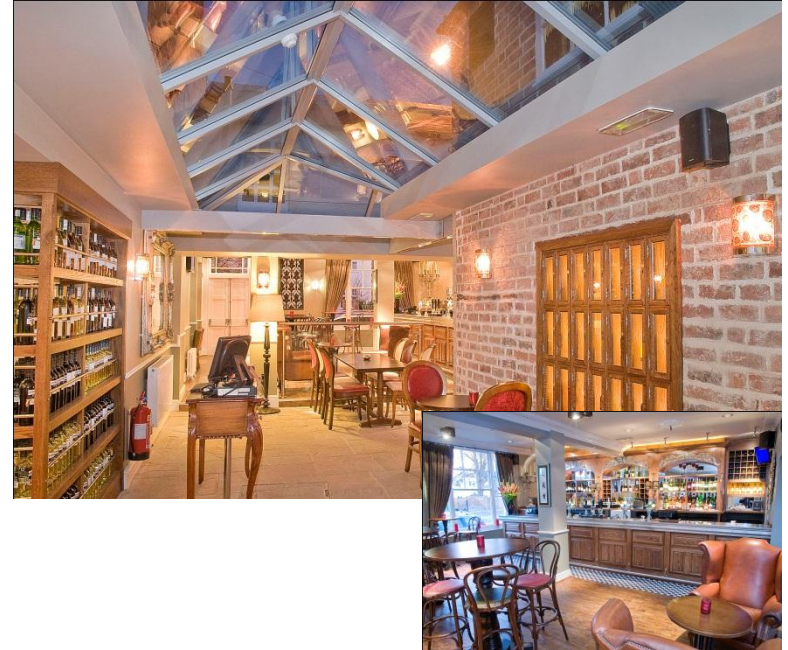
# Proactive management and investment

Focus on retail standards

- Negotiated surrender of agreements
- Stringent conditions for financial support
- Defined retail templates for low cost investments
  - Value proposition
  - Opportunities for growth in food
- £30m of capital investment in 800 schemes in H1
- 1,000 sites identified for investment in H2

# Investment highlights

## Tivoli, Cheltenham



- Average weekly turnover - pre investment £0k / post investment £17k and growing
- Investment - £510k

# Investment highlights

## Bull, Sedbergh



- Average weekly turnover - pre investment £1k / post investment £6k and growing
- Investment - £215k



# Investment highlights

## Cross Hands, Bristol



- Average weekly turnover - pre investment £3k / post investment £12k and growing
- Investment - £270k

# Code of Practice

A template for successful business relationships

- Launched October 2010
- Enhanced disclosure, pre-entry training and due diligence requirements
- Lifetime of the agreement
- Dispute resolution and BII mediation
- Mandatory in all new agreements - 97% take-up in substantive estate
- Submit for annual reaccreditation

# ETI toolkit

Focus on best practice

- Industry-leading publican support packages
  - statutory compliance - 2,977
  - accountancy and stocktaking - 475
  - repairs and maintenance funds - 1,438
  - cellar cooling maintenance - 4,307
  - boiler maintenance - 2,147
  - utilities solutions - 1,056
  - ratings appeal service - 678 successful appeals, with annual savings of £1.4m in rates payable
  - VAT recovery on machine income - 553 publicans
- Almost 1,000 publicans attended retailer forums in H1
- 10<sup>th</sup> anniversary of ETI Buying Group
  - over 5,000 publicans currently using the service
  - over £13m turnover per annum
  - estimated savings of £4m per annum

# Market leading agreements

## Flexible options

- 2,265 agreements free of tie / no ETI share on machines
- 4,181 agreements free of tie for wines, spirits and minerals
- Tie releases in new agreements since 1<sup>st</sup> October 2010
  - 29% packaged beer
  - 11% guest ale
  - 4% cask ale
  - 38% wines, 38% spirits, 32% minerals
  - 95% receive discounts
- 94 completely free of tie agreements

# ETI publican survey

Encouraging result but more to go for

- Relationship with Enterprise - 82% satisfaction
- Relationship with their regional manager - 83% satisfaction
- Publicans using regular promotions package - 75%



**Ted Tuppen**  
Chief Executive

# Interim results

## Summary

- Solid progress despite significant headwinds
- Core estate continues to perform well in a tough environment
- Accelerated disposal programme drawing to a close
- Comfortable headroom on all covenants and new forward start facility
- Our actions have protected profitability for publicans
- Focus on like-for-like profit growth and sustainable returns to shareholders



# QUESTIONS

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