14 May 2013

Enterprise Inns plc

Unaudited Interim Results of Enterprise Inns plc for the six months ended 31 March 2013

Enterprise Inns plc (ETI), the leading specialist operator of leased and tenanted pubs in the UK, today announces its interim results for the six months ended 31 March 2013.

Highlights

- EBITDA* before exceptional items £153 million (H1 2012: £168 million).
- Like-for-like net income in total estate down 4.2% (H1 2012: 1.6% down).
- Net proceeds from disposals of £54 million (H1 2012: £89 million) with an expectation of £150 million proceeds for the full year.
- Strong cash generation enables continued progress delivering our debt reduction strategy with net debt at £2.7 billion (H1 2012: £2.9 billion) and expected to reduce to £2.5 billion by the financial year end.

Statutory results

- Profit before tax and exceptional items £55 million (H1 2012: £64 million)
- Profit after tax £25 million (H1 2012: £53 million)
- Adjusted earnings per share[#] 8.4p (H1 2012: 9.6p)

* Earnings before interest, tax, depreciation and amortisation
[#] Excludes exceptional items

Commenting on the results, Ted Tuppen, Chief Executive said:

"Trading in the first half of the year has been particularly challenging. The heavy snowfalls in January and the coldest spring for many years have not encouraged customers to venture out to their local pub. Against this backdrop we are satisfied with the results for the first half of the financial year and are encouraged that in recent weeks we have seen a recovery in trade. Our target continues to be the delivery of like-for-like net income growth across the entire estate during the second half of this year.

Our strong cash generation from operations combined with the successful disposal programme enables us to maintain our strategy of debt reduction which will see total net debt reduced to £2.5 billion by the year end, a reduction of £0.8 billion over the last three years."

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The Interim Results presentation will be available on the company website at www.enterpriseinns.com. A live video webcast of the presentation will be available on the investor zone section on the above website from 9.30am. Alternatively, a live conference call of the presentation can be accessed at 9.30am BST by dialling +44 (0)20 3426 2845 or +1 347 329 1282 (USA callers). A replay of the conference call will be available for 7 days on +44 (0) 20 3426 2807, +1 866 535 8030 (USA) Replay Passcode 638715#.

Forward-looking statements

This report contains certain statements about the future outlook for ETI. Although we believe our expectations are based on reasonable assumptions, any statements about future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

CHIEF EXECUTIVE'S REVIEW

I am pleased to report our interim results for the six months to 31 March 2013, during which time we have delivered pre-exceptional EBITDA of £153 million and generated significant cash flow from operations and disposals which have enabled us to continue our strategy of debt reduction.

A number of factors have made the first half of the year unusually challenging. Against a backdrop of macroeconomic pressures and low consumer confidence, the heavy snowfalls in January and the exceptionally cold weather during the spring have not provided an environment conducive to pub income growth. In addition, the cessation of trading on 1 October 2012 of Waverley, our wines and spirits distributor, adversely impacted the business as we were unable to supply these products to Publicans, resulting in a direct loss of some £2 million of trading income. We have worked hard to mitigate these effects and have held the like-for-like total estate net income decline to 4.2% for the first half of the year compared to a decline of 1.6% for the first half last year.

The team are focused on implementing activities that will improve our trading performance and the profitability of our Publicans in the second half of the year and in recent weeks we have seen good progress in our like-for-like net income for the total estate. In addition, we have secured a new two year distribution agreement for wines and spirits with Carlsberg which is now operational and has enabled us to return to normalised levels of trading for this category.

We generated £54 million in cash in the first half of the year (H1 2012: £89 million) from our asset disposal programme to supplement cash from operations and we expect to deliver £150 million of proceeds from disposals for the full year. These proceeds, which largely arise from the disposal of unsustainable pubs and some exceptional properties, provide funding for debt reduction and for income generating investments in the core estate which continue to improve the quality of the estate.

The Board believes that the best use of available cash is to continue to reduce debt to achieve a long-term transfer of value to shareholders and as such, given continued economic uncertainty, will not resume the payment of dividends at this time.

TRADING REVIEW

Despite the exceptional challenges in the first half of the financial year, our profit margins are consistent with last year, primarily as a result of contractual discounts and discretionary concessions to Publicans beginning to level off.

Focusing the business on a return to growth

The key to achieving sustainable like-for-like net income growth is the successful execution of our many operational activities aimed at:

- Enhancing the quality of the estate;
- Attracting and retaining the right Publicans;
- Selling in smarter ways to optimise income; and
- Providing exceptional local support.

1. Enhancing the quality of the estate

The quality of our pub estate is critical to the success of our business. In the first half of the year we have invested £29 million in enhancing our estate and we expect this rate of expenditure to continue in the second half of the year. We are beginning to shift the mix of this investment towards growth driving activities ranging from a face lift to the exterior appearance of a pub to a complete refurbishment and repositioning of the business to meet the needs of local customers.

To date we have completed 260 exterior redecorations across our estate at an average cost of £10,000 per pub and we expect to complete a further 600 redecorations during the remainder of the year. It is encouraging that where we have completed the work, the Publican has often carried out interior decorations and enhancements to other trading areas so that the pub can effectively be re-launched to its local customer base.

At the other end of the investment scale we are engaging with entrepreneurial Publicans to make significant individual investment decisions to radically reposition pubs to ensure they are fit to meet the needs of today's demanding consumer. Our largest single investment is £600,000 in the White Lion, Portishead, a pub that has been closed for nearly two years and from which, when trading at normalised levels, we expect to generate a pre-tax return on investment of 20%. We will not have many investments of such scale but it is a good representation of our increased confidence to invest in initiatives to drive income growth.

Despite our financial and business supporting initiatives, some pubs become unsustainable. As a result we continue to dispose of such assets so that we can utilise the funds to reinvest in the retained estate and use excess cash to reduce our debts. In the first half of the year we disposed of 151 unsustainable pubs generating £42 million of proceeds. In addition 10 exceptional properties were disposed of generating net proceeds of £12 million at an average multiple of 14 times net income.

We have reported a net profit on disposal of £10 million (H1 2012: £10 million) after writing down those pubs that were moved to assets held for resale by £11 million (H1 2012: £4 million), of which £8 million was charged to the income statement in the period (H1 2012: £2 million). We have, in addition, written down the value of pubs moved to assets held for resale but not yet disposed of by £29 million (H1 2012: £12 million) of which £23 million (H1 2012: £8 million) was charged to the income statement in the period.

For the financial year to date, we have completed, exchanged or have in the hands of solicitors disposals of 246 pubs with proceeds of £96 million and for the full year to 30 September 2013 we expect total disposal proceeds to be £150 million.

2. Attracting and retaining the right Publicans to the Enterprise offer

For optimal success, our high quality pub estate has to attract the best Publicans. Identifying, recruiting, training and supporting well-funded Publicans to the Enterprise offer is therefore a critical activity of the business. We use our broad range of flexible agreements to identify the appropriate package that will deliver mutual success for the Publican and our business. Once recruited, we provide extensive support to our Publicans and we have recently introduced our "First 100 days" initiative to ensure this critical initial trading period is successful.

In the current challenging trading environment, even the best Publicans who have traded successfully with us for many years may need our support. Where appropriate we will provide temporary concessions to Publicans in the form of direct financial assistance, investment in the pub and marketing support to help grow market share and re-establish the Publican's profitability. During the first half of the year we incurred £3 million (H1 2012: £3 million) of direct Publican support cost. Our objectives are aligned with these Publicans in that we wish to have successful and sustainable pubs and we are pleased to report that the number of business failures is down by 17% in the first half of the year.

Sometimes the traditional pub tenancy agreement may not be the best way to optimise the trading potential of the pub. We continue to evolve our "managed-tenancies" as part of Project Beacon, where we have a much greater say in the operation of the pub. At 31 March 2013 we had 237 Beacon pubs and expect the number to stay around that level as the number of new Beacon sites will be offset by existing Beacon sites transferring to traditional tenancy agreements and some disposals.

3. Selling smarter

We continue to develop ways to optimise our income and to enhance the profitability of our Publicans either through cost reduction or revenue generating initiatives. Our Commercial team have significantly enhanced the product offering for Publicans and over the coming months we will be making new packages available to Publicans who meet our required standards of operational excellence.

We have agreed terms with Molson Coors to provide the Sky entertainment package to Enterprise pubs at a 30% discount to list price, a potential average saving for each participating pub of £3,000 per annum. As well as the cost saving advantage of this agreement we believe the new package offered will enable Publicans to grow their customer base and turnover and we will provide additional support where necessary to achieve this aim.

We have also agreed terms with Arqiva to provide free Wifi to Enterprise pubs. High speed, reliable Wifi which is free to the Publican and free for use by the pub customer will deliver cost savings of around £500 per annum for pubs that currently pay for this provision and more importantly will provide an enhanced service to attract and retain new customers.

We will shortly be launching a new strategic partnership with Brakes as part of our plan to increase our support for pubs which offer food. The “Enterprise Pub Club” provides the Publican with access to improved pricing and a broad range of on-site food support services including menu design, gross margin management and equipment provision.

4. Exceptional local support

Enterprise has national scale but, at our core, we are a local business. We own pubs which are operated in their communities by great local Publicans and we provide support though our dedicated and knowledgeable regional managers. We supplement this local support with regional and national activities which can be best demonstrated by our recent roadshows which were held at seven venues across the country including Wembley and Donington Park. Over 1,200 existing and prospective Publicans attended the events where some 100 suppliers presented their products and made available on-the-day discounts and support packages with a value of up to £6,000 to each participating pub. These were valuable events where existing and potential Publicans could interact with each other, the Enterprise team and with local and international brewers, food wholesalers, gaming and entertainment suppliers as well as a range of other pub service providers.

LONG-TERM AND SECURE FINANCING STRUCTURE

We have a long-term, secure, flexible and tax efficient financing structure comprising bank borrowings, corporate bonds and securitised bonds. We are a cash generative business with £126 million of net cash flows from operating activities in the first half (H1 2012: £131 million). This is supplemented by £54 million of cash generated from our disposals programme in the first half of this year (H1 2012: £89 million), which has enabled us to reduce group net debt to £2.7 billion (H1 2012: £2.9 billion).

Bank borrowings reducing

At 31 March 2013 our drawn bank borrowings net of Enterprise cash were £266 million (H1 2012: £397 million), a significant reduction over the last twelve months achieved from the cash generated by the business and proceeds from the disposal of pubs. We have adequate headroom given our available bank facilities at 31 March 2013 of £320 million. Total available bank facilities will reduce to the level of our new £220 million Forward Start Facility, which will commence on expiration of the existing facilities on 15 December 2013. The new facility is committed to 15 December 2015 (Facility A: £70 million) and 15 June 2016 (Facility B: £75 million and Facility C: £75 million) with both Facility A and B having agreed amortisation profiles. This extended maturity has provided us with funding security and the time to reduce our exposure to the bank market.

Corporate bonds are non-amortising and asset backed

We have £1,185 million of corporate bonds which are non-amortising, secured against ring-fenced portfolios of freehold pubs and attract fixed rates of interest averaging approximately 6.5%. The next scheduled maturities are the £60 million debenture repayable in February 2014, which we expect to repay from operating cash flow and anticipated disposal proceeds, followed by the £600 million bond due in 2018 which we would expect to refinance, bearing in mind that it is secured on a portfolio of pubs with an up-to-date valuation of £1 billion and interest cover of two times.

Securitised bonds are long-term, manageable and efficient

During the first half of the year we have purchased and cancelled £9 million of Unique A4 securitised bonds leaving £1,311 million of bonds outstanding at 31 March 2013. The bonds were purchased at a 5% discount to nominal value and were purchased as part of our planned programme to keep one year ahead of the scheduled debt profile. During the second half of the year we do not anticipate any further purchases in the market although we will commence the amortisation of the A4 notes with £10 million to be repaid from cash flow on 30 September 2013.

The strength of the general bond markets has combined with enhanced confidence in our funding position to increase the average price of our Unique bonds from 80p to 92p over the six months since September 2012 and the ETI corporate bonds have increased from 81p to 96p during the same period.

GOVERNMENT

Taxation

We welcome the decision of the Chancellor of the Exchequer to abolish the Beer Duty Escalator and to reduce the duty on beer by 1p per pint, which brought welcome relief to our Publicans, ending four years where duty had increased by 42% since the introduction of the Escalator by the Labour Government in 2008.

The Queen's Speech last week confirmed further substantial relief for Publicans as a result of measures to introduce an Employment Allowance, reducing employers' National Insurance bills by £2,000 from April 2014.

Regulatory

We were pleased to see, again in the Queen's Speech, that a Bill will be introduced to reduce the burden of excessive regulation on businesses. In the light of this commitment, we are disappointed that the Department for Business, Innovation and Skills (BIS) has launched a consultation to determine whether to regulate the contractual relationships between pub companies and their tenants through a Statutory Code of Practice.

In line with the entire industry, we are totally committed to fair, transparent and lawful dealing with tenants and lessees and all other business partners and against any abuse of the tied pub model. There is strong evidence that the existing voluntary Industry Framework Code is working well and we agree with the widely-held industry view that the proposal for a Statutory Code is a disproportionate response based upon flawed and misleading evidence. BIS have already been forced to acknowledge that a critical data point in their analysis, the high level of "complaints" to the British Institute of Innkeeping (BII) Helpline was in fact a misrepresentation, as most were simply calls for advice, with only four calls over four years categorised by the BII as "grievances" relating to ETI. The high level of total calls was unsurprising as ETI pay for new tenants to join the BII and therefore enjoy the many training and advisory packages which they offer.

The Pubs and Brewing industry has been the subject of regulatory review, both in the UK and Europe some 42 times since 1969. This latest consultation process will close on 14 June 2013, following which BIS will have three months to formulate their conclusions based upon the evidence provided.

We shall respond fully to the consultation, acknowledging the need for robust procedures to ensure that pub companies deal fairly and lawfully with their Publicans. We will provide evidence that the vast majority of our Publicans understand, and are happy with, the business relationship that they have with ETI and that the current system of voluntary regulation is effective, at the same time demonstrating that the evidence base underlying the consultation proposals is flawed, misrepresentative and at times misleading.

The tied leased and tenanted model as operated by ETI continues to work well, providing Publicans with a low cost-of-entry, lower risk opportunity to run a pub business with the full support of a national pub business offering training, business advice, financial support and investment. With the banks unwilling or unable to lend to small businesses in general and the pub sector in particular, the continuation of this model is vital for the health of the pub sector in this country, particularly during these times of austerity, rising costs and weakness in consumer spending.

It is important that the pub industry in general gets a fair hearing in the consultation process and an evidence-based response that recognises the benefits of the current system and the high risk of damaging unintended consequences inherent in some of the proposed changes, in particular pub closures, reduced investment, restricted consumer choice, job losses, reduction in tax revenues and the foreclosure of a brilliant industry to new entrants.

OUTLOOK

The second half of the year has started with improved trends in trading. We estimate that, after adjusting for the timing of Easter, like-for-like net income for the total estate for the second half to date is down by around 1%. We continue to be focused on implementing activities which improve the quality of our estate and which enhance the income potential for our Publicans as the most effective means of optimising our net income. Whilst we expect trading conditions to remain volatile, our target remains the delivery of like-for-like net income growth across the entire estate during the second half of this year.

We intend to issue an Interim Management Statement on 8 August 2013.

G E Tuppen CBE

14 May 2013

Group Income Statement

		Unaudited Six months ended 31 March 2013			Unaudited Six months ended 31 March 2012			Audited Year ended 30 September 2012		
		Pre-exceptional items	**Exceptional items**	**Total**	Pre-exceptional items	Exceptional items	Total	Pre-exceptional items	Exceptional items	Total
	Notes	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Revenue		**312**	**-**	**312**	342	-	342	692	-	692
Cost of sales		**(143)**	**-**	**(143)**	(156)	-	(156)	(318)	-	(318)
Gross profit		**169**	**-**	**169**	186	-	186	374	-	374
Administrative expenses	3	**(16)**	**(1)**	**(17)**	(18)	(1)	(19)	(34)	(4)	(38)
EBITDA *		**153**	**(1)**	**152**	168	(1)	167	340	(4)	336
Depreciation and amortisation		**(8)**	**-**	**(8)**	(7)	-	(7)	(14)	-	(14)
Operating profit		**145**	**(1)**	**144**	161	(1)	160	326	(4)	322
Profit on sale of property, plant and equipment		**-**	**10**	**10**	-	10	10	-	33	33
Goodwill allocated to disposals		**-**	**(5)**	**(5)**	-	(6)	(6)	-	(18)	(18)
Net profit on sale of property, plant and equipment	4	**-**	**5**	**5**	-	4	4	-	15	15
Movements in valuation of pub estate and related assets	5	**-**	**(31)**	**(31)**	-	(10)	(10)	-	(127)	(127)
Total finance costs		**(90)**	**-**	**(90)**	(97)	-	(97)	(189)	-	(189)
Gain on purchase of own debt	6	**-**	**1**	**1**	-	7	7	-	13	13
Net finance costs		**(90)**	**1**	**(89)**	(97)	7	(90)	(189)	13	(176)
Profit/(loss) before tax		**55**	**(26)**	**29**	64	-	64	137	(103)	34
Taxation	7,8	**(13)**	**9**	**(4)**	(16)	5	(11)	(35)	45	10
Profit/(loss) after tax attributable to members of the Parent Company		**42**	**(17)**	**25**	48	5	53	102	(58)	44
Earnings per share										
Basic	9			**5.0p**			10.6p			8.8p
Diluted	9			**5.0p**			10.6p			8.8p
Adjusted basic^	9	**8.4p**			9.6p			20.5p		
Adjusted diluted^	9	**8.3p**			9.6p			20.4p		

* Earnings before interest, tax, depreciation and amortisation

^ Excludes exceptional items

Group Statement of Comprehensive Income

	Unaudited Six months ended 31 March 2013 £m	Unaudited Six months ended 31 March 2012 £m	Audited Year ended 30 September 2012 £m
Profit for the period	**25**	53	44
Items that will not be reclassified to the Income Statement:			
Unrealised deficit on revaluation of pub estate	**-**	-	(22)
Movement in deferred tax liability related to revaluation of pub estate	**2**	1	6
Write down of non-current assets held for sale	**(9)**	(6)	(18)
Actuarial loss on defined benefit pension scheme	**-**	-	(1)
Restatement of deferred tax liability related to revaluation of pub estate for change in UK tax rate	**-**	11	17
Total other comprehensive income for the period net of tax that cannot be reclassified subsequently to the Income Statement	**(7)**	6	(18)
Total comprehensive income for the period attributable to members of the Parent Company	**18**	59	26

Group Balance Sheet

	Unaudited 31 March 2013 £m	Unaudited 31 March 2012 £m	Audited 30 September 2012 £m
Non-current assets			
Goodwill	**354**	371	359
Intangible assets: operating lease premiums	**11**	12	11
Property, plant and equipment	**4,184**	4,487	4,259
	4,549	4,870	4,629
Current assets			
Assets held for sale	**-**	7	3
Trade and other receivables	**56**	62	55
Cash	**128**	115	125
	184	184	183
Non-current assets held for sale	**54**	47	46
Total assets	**4,787**	5,101	4,858
Current liabilities			
Trade and other payables	**(160)**	(182)	(180)
Current tax payable	**(14)**	(19)	(16)
Financial liabilities	**(172)**	(96)	(95)
Provisions	**(7)**	(7)	(7)
	(353)	(304)	(298)
Non-current liabilities			
Financial liabilities	**(2,634)**	(2,929)	(2,767)
Provisions	**(3)**	(3)	(3)
Deferred tax	**(353)**	(408)	(364)
Pension scheme	**-**	-	(1)
	(2,990)	(3,340)	(3,135)
Total liabilities	**(3,343)**	(3,644)	(3,433)
Net assets	**1,444**	1,457	1,425
Equity			
Called up share capital	**14**	14	14
Share premium account	**486**	486	486
Revaluation reserve	**795**	847	807
Capital redemption reserve	**11**	11	11
Merger reserve	**77**	77	77
Treasury share reserve	**(227)**	(227)	(227)
Other reserve	**(19)**	(20)	(20)
Profit and loss account	**307**	269	277
Total equity	**1,444**	1,457	1,425

Group Statement of Changes in Equity

	Share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Merger reserve £m	Treasury share reserve £m	Other reserve £m	Profit and loss account £m	Total £m
At 1 October 2012	**14**	**486**	**807**	**11**	**77**	**(227)**	**(20)**	**277**	**1,425**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**25**	**25**
Other comprehensive income	**-**	**-**	**(7)**	**-**	**-**	**-**	**-**	**-**	**(7)**
Total comprehensive income	**-**	**-**	**(7)**	**-**	**-**	**-**	**-**	**25**	**18**
Transfer of realised revaluation surplus	**-**	**-**	**(5)**	**-**	**-**	**-**	**-**	**5**	**-**
Transfer of shares from Employee Benefit Trust to Share Incentive Plan	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**(1)**	**-**
Share based expense recognised in operating profit	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**
At 31 March 2013	**14**	**486**	**795**	**11**	**77**	**(227)**	**(19)**	**307**	**1,444**
At 1 October 2011	14	486	859	11	77	(227)	(23)	200	1,397
Profit for the period	-	-	-	-	-	-	-	53	53
Other comprehensive income	-	-	6	-	-	-	-	-	6
Total comprehensive income	-	-	6	-	-	-	-	53	59
Transfer of realised revaluation surplus	-	-	(18)	-	-	-	-	18	-
Transfer of shares from Employee Benefit Trust to Share Incentive Plan	-	-	-	-	-	-	3	(3)	-
Share based expense recognised in operating profit	-	-	-	-	-	-	-	1	1
At 31 March 2012	14	486	847	11	77	(227)	(20)	269	1,457
At 1 October 2011	14	486	859	11	77	(227)	(23)	200	1,397
Profit for the year	-	-	-	-	-	-	-	44	44
Other comprehensive income	-	-	(17)	-	-	-	-	(1)	(18)
Total comprehensive income	-	-	(17)	-	-	-	-	43	26
Transfer of realised revaluation surplus	-	-	(35)	-	-	-	-	35	-
Transfer of shares from Employee Benefit Trust to Share Incentive Plan	-	-	-	-	-	-	3	(3)	-
Share based expense recognised in operating profit	-	-	-	-	-	-	-	2	2
At 30 September 2012	14	486	807	11	77	(227)	(20)	277	1,425

Group Cash Flow Statement

	Unaudited Six months ended 31 March 2013 £m	Unaudited Six months ended 31 March 2012 £m	Audited Year ended 30 September 2012 £m
Cash flow from operating activities			
Operating profit	**144**	160	322
Depreciation and amortisation	**8**	7	14
Share-based expense recognised in profit	**1**	1	2
(Increase)/decrease in receivables	**(1)**	2	9
Decrease in payables	**(15)**	(25)	(25)
Increase in provisions	**-**	1	1
Decrease/(increase) in current assets held for sale	**3**	(2)	2
	140	144	325
Tax paid	**(14)**	(13)	(29)
Net cash flows from operating activities	**126**	131	296
Cash flows from investing activities			
Payments made on improvements to public houses	**(28)**	(39)	(61)
Payments to acquire other property, plant and equipment	**(1)**	-	(2)
Receipts from sale of property, plant and equipment	**54**	89	208
Net cash flows from investing activities	**25**	50	145
Cash flows from financing activities			
Interest paid	**(92)**	(94)	(188)
Interest received	**-**	-	1
Issue costs of long-term loans	**-**	-	(8)
Cancellation and restructuring of interest rate swaps	**-**	(2)	(3)
New loans	**80**	130	160
Repayment of loans	**(128)**	(192)	(340)
Payments to acquire own debt	**(8)**	(22)	(52)
Net cash flows from financing activities	**(148)**	(180)	(430)
Net increase in cash	**3**	1	11
Cash at start of period	**125**	114	114
Cash at end of period	**128**	115	125

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 2012 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 Conduct Authority and with IAS 34 'Interim Financial Reporting' and reflects the accounting policies set out in the 30 September 2012 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 2012:

- Amendments to IAS 1: Presentation of Financial Statements – Other Comprehensive Income
- Amendments to IAS 12: Income Taxes

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, a review of cash flow forecasts, financial covenant calculations and the principal risks and uncertainties 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 (see Principal risks and uncertainties).

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 6 and 8 below.

3. Exceptional items recognised in operating profit

An exceptional charge of £1 million (31 March 2012: £1 million, 30 September 2012: £4 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 2013 £m	Unaudited Six months ended 31 March 2012 £m	Audited Year ended 30 September 2012 £m
Profits on sale of property, plant and equipment	**12**	11	42
Losses on sale of property, plant and equipment	**(2)**	(2)	(10)
Profits on sale and leaseback disposals	**-**	1	1
Profit on sale of property, plant and equipment	**10**	10	33
Goodwill allocated to disposals	**(5)**	(6)	(18)
Net profit on sale of property, plant and equipment	**5**	4	15

During the period, 161 pubs (31 March 2012: 114 pubs, 30 September 2012: 301 pubs) and various other plots of land were sold generating gross proceeds of £56 million (31 March 2012: £67 million, 30 September 2012: £193 million) which, after taking account of disposal costs, resulted in an overall profit of £10 million (31 March 2012: £9 million, 30 September 2012: £32 million).

During the first half of the prior year, a further 17 pubs were sold as part of the Group's sale and leaseback programme. These pubs generated gross proceeds of £24 million and resulted in a profit over book value, after fees, of £1 million. These pubs were immediately leased back by the Group and are now classified as pubs held under operating leases. No further pubs have been sold on a sale and leaseback basis since this time.

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 £5 million (31 March 2012: £6 million, 30 September 2012: £18 million) has been allocated to the 161 pubs (31 March 2012: 131, 30 September 2012: 318 pubs) disposed of during the period.

5. Movements in valuation of pub estate and related assets

	Unaudited Six months ended 31 March 2013 £m	Unaudited Six months ended 31 March 2012 £m	Audited Year ended 30 September 2012 £m
Movements from revaluation of pub estate	**-**	-	(83)
Write down of non-current assets held for sale to fair value less costs to sell	**(31)**	(10)	(44)
	(31)	(10)	(127)

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 charge of £31 million (31 March 2012: £10 million, 30 September 2012: £44 million) 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 2013. A full valuation of the total pub estate is undertaken at the end of each financial year.

6. Gain on purchase of own debt

During the period ended 31 March 2013, £9 million (31 March 2012: £29 million, 30 September 2012: £65 million) Unique securitised bonds were purchased and cancelled at an average purchase price of 95p (31 March 2012: 76p, 30 September 2012: 80p) for each £1 of nominal value generating a gain of £1 million (31 March 2012: £7 million, 30 September 2012: £13 million), shown in the Income Statement as an exceptional item.

7. Taxation

The pre-exceptional tax charge of £13 million (31 March 2012: £16 million, 30 September 2012: £35 million) equates to an effective tax rate of 24.0% (31 March 2012: 25.6%, 30 September 2012: 25.5%) which is estimated to be the tax rate for the year ending 30 September 2013. The effective tax rate does not include the effect of exceptional items.

8. Exceptional taxation

Under IFRS, a deferred tax liability has been recognised on the Balance Sheet relating to the pub estate. The liability changes are due to changes in the rate of tax, capital gains indexation relief, disposals and movements in the valuation of the estate. All movements in respect of this 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.

Therefore the exceptional taxation credit of £9 million (31 March 2012: £5 million, 30 September 2012: £45 million) comprises the tax consequences of items recorded as exceptional items together with any impact of capital gains indexation relief and changes in the rate of tax applied to deferred tax assets and liabilities which is not recognised in Other Comprehensive Income.

The UK Government reduced the rate of corporation tax by 1% per annum from 24% to 23% effective from 1 April 2013 and announced its intention to reduce the rate further by 2% to 21% by 1 April 2014 and an additional 1% to 20% by 1 April 2015. Deferred taxation has been calculated based on the current substantively enacted rate of 23%. The forecast effect of the proposed reductions in the corporation tax rate by 2015 would be to decrease the net deferred tax liability by £40 million.

9. Earnings per ordinary share

The basic earnings per ordinary share is based on earnings after exceptional items of £25 million (six months to 31 March 2012: £53 million, full year to 30 September 2012: £44 million) and on 499.4 million (six months to 31 March 2012: 499.5 million, full year to 30 September 2012: 499.4 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 £42 million (six months to 31 March 2012: £48 million, full year to 30 September 2012: £102 million) and on 499.4 million (six months to 31 March 2012: 499.5 million, full year to 30 September 2012: 499.4 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 £25 million (six months to 31 March 2012: £53 million, full year to 30 September 2012: £44 million) and adjusted diluted earnings per share is based on adjusted earnings of £42 million (six months to 31 March 2012: £48 million, full year to 30 September 2012: £102 million) and on 504.1 million (six months to 31 March 2012: 500.5 million, full year to 30 September 2012: 500.2 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.

10. Related party transactions

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

11. Additional cash flow information

a) Reconciliation of net cash flow to movement in net debt

	Unaudited Six months ended 31 March 2013 £m	Unaudited Six months ended 31 March 2012 £m	Audited Year ended 30 September 2012 £m
Increase in cash in the period	**3**	1	11
Cash outflow from change in debt	**56**	84	232
Issue costs of new long-term loans	**-**	-	8
Change in net debt resulting from cash flows	**59**	85	251
Amortisation of issue costs and discounts/premiums on long-term loans	**(3)**	(3)	(7)
Gain on purchase of own debt	**1**	7	13
Amortisation of securitised bonds	**2**	2	5
Change in fair value of interest rate swaps	**-**	2	4
Movement in net debt in the period	**59**	93	266
Net debt at start of period	**(2,737)**	(3,003)	(3,003)
Net debt at end of period	**(2,678)**	(2,910)	(2,737)

b) Analysis of net debt

	Unaudited Six months ended 31 March 2013 £m	Unaudited Six months ended 31 March 2012 £m	Audited Year ended 30 September 2012 £m
Bank borrowings	**(287)**	(424)	(335)
Corporate bonds	**(1,185)**	(1,185)	(1,185)
Securitised bonds	**(1,311)**	(1,386)	(1,320)
Gross debt	**(2,783)**	(2,995)	(2,840)
Cash	**128**	115	125
Underlying net debt	**(2,655)**	(2,880)	(2,715)
Capitalised debt issue costs	**18**	17	21
Fair value adjustments on acquisition of bonds	**(37)**	(41)	(39)
Fair value of interest rate swaps	**-**	(2)	-
Finance lease payables	**(4)**	(4)	(4)
Net debt	**(2,678)**	(2,910)	(2,737)
Balance sheet:			
Current financial liabilities	**(172)**	(96)	(95)
Non-current financial liabilities	**(2,634)**	(2,929)	(2,767)
Cash	**128**	115	125
Net debt	**(2,678)**	(2,910)	(2,737)

Cash balances within the Group include £65 million held within a securitised reserve account withdrawals from which can only be made with the consent of the Security Trustee.

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

At 31 March 2013, the Group had entered into contractual commitments to purchase £9 million (31 March 2012: £6 million, 30 September 2012: £4 million) of property, plant and equipment.

13. Seasonality of operations

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

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.

The directors of ETI are as listed in the Enterprise Inns plc Annual Report for the year ended 30 September 2012 with the exception of the following changes to the Board:

- David Harding retired as a non-executive director on 31 January 2013; and
- Peter Baguley was appointed as a non-executive director on 31 January 2013.

By order of the Board

G E Tuppen
Chief Executive
13 May 2013

N R Smith
Chief Financial Officer
13 May 2013

ADDITIONAL INFORMATION

Principal risks and uncertainties

This section highlights the principal risks and uncertainties facing the Group. Further details of the principal risks and uncertainties are set out in the Annual Report and Accounts. The Group is exposed to a variety of financial, operational, economic and regulatory risks and uncertainties. This is not an exhaustive analysis of all the risks the Group may face: some risks have not been included in this section on the basis that they are not considered to be material. The Group has formal management processes in place to identify and evaluate these risks. Some of the risks are external and therefore beyond our control. The Board formally reviews these material risks and ensures that these are appropriately managed by the executive management team and the Board retains overall responsibility for the Group's risk management framework.

The internal audit function provides assurance to the Audit Committee on the effectiveness of the internal control procedures. This is done through completion of the annual internal audit plan, which takes into account current business risks. The Board has delegated to the Audit Committee responsibility for reviewing annually the overall effectiveness of the risk management programme.

In summary the principal risks and uncertainties are:

Financial risks

The Group has a flexible financing structure comprising bonds issued from the Unique securitisation (securitised bonds), corporate bonds issued by Enterprise Inns plc (Enterprise corporate bonds) and bank borrowings. Certain changes are expected in the financing structure in the next twelve months. In December 2013, the current bank facility of £320 million is due to be repaid and will be replaced with a new agreed Forward Start Facility at a reduced total facility level of £220 million. In February 2014, an Enterprise corporate debenture of £60 million matures and is expected to be repaid from cash (see Long-term and secure financing structure review).

Mitigation process: The cash inflow required in the next twelve months to meet our funding needs is expected to be generated from the asset disposal programme and the operating cashflow of the business. The Board regularly reviews detailed financial and covenant forecasts and closely monitors the on-going debt reduction programme to ensure there is sufficient headroom on funding and the financial covenants.

Operational risks

Operational risks present in the Group's business include the risk of a failure of our information technology systems or our supply chain and our reliance on our employees and Publicans.

Mitigation process: 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.

Economic risks

The Group's business operations are sensitive to economic conditions and these conditions have had an adverse impact on consumer spending affecting 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.

Mitigation process: The Group invests in developing and improving our pubs to ensure that we remain competitively placed in the market. The Board regularly monitors and reviews the performance and valuation of the estate with external valuers and advisers.

Regulatory risks

On 22 April 2013 the Department for Business Innovation and Skills (BIS) issued a consultation paper proposing the introduction of a statutory code of practice (the code) and an independent adjudicator to enforce the code to regulate large tied pub companies. Depending on the outcome of the consultation process the requirements of the code, if implemented, could have an impact upon our profitability, our operational strategy and our relationship with our Publicans (see Government review).

Other risks include reputational risk arising from the possibility of legal, statutory proceedings and health and safety incidents. There is also 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.

Mitigation process: 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. The Group actively engages with Government, trade bodies and stakeholders to evolve the tied pub model and will participate in the BIS consultation process as appropriate.

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 2013 which comprises the Group Income Statement, Group Statement of Comprehensive Income, Group Balance Sheet, Group Statement of Changes in Equity, Group Cash Flow Statement, and the related notes 1 to 13. 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 Conduct 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 2013 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 Conduct Authority.

Ernst & Young LLP
Birmingham
13 May 2013