ENTERPRISE

13 May 2014

Enterprise Inns plc

Unaudited Interim Results for the six months ended 31 March 2014
"Positive progress with like-for-like net income growth maintained"

Enterprise Inns plc (ETI), the leading operator of leased and tenanted pubs in the UK, today announces its interim results for the six months ended 31 March 2014.

Financial highlights

- Like-for-like net income growth of 1.1% (H1 2013: 4.2% decline) with all geographic areas performing in line with, or ahead of, the comparative period
- EBITDA* before exceptional items reduced to £147 million (H1 2013: £153 million), primarily reflecting the impact of our asset disposal programme
- Profit before tax and exceptional items maintained at £55 million (H1 2013: £55 million) as interest savings offset reduction in EBITDA
- Profit after tax increased to £37 million (H1 2013: £25 million), assisted by lower exceptional property charges
- Adjusted earnings per share# up 2.4% at 8.6p (H1 2013: 8.4p)
- Strong cash generation enables reduction in net debt to £2.5 billion (H1 2013: £2.7 billion)

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

Operational highlights

- Capital expenditure of £41 million (H1 2013: £29 million) funded from net disposal proceeds of £42 million (H1 2013: £54 million)
- Enhancing returns for pubs and Publicans with 32% of capital investment focused on growth driving initiatives, up from 20% in the first half of the prior year
- Business failures reduced by 16% compared to the equivalent period last year
- Further progress on implementation of initiatives to drive sales and reduce costs for Publicans

Commenting on the results, Simon Townsend, Chief Executive Officer said:

"I am pleased to be able to report positive progress for the business with like-for-like net income growth in the first half of the year and am particularly encouraged to see this translate into growth in earnings per share.

Our focus continues to be on the implementation of actions that will sustain our improving trading performance and drive value for our Publicans, which include the further enhancement of our pub estate and the provision of exceptional local support.

Whilst the latter part of the year will be measured against tougher comparatives, I am confident that through our activities to support Publicans to grow their businesses we will achieve our target of like-for-like net income growth for the full financial year."

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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 2886 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 and +1 866 535 8030. (USA callers) replay passcode 647351#.

Forward-looking statements

This announcement 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 ended 31 March 2014, during which period we have delivered EBITDA before exceptional items of £147 million, down £6 million on the comparative period primarily due to disposals. Profit before taxation, excluding exceptional items, is in line with the equivalent period last year at £55 million.

This stabilisation of profit before tax has been achieved through an improved performance in like-for-like net income growth across the whole pub estate, an equalisation of our divestment and investment activities and a reduction in our interest costs as we continue to use our strong cash flows to reduce net debt.

Delivering growth
Like-for-like net income grew by 1.1% through the first six months of the financial year with steady growth of 0.5% in the first quarter followed by growth of 1.5% in the second quarter. This return to growth began in the final quarter of the last financial year such that we have now achieved three consecutive quarters of like-for-like net income growth for the first time since 2008.

To some extent, net income performance in the first half of this financial year is flattered by a relatively weak comparative period, which included the collapse into administration of our wines and spirits distributor, leading to a reduction in income in the first half of the last financial year. However, we remain encouraged that our improving performance in the first half has been evident across the country with all geographic sectors reporting flat or better movement in like-for-like net income. Our southern estate has performed particularly well, helped by strong trading in and around London.

Location	No. of pubs at 31 March 2014	Net income* H1 FY14 £m	*% of total net income H1 FY14*	Net income H1 FY13 £m	Net income change H1 FY14 %
North	1,630	50	*28*	50	-
Midlands	1,765	54	*30*	54	-
South	2,064	77	*42*	75	2.7
Total	**5,459**	**181**	***100***	**179**	**1.1**

* Net income represents like-for-like pub level gross profits, stated before property costs of £14 million and unallocated central costs of £3 million.

The second half of the year will face more challenging comparatives but we continue to target like-for-like net income growth, helped in part by Easter falling in April and the FIFA World Cup finals in June. However, it is the continued successful delivery of our many activities aimed at both enhancing the quality of our estate and attracting, retaining and supporting great Publicans that will optimise our income and help us to achieve our target of like-for-like net income growth for the full year.

Enhancing returns from the estate
Disposals primarily relate to under-performing assets with the proceeds fully re-invested to drive like-for-like net income growth and improve financial returns in our retained estate, a strategy of equalisation of divestment and investment activities which we expect to continue for the foreseeable future. In the first half of this year we have disposed of 129 pubs generating net proceeds of £42 million and we have re-invested £41 million in our estate.

Strong cash flow and manageable capital structure
Our total net debt at 31 March 2014 was £2.5 billion (H1 2013: £2.7 billion) and we plan to reduce this further using the strong operational cash flows generated by the business. The Board believes that, currently, the best use of available cash is to continue to reduce debt to achieve a transfer of value to shareholders. Therefore no interim dividend is recommended.

During the first half of the year we utilised part of the new £150 million bank facility, which commenced in December 2013 and is available through to June 2016, to repay the £60 million corporate debenture and £40 million of Unique bonds, being £34 million of repayments in line with the amortisation profile and £6 million of market purchases.

OPERATIONAL REVIEW

Our operational teams continue to focus on the core activities that drive sustainable growth in the business, by enhancing the quality of the estate, managing Publican change and supporting our Publicans to grow their sales and profitability.

Enhancing the quality of the estate

We have continued to improve the quality of the estate with £41 million of capital expenditure during the first six months of the year, some 32% of which has been directed at initiatives which will grow income for us and our Publicans, up from the 20% achieved in the first half of last year. Our expectation is that we will move this proportion toward 40% of total capital investment for the current financial year and up to 60% over the next three years, with a target return on investment of 15%.

Full year investment expectations are £65 million. For the foreseeable future we expect annual investment to be around £60 million per annum to further improve the quality of our estate, funded from the proceeds of the disposal of primarily under-performing assets. We anticipate net disposal proceeds of £70 million for the current financial year.

Managing Publican change

Whilst the managed change of a Publican can transform the prospects of a pub, reducing the damaging impact of business failure is key to maintaining and growing our like-for-like performance. We continue to make good progress in reducing the number of business failures, which have fallen by a further 16% in the first half of the year compared to the equivalent period last year.

We continue to provide temporary concessions and support to Publicans, where appropriate, and have seen this stabilise at a cost of £3 million in the first half of the year. In addition it is pleasing to see some encouraging signs of improvement in the rental market, with rent reviews in the period delivering no significant impact to annualised rents.

Supporting Publicans to grow their businesses

Our activities in this area are designed to help Publicans to enhance their income by growing sales and reducing costs.

Exceptional local support

Our regional managers are critical to the commercial relationship between us and our Publicans. We are investing more into enhanced induction and training programmes for our regional managers to ensure they are best equipped to recognise and respond to changing market conditions and provide appropriate business building support to Publicans.

This year we have also developed new Publican training packages and have delivered training to over 1,500 participants in the period, a 52% increase on the equivalent period last year. We have also just launched our first mentoring network, enabling experienced and successful ETI Publicans to coach those with less experience through their first few months alongside our own support programmes.

Our 'pub offer'

We continue to grow our strategic partnerships with suppliers in order to create more value for Publicans across a range of goods and services. Since its launch last year, 720 ETI Publicans have taken advantage of our discounted Sky entertainment package, and to date 191 pubs are benefitting from the enhanced terms of our discounted BT Sports package.

Over 1,300 pubs are now using the Arqiva platform to provide free, high quality WiFi for their customers, helping our Publicans to attract greater numbers of customers who stay for longer periods in our pubs. A further 1,166 have signed up for this service.

We are building a larger range of food suppliers to ensure that our Publicans can take full advantage of the growing share of food and food-related income growth, with national and local suppliers working alongside our Publicans to give them the benefit of competitive offers, advice and business support. More than 325 Publicans now belong to our Enterprise Food Club with Brakes and they are able to access discounts of up to 30%, as well as additional incentives and support.

Communications and marketing
In April 2014, building on the success of our 2013 road shows, over 1,500 Publicans attended our "Enterprise Live" events, which represents a 29% increase in attendance over the prior year. These trade shows brought together an even wider selection of suppliers and product categories, enabling our Publicans to access exclusive offers with potential total savings of up to £7,000 per pub. We were also able to showcase our pubs to prospective Publicans, and interviewed over 280 prospective Publicans as a result.

We are now in the final test phase of our new digital ordering capability, and will be rolling the service out to parts of our estate during the second half of the year. The platform has been developed with the direct involvement of our Publicans and is designed to provide an efficient and convenient method of order capture alongside a dynamic and personalised communication interface.

Alternative trading models
The total number of pubs operating in the Beacon format has remained broadly stable at 180, with strong like-for-like net income growth during the first half of the year. Our Beacon 'managed tenancy' model has evolved to become a successful operating concept, providing a simple, value-for-money, drinks-led pub offer to our Publicans who are supported by a dedicated retail team focused on sales, marketing, customer service and cost control.

Whilst our core business will remain focused on the leased and tenanted model, we believe it is appropriate to continue to consider alternative operating formats and trading styles with which to maximise our income and returns from the pub estate. We are therefore evaluating a more proactive approach to the assessment, and selection, of the right retail offer and appropriate operating model for each pub, as well as the infrastructure requirements to support any alternative formats identified.

FINANCIAL REVIEW

Income statement
For the six months ended 31 March 2014 we have delivered EBITDA before exceptional items of £147 million, down £6 million compared to the equivalent period last year primarily due to the impact of our asset disposal programme.

Pre-exceptional finance costs of £84 million are £6 million lower than the comparative period as a result of our strategy of debt reduction, the primary savings being a significantly reduced average drawn debt on bank facilities and reduced costs in relation to the Unique securitised bonds.

Total pre-tax exceptional charges are £8 million (H1 2013: £26 million) split between operating costs of £2 million (H1 2013: £1 million) relating to internal costs of reorganisation; a reduction in the valuation of pubs sold or identified for sale of £9 million (H1 2013: £31 million); partially offset by the profit on disposal of property, plant and equipment of £3 million (H1 2013: £5 million). The comparative period also had a gain of £1 million relating to net finance costs.

The £3 million (H1 2013: £5 million) profit on disposal of property, plant and equipment is stated after deducting goodwill allocations of £4 million (H1 2013: £5 million). The gross profit (before goodwill allocations) of £7 million (H1 2013: £10 million) arises after a net write down of those pubs that were moved to assets held for resale by £3 million (H1 2013: £11 million), of which £3 million was charged to the income statement in the period (H1 2013: £8 million). In addition, there is a net write down in the value of pubs moved to assets held for resale but not yet disposed of by £7 million (H1 2013: £29 million), of which £6 million (H1 2013: £23 million) was charged to the income statement in the period.

Total taxation in the six months was £10 million, representing a charge of £12 million (H1 2013: £13 million) on the pre-exceptional trading profit and a credit of £2 million (H1 2013: £9 million) relating to the tax on exceptional items, largely related to the deferred tax impact of indexation relief, profit on the sale of property, plant and equipment and the valuation movements. The effective tax rate on the pre-exceptional trading profit arising in the period was 22.0% (H1 2013: 24.0%), 2.0% lower than the comparative period largely due to the lower statutory tax rate.

Adjusted earnings per share (EPS) of 8.6p was 0.2p (2.4%) higher than the equivalent period last year, assisted by a lower effective tax rate. Basic EPS was 7.4p, 2.4p higher than the 5.0p reported in the comparative period, due to the improvement in the like-for-like net income performance of the business, combined with lower finance charges as net debt has reduced and lower charges resulting from asset disposals and the transfer of pubs into assets held for sale.

Cash flow

Net cash flow from operating activities for the six months to 31 March 2014 was £126 million (H1 2013: £126 million), in line with the comparative period as the reduction in operating profit is offset by an improved working capital performance and a reduced tax outflow.

We have generated £42 million (H1 2013: £54 million) of cash proceeds in the first six months of the year from the disposal of pubs with limited trading potential. These proceeds have been re-invested in the retained estate through capital expenditure of £41 million (H1 2013: £29 million).

Capital structure

We have a long term, secure, flexible and tax efficient financing structure comprising bank borrowings, securitised bonds and corporate bonds. Through our strong cash flows from operating activities and the net proceeds from the disposal of pubs, we have reduced net debt at 31 March 2014 to £2.5 billion compared to £2.7 billion at 31 March 2013.

Corporate and convertible bonds
On 3 February 2014, we used available bank facilities to repay a £60 million corporate debenture which matured. This leaves £1,125 million of secured corporate bonds, which are non-amortising, secured against ring-fenced portfolios of freehold pubs and attract fixed rates of interest averaging approximately 6.5%, with the next scheduled maturity being £600 million in December 2018. In addition, in September 2013 we issued an unsecured, seven year convertible bond with gross proceeds of £97 million. Maturing in 2020, it attracts a coupon rate of 3.5%.

Bank borrowings
The new £150 million Forward Start Facility commenced in December 2013 as planned and is committed to 15 June 2016 (Facility B: £75 million term loan amortising between September 2014 and June 2016; and Facility C: £75 million revolver facility terminating in June 2016) with variable interest rates averaging approximately 5%. At 31 March 2014, our drawn bank borrowings net of Enterprise cash had reduced to £76 million (H1 2013: £266 million).

Securitised bonds
During the first six months of the financial year, in accordance with the amortisation schedule, we have repaid £23 million of the Unique A3 securitised bonds and £11 million of the A4 securitised bonds, which, together with £6 million of A4 securitised bonds purchased and cancelled in the period, leaves £1.2 billion outstanding at 31 March 2014. The bonds amortise over a period to 2032 and attract interest rates of 5.7% to 7.4%. At 31 March 2014, the Group was £76 million ahead of the amortisation schedule of the “A class” securitised bonds through early repayment and market purchases.

BOARD CHANGES

Ted Tuppen retired as Chief Executive on 6 February 2014 and the Board would like to thank Ted for his outstanding contribution and leadership since founding the Company over 20 years ago.

Susan Murray also retired on 6 February 2014 after nine years’ service as a non-executive director and Adam Fowle was appointed as a new non-executive director on the same date.

OUTLOOK

While market conditions remain challenging, we are pleased to have delivered like-for-like net income growth in the first six weeks of the second half of the financial year, maintaining the positive momentum delivered in the first half.

Whilst the latter part of the year will be measured against tougher comparatives, we are confident that the quality of our Publicans and our continuing investment in our pub estate, combined with the proactive support of our dedicated team, will enable us to achieve our target of sustainable like-for-like net income growth for the full year and deliver significant cash flows with which to drive long term value creation.

We intend to issue an Interim Management Statement on 7 August 2014.

W S Townsend
13 May 2014

Group Income Statement

	Notes	**Unaudited Six months ended 31 March 2014** Pre-exceptional items £m	Exceptional items £m	Total £m	Unaudited Six months ended 31 March 2013 Pre-exceptional items £m	Exceptional items £m	Total £m	Audited Year ended 30 September 2013 Pre-exceptional items £m	Exceptional items £m	Total £m
Revenue		**308**	**-**	**308**	312	-	312	639	-	639
Cost of sales		**(144)**	**-**	**(144)**	(143)	-	(143)	(294)	-	(294)
Gross profit		**164**	**-**	**164**	169	-	169	345	-	345
Administrative expenses	3	**(17)**	**(2)**	**(19)**	(16)	(1)	(17)	(32)	(2)	(34)
EBITDA *		**147**	**(2)**	**145**	153	(1)	152	313	(2)	311
Depreciation and amortisation		**(8)**	**-**	**(8)**	(8)	-	(8)	(15)	-	(15)
Operating profit		**139**	**(2)**	**137**	145	(1)	144	298	(2)	296
Profit on sale of property, plant and equipment		**-**	**7**	**7**	-	10	10	-	21	21
Goodwill allocated to disposals		**-**	**(4)**	**(4)**	-	(5)	(5)	-	(14)	(14)
Net profit on sale of property, plant and equipment	4	**-**	**3**	**3**	-	5	5	-	7	7
Movements in valuation of pub estate and related assets	5	**-**	**(9)**	**(9)**	-	(31)	(31)	-	(165)	(165)
Total finance costs		**(84)**	**-**	**(84)**	(90)	-	(90)	(177)	(4)	(181)
Gain on purchase of own debt	6	**-**	**-**	**-**	-	1	1	-	1	1
Net finance costs		**(84)**	**-**	**(84)**	(90)	1	(89)	(177)	(3)	(180)
Profit/(loss) before tax		**55**	**(8)**	**47**	55	(26)	29	121	(163)	(42)
Taxation	7,8	**(12)**	**2**	**(10)**	(13)	9	(4)	(26)	64	38
Profit/(loss) after tax attributable to members of the Parent Company		**43**	**(6)**	**37**	42	(17)	25	95	(99)	(4)
Earnings per share										
Basic	9			**7.4p**			5.0p			(0.8)p
Diluted	9			**7.1p**			5.0p			(0.8)p
Adjusted basic^	9	**8.6p**			8.4p			19.0p		
Adjusted diluted^	9	**8.2p**			8.3p			19.0p		

* Earnings before interest, tax, depreciation and amortisation

^ Excludes exceptional items

Group Statement of Comprehensive Income

	Unaudited Six months ended 31 March 2014 £m	Unaudited Six months ended 31 March 2013 £m	Audited Year ended 30 September 2013 £m
Profit/(loss) for the period	**37**	25	(4)
Items that will not be reclassified to the Income Statement:			
Unrealised deficit on revaluation of pub estate	**-**	-	(55)
Movement in deferred tax liability related to revaluation of pub estate	**1**	2	10
Write down of non-current assets held for sale	**(1)**	(9)	(28)
Restatement of deferred tax liability related to revaluation of pub estate for change in UK tax rate	**-**	-	30
Total other comprehensive income for the period net of tax that cannot be reclassified subsequently to the Income Statement	**-**	(7)	(43)
Total comprehensive income/(loss) for the period attributable to members of the Parent Company	**37**	18	(47)

Group Balance Sheet

	Unaudited 31 March 2014 £m	Unaudited 31 March 2013 £m	Audited 30 September 2013 £m
Non-current assets			
Goodwill	**341**	354	345
Intangible assets: operating lease premiums	**10**	11	11
Property, plant and equipment	**3,939**	4,184	3,947
	4,290	4,549	4,303
Current assets			
Trade and other receivables	**51**	56	48
Cash	**113**	128	144
	164	184	192
Non-current assets held for sale	**24**	54	39
Total assets	**4,478**	4,787	4,534
Current liabilities			
Trade and other payables	**(166)**	(160)	(182)
Current tax payable	**(17)**	(14)	(10)
Financial liabilities	**(70)**	(172)	(129)
Provisions	**(6)**	(7)	(7)
	(259)	(353)	(328)
Non-current liabilities			
Financial liabilities	**(2,520)**	(2,634)	(2,536)
Provisions	**(4)**	(3)	(4)
Deferred tax	**(255)**	(353)	(264)
	(2,779)	(2,990)	(2,804)
Total liabilities	**(3,038)**	(3,343)	(3,132)
Net assets	**1,440**	1,444	1,402
Equity			
Called up share capital	**14**	14	14
Share premium account	**486**	486	486
Revaluation reserve	**752**	795	754
Capital redemption reserve	**11**	11	11
Merger reserve	**77**	77	77
Treasury share reserve	**(227)**	(227)	(227)
Other reserve	**6**	(19)	2
Profit and loss account	**321**	307	285
Total equity	**1,440**	1,444	1,402

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 2013	**14**	**486**	**754**	**11**	**77**	**(227)**	**2**	**285**	**1,402**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**37**	**37**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	**-**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**37**	**37**
Transfer of realised revaluation surplus	**-**	**-**	**(3)**	**-**	**-**	**-**	**-**	**3**	**-**
Transfer of deferred tax on disposals	**-**	**-**	**1**	**-**	**-**	**-**	**-**	**(1)**	**-**
Share option entitlements exercised in period	**-**	**-**	**-**	**-**	**-**	**-**	**4**	**(4)**	**-**
Share based expense recognised in operating profit	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**
At 31 March 2014	**14**	**486**	**752**	**11**	**77**	**(227)**	**6**	**321**	**1,440**
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 2012	14	486	807	11	77	(227)	(20)	277	1,425
Loss for the year	-	-	-	-	-	-	-	(4)	(4)
Other comprehensive income	-	-	(43)	-	-	-	-	-	(43)
Total comprehensive income	-	-	(43)	-	-	-	-	(4)	(47)
Transfer of realised revaluation surplus	-	-	(16)	-	-	-	-	16	-
Transfer of deferred tax on disposals	-	-	6	-	-	-	-	(6)	-
Transfer of shares from Employee Benefit Trust to Share Incentive Plan	-	-	-	-	-	-	1	(1)	-
Share based expense recognised in operating profit	-	-	-	-	-	-	-	2	2
Deferred tax in relation to share options	-	-	-	-	-	-	-	1	1
Equity element of convertible bond issue	-	-	-	-	-	-	22	-	22
Equity element of financing costs paid on issue of convertible bond	-	-	-	-	-	-	(1)	-	(1)
At 30 September 2013	14	486	754	11	77	(227)	2	285	1,402

Group Cash Flow Statement

	Unaudited onths ended March 2014 £m	Unaudited Six months ended 31 March 2013 £m	Audited Year ended 30 September 2013 £m
Cash flow from operating activities			
Operating profit	**137**	144	296
Depreciation and amortisation	**8**	8	15
Share based expense recognised in profit	**1**	1	2
(Increase)/decrease in receivables	**(1)**	(1)	6
Decrease in payables	**(8)**	(15)	(5)
Increase in provisions	**-**	-	1
Decrease in current assets held for sale	**-**	3	3
	137	140	318
Tax paid	**(11)**	(14)	(27)
Net cash flows from operating activities	**126**	126	291
Cash flows from investing activities			
Payments made on improvements to public houses	**(40)**	(28)	(60)
Payments to acquire other property, plant and equipment	**(1)**	(1)	(2)
Receipts from sale of property, plant and equipment	**42**	54	150
Net cash flows from investing activities	**1**	25	88
Cash flows from financing activities			
Interest paid	**(84)**	(92)	(183)
Interest received	**-**	-	1
Issue costs of long term loans	**-**	-	(2)
Proceeds from issue of convertible bond	**-**	-	97
New loans	**50**	80	110
Repayment of loans	**(118)**	(128)	(375)
Payments to acquire own debt	**(6)**	(8)	(8)
Net cash flows from financing activities	**(158)**	(148)	(360)
Net (decrease)/increase in cash	**(31)**	3	19
Cash at start of period	**144**	125	125
Cash at end of period	**113**	128	144

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 2013 is extracted from the statutory accounts for that year which have been delivered to the Registrar, on which the auditors issued an unqualified opinion that 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, except for the new standards adopted as described below, reflects the accounting policies set out in the notes to the 30 September 2013 Annual Report and Accounts which have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

The following new standards, interpretations and amendments which are effective for periods beginning on or after 1 January 2013 have been adopted since 30 September 2013:

- Amendment to IFRS 7: Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
- IAS 27: Separate Financial Statements
- IFRS 13: Fair Value Measurement
- IAS 19: Employee Benefits (revised)
- Amendments to IAS 1: Presentation of Financial Statements – Clarification of the requirements for comparative information
- Amendments to IAS 34: Interim Financial Reporting – Clarifying interim reporting and segment information for total assets

IFRS 13: Fair Value Measurement is applicable for the first time for the year ending 30 September 2014 and on a prospective basis only. Under IFRS 13, the Group is required to assess the value of its licensed land and buildings on the basis of the highest and best use on which that asset could be realised, such a use being physically possible, legally permissible and financially viable. For those assets held as part of the Group's on-going estate, the directors consider that the highest and best use basis of valuation continues to predominantly be as a public house. When the necessary requirements have been met in respect of assets identified for disposal and revalued immediately prior to transfer to non-current assets held for sale, the highest and best use for a market participant may reflect an alternative use for the asset.

The adoption of IFRS 13 in the period has not had a material impact on the half year financial statements of the Group. Further disclosures will be made regarding the impact of adoption of this standard in the 30 September 2014 financial statements. The adoption of the remaining standards outlined above has not had a material impact on the financial statements.

The Group operates in one segment, that of a 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 £2 million (31 March 2013: £1 million, 30 September 2013: £2 million) has been incurred relating to reorganisation costs.

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

	Unaudited Six months ended 31 March 2014 £m	Unaudited Six months ended 31 March 2013 £m	Audited Year ended 30 September 2013 £m
Profits on sale of property, plant and equipment	**8**	12	26
Losses on sale of property, plant and equipment	**(1)**	(2)	(5)
Profit on sale of property, plant and equipment	**7**	10	21
Goodwill allocated to disposals	**(4)**	(5)	(14)
Net profit on sale of property, plant and equipment	**3**	5	7

During the period, 129 pubs (31 March 2013: 161 pubs, 30 September 2013: 428 pubs) and various other plots of land were sold generating gross proceeds of £46 million (31 March 2013: £56 million, 30 September 2013: £157 million) which, after taking account of disposal costs, resulted in an overall profit of £7 million (31 March 2013: £10 million, 30 September 2013: £21 million).

In accordance with IAS 36, purchased goodwill is allocated to pubs disposed of, based on the relative value of the disposal to pubs retained. Accordingly, goodwill of £4 million (31 March 2013: £5 million, 30 September 2013: £14 million) has been allocated to the 129 pubs (31 March 2013: 161 pubs, 30 September 2013: 428 pubs) disposed of during the period.

5. Movements in valuation of pub estate and related assets

	Unaudited Six months ended 31 March 2014 £m	Unaudited Six months ended 31 March 2013 £m	Audited Year ended 30 September 2013 £m
Movements from revaluation of pub estate	**-**	-	(84)
Net write down of non-current assets held for sale to fair value less costs to sell	**(9)**	(31)	(81)
	(9)	(31)	(165)

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 valuation, in accordance with the Group's accounting policy, and fair value less costs to sell. The impact of IFRS 13 on the assessment of the valuation immediately prior to transfer is described in note 2. The charge of £9 million (31 March 2013: £31 million, 30 September 2013: £81 million) reflects this assessment where the value ascribed is 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 2014. 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 2014, Unique securitised bonds with a nominal and book value of £6 million (31 March 2013: £9 million, 30 September 2013: £9 million) were purchased and cancelled for the equivalent price of 99p (31 March 2013: 95p, 30 September 2013: 95p) for each £1 of outstanding nominal value, generating a gain of £nil (31 March 2013: £1 million, 30 September 2013: £1 million), shown in the Income Statement as an exceptional item.

7. Taxation

The pre-exceptional tax charge of £12 million (31 March 2013: £13 million, 30 September 2013: £26 million) equates to an effective tax rate of 22.0% (31 March 2013: 24.0%, 30 September 2013: 21.5%) which is estimated to be the tax rate for the year ending 30 September 2014. 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 capital gains indexation relief, disposals and movements in the valuation of the estate. The movements in the comparative period also include changes in the rate of tax. 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 £2 million (31 March 2013: £9 million, 30 September 2013: £64 million) comprises the tax consequences of items recorded as exceptional items together with any impact of capital gains indexation relief.

The UK Government reduced the rate of corporation tax by 2% from 23% to 21% effective from 1 April 2014 and announced its intention to reduce the rate further by 1% to 20% by 1 April 2015. Deferred taxation has been calculated based on the current substantively enacted rate of 20%.

9. Earnings per ordinary share

The basic earnings per ordinary share is based on earnings attributable to Ordinary Shareholders after exceptional items of £37 million (six months to 31 March 2013: £25 million, full year to 30 September 2013: loss of £4 million) and on 499.8 million (six months to 31 March 2013: 499.4 million, full year to 30 September 2013: 499.5 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 and shares held in treasury.

Adjusted earnings per share, which the directors believe reflects the underlying performance of the Group, is based on earnings attributable to Ordinary Shareholders adjusted for the effects of exceptional items, net of tax, of £43 million (six months to 31 March 2013: £42 million, full year to 30 September 2013: £95 million) and on 499.8 million (six months to 31 March 2013: 499.4 million, full year to 30 September 2013: 499.5 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 and shares held in treasury.

The diluted earnings per share is based on earnings attributable to Ordinary Shareholders after exceptional items of £40 million (six months to 31 March 2013: £25 million, full year to 30 September 2013: loss of £4 million) and adjusted diluted earnings per share is based on adjusted earnings of £46 million (six months to 31 March 2013: £42 million, full year to 30 September 2013: £95 million), both of which are adjusted to remove the interest cost associated with the convertible loan note of £3 million net of tax (six months to 31 March 2013: £nil, full year to 30 September 2013: £nil). The number of shares used are 560.2 million (six months to 31 March 2013: 504.1 million, full year to 30 September 2013: 499.5 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, shares held in treasury and the convertible loan note.

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 2014 £m	Unaudited Six months ended 31 March 2013 £m	Audited Year ended 30 September 2013 £m
(Decrease)/Increase in cash in the period	**(31)**	3	19
Cash outflow from change in debt	**74**	56	176
Issue costs of new long terms loans	**-**	-	2
Change in net debt resulting from cash flows	**43**	59	197
Amortisation of issue costs and discounts/premiums on long term loans	**(1)**	(3)	(8)
Gain on purchase of own debt	**-**	1	1
Amortisation of the fair value adjustments of securitised bonds	**2**	2	5
Movement in other reserve arising on Convertible bond issue	**-**	-	21
Movement in net debt in the period	**44**	59	216
Net debt at start of period	**(2,521)**	(2,737)	(2,737)
Net debt at end of period	**(2,477)**	(2,678)	(2,521)

b) Analysis of net debt

	Unaudited Six months ended 31 March 2014 £m	Unaudited Six months ended 31 March 2013 £m	Audited Year ended 30 September 2013 £m
Bank borrowings	**(107)**	(287)	(81)
Corporate bonds	**(1,222)**	(1,185)	(1,282)
Securitised bonds	**(1,260)**	(1,311)	(1,300)
Gross debt	**(2,589)**	(2,783)	(2,663)
Cash	**113**	128	144
Underlying net debt	**(2,476)**	(2,655)	(2,519)
Capitalised debt issue costs	**14**	18	15
Fair value adjustments on acquisition of bonds	**(32)**	(37)	(34)
Convertible bond reserve	**21**	-	21
Finance lease payables	**(4)**	(4)	(4)
Net debt	**(2,477)**	(2,678)	(2,521)
Balance sheet:			
Current financial liabilities	**(70)**	(172)	(129)
Non-current financial liabilities	**(2,520)**	(2,634)	(2,536)
Cash	**113**	128	144
Net debt	**(2,477)**	(2,678)	(2,521)

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 2014, the Group had entered into contractual commitments to purchase £7 million (31 March 2013: £9 million, 30 September 2013: £3 million) of property, plant and equipment.

13. Seasonality of operations

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

14. Events after the reporting period

VAT on Gaming Machines

During the period ended 31 March 2014, following a recent decision by the Court of Appeal in their favour, HM Revenue & Customs (HMRC) issued the Group with a letter requesting repayment of £6 million plus interest in respect of VAT on gaming machines paid to the Group by HMRC in the year ended 30 September 2010. The £6 million was repaid to HMRC in April 2014 and the provision held for this amount since its receipt in 2010 was therefore utilised.

HMRC originally paid this amount to the Group on the condition it would be returned if they were successful in an appeal in respect of the Rank Group plc gaming machine litigation. The decision on the matter being considered by the Court of Appeal was recently announced and found to be in favour of HMRC and accordingly allowed them to recover monies paid to the Group in 2010. There is a separate, but connected, matter which was considered by the European Court of Justice and has now been referred back to the UK First Tier Tribunal for a decision, which could also have a bearing on whether this amount is ultimately repayable to the Group, or retained by HMRC.

Rank Group plc has also been allowed to appeal to the Supreme Court against the Court of Appeal decision which found in favour of HMRC. Therefore litigation is likely to continue on both strands of this case.

Discounted Convertible Loan Note

Since the period ended 31 March 2014, an enquiry by HMRC in relation to a discounted convertible loan note issued in the accounting period ended 30 September 2004 has been formally resolved and closed. The closure of this enquiry will result in a settlement with HMRC of £9 million plus interest, which will be paid in instalments over the next eight quarters. The final instalment will fall due to be paid in January 2016. This has been fully provided for in the accounts since the inception of the loan note.

RetailLink Management Limited Pension Plan

In April 2014, the Trustees of the RetailLink Management Limited pension plan (the Plan) and the Company committed to a bulk annuity buyout of the defined benefit section of the Plan. This will crystallise an additional liability of £9 million payable through a deferred payment schedule over the next 4 years. The initial stage of this process has now been completed and involved the Trustees using the Plan's defined benefit section assets to purchase bulk annuity policies from Legal & General Assurance Society Limited (LGAS). The policies commenced with effect from 30 April 2014 and will be held for the time being as investments of the Plan. Once the deferred premiums have been paid, the Trustees intend to ask LGAS to issue individual annuity policies to defined benefit section members and then wind-up the Plan, after which the Company will no longer retain any responsibilities or obligations to the members of the Plan. As a result of the above arrangements, a provision for a settlement charge of £9 million will be recorded within exceptional costs in the second half of the current financial year.

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 EU, 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 2013 with the exception of the following changes to the Board:

- Ted Tuppen resigned as a director on 6 February 2014; and
- Susan Murray resigned as a non-executive director on 6 February 2014; and
- Adam Fowle was appointed as a non-executive director on 6 February 2014.

By order of the Board

W S Townsend	**N R Smith**
Chief Executive	Chief Financial Officer
12 May 2014	12 May 2014

ADDITIONAL INFORMATION

Principal risks and uncertainties

This section summarises the principal risks and uncertainties facing the Group. Full details of the principal risks and uncertainties are set out in the Annual Report and Accounts 2013. 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, however 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:

Strategy and business model

On 22 April 2013 the Department for Business, Innovation & Skills (BIS) issued a consultation paper proposing the introduction of a Statutory Code (the Code) and an Independent Adjudicator for the pubs sector to govern the relationship between large pub companies and their tenants and enforce the proposed Code. The Group's operational strategy and profitability could be impacted by the Independent Adjudicator's proposals regarding the Code governing the tied pub model. Other regulatory factors such as changes to licensing legislation, alcohol duties and social responsibility issues could also affect the Group's business and the ability of our Publicans to operate their pubs.

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. Other risks include reputational risk arising from the possibility of legal or statutory proceedings and health and safety incidents.

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 has participated in the BIS consultation process as appropriate. The Group is a member of several trade bodies and a contributor to Drinkaware Trust. The Group has a Health and Safety Committee and a Health and Safety Manager who reports to the Board periodically.

Pub operations

Operational risks present in the Group's business include the reliance on our employees in key support functions, on our supply chain and on attracting, training and retaining the best quality Publicans.

Mitigation process: The Group adopts a number of policies, including appropriate employee training, retention and reward policies, adopting a partnership approach with key suppliers, maintaining contingency plans for continuity of supply and ensuring robust recruitment and training programmes for Publicans to minimise operational risks.

Property management

Valuations of the Group's property portfolio could be affected by general economic conditions with resulting downwards pressure on maintainable income streams, impacting on the ability to dispose of under-performing pubs and to meet key financial covenants.

Mitigation process: The Group ensures all pubs are valued annually (using qualified external and internal valuers and advisers), guiding the future strategy for each pub and directing the investment made in developing and improving our pubs to ensure that we remain competitively placed in the market.

Capital structure
The Group has a flexible financing structure comprising bonds issued from the Unique securitisation, corporate bonds issued by Enterprise Inns plc and bank borrowings. Existing bank facilities were renegotiated in 2012 with a new Forward Start Facility commencing in December 2013. The primary liquidity risk is to meet all on-going finance costs and repayments as well as meet the financial covenants associated with the financing structure. In addition, the Group is exposed to interest rate risk on drawn bank borrowings of £107 million.

Mitigation process: There are a number of options available to the Group to manage these commitments including the disposal of pubs, reducing capital expenditure and raising new capital through the bank facility or issuing new corporate bonds. 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. The Group manages its cash flow to minimise the variable interest rate borrowing at any one time.

Information technology
Operational risks present in the Group's business include the risk of a failure of our information technology (IT) systems, impact of any system upgrades or general cyber risk.

Mitigation process: The Group adopts a number of policies, including maintaining a rigorous business continuity plan, effective management of IT projects and on-going review of IT resources, all led by the IT Steering Committee which reports regularly to the Executive Committee.

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 2014 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 14. 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 International Standard on Review Engagements 2410 (UK and Ireland) "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 2014 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
12 May 2014