12 May 2015

Enterprise Inns plc

Unaudited Interim Results for the six months ended 31 March 2015

Maximising the returns from each of our assets to drive sustainable shareholder value

Enterprise Inns plc (ETI or Enterprise), the leading operator of leased and tenanted pubs in the UK, today announces its interim results for the six months ended 31 March 2015.

Financial highlights

- Continued like-for-like net income growth, up 0.6% (H1 2014: 1.1% growth)
- EBITDA* before exceptional items of £144 million (H1 2014: £147 million), in line with expectations and reflecting the impact of planned disposals
- Profit before tax and exceptional items increased to £57 million (H1 2014: £55 million) as interest savings from reduced debt offsets reduction in EBITDA
- Profit after tax at £4 million (H1 2014: £37 million) largely due to exceptional costs of £26 million in respect of partial refinancing of 2018 corporate bonds and property charges of £21 million (H1 2014: £6 million)
- Adjusted earnings per share# up 4.7% at 9.0p (H1 2014: 8.6p)

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

Operational highlights

- Capital investment of £33 million (H1 2014: £41 million) funded from net disposal proceeds of £34 million (H1 2014: £42 million) with 42% focused on growth driving investment initiatives (H1 2014: 32%)
- Operational focus aimed at supporting our publicans has helped to deliver a 21% reduction in the number of business failures

Strategic review

- Today we are announcing the outcome of a strategic review which we commenced in April 2014 that aims to optimise the returns from every asset within our property portfolio. In order to achieve this we are increasing our operational flexibility which means we will:
  - continue to reinvigorate our tied tenancy business;
  - expand our managed business;
  - build a high quality commercial property portfolio; and
  - make disposals where appropriate to optimise returns
- Whilst recognising that this will be a dynamic process we are planning that by September 2020 our managed pub business should be operating in the region of 750-850 pubs and we expect to have a commercial property business with around 900-1,000 property assets.

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

"We are pleased to report like-for-like net income growth for the first half of the financial year. At the start of last year we delivered net income growth for the first time in many years and to have built upon that momentum is particularly satisfying. To have achieved this performance against a backdrop of legislative uncertainty reflects the professional approach of our teams and the strength of relationships we have with the vast majority of our hard working publicans.

We are now implementing our new strategy which provides a clear path to maximise returns from each of our assets. We are building upon our core capability of operating leased and tenanted pubs by extending our operational flexibility into the direct management of pubs and increasing the scale of our commercial property business.

This new strategic direction will ensure that we generate the greatest value from each of our assets, and will also accommodate the requirements of the new legislation. This is a sustainable strategy for our business which embraces different operating models to best serve our publicans and their communities whilst delivering greater value to our shareholders."

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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 3003 2666 or +1 866 966 5335 (USA callers). A replay of the conference call will be available for seven days on +44 (0) 20 3350 6902 and +1 866 966 6340 (USA callers) replay passcode 3958414#.

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.

TRADING REVIEW

We are pleased to report our interim results for the six months ended 31 March 2015, during which period we have delivered EBITDA before exceptional items of £144 million, down just £3 million on the comparative period as a result of planned asset disposals. Profit before taxation, excluding exceptional items, increased by £2 million to £57 million as lower interest costs, resulting from reduced levels of debt, have more than offset the decline in EBITDA.

Maintaining the growth momentum

The improvement in profitability of the business has been achieved through a steady return to growth in the like-for-like net income that we earn from our estate of leased and tenanted pubs. This growth momentum has been maintained with like-for-like net income growth of 0.6% through the first six months of the financial year; made up of growth of 0.7% in the first quarter followed by growth of 0.4% in the second quarter. The improvement in trading performance has been achieved across our estate although the pubs in our Northern sector continue to face a more challenging trading environment. The Southern sector pubs, representing 43% of our total net income, buoyed by a particularly strong Greater London market, have grown their like-for-like net income by 2.7%. The top 90% (4,675 pubs) of our estate, in terms of income earned, grew like-for-like net income by 2.7% in the first half of the year, demonstrating the strong performance of the majority of our pubs, and the quality of the publicans who run them.

Location	No. of trading pubs at 31 March 2015	Net income* H1 FY15 £m	% of total net income FY15	Net income H1 FY14 £m	Net income change H1 FY15 %
North	1,527	48	27	49	(2.0)
Midlands	1,669	53	30	53	-
South	2,000	77	43	75	2.7
Total	**5,196**	**178**	**100**	**177**	**0.6**

* Net income represents like-for-like pub level gross profits, stated before property costs of £15 million, unallocated central costs of £3 million and excluding £1 million of net income relating to disposals.

Supporting our publicans

Whilst an improving economic environment and reductions in the rate of excise duty payable on beer have assisted trading for our publicans, the driving force for our improvement in performance has been the successful implementation of our many initiatives aimed at enhancing publican profitability and our capital re-investment strategy. The provision of discounted services such as WiFi, Sports TV packages and food offerings, combined with training programmes and product marketing services, are all aimed at assisting publicans to grow sales and reduce costs. We also continue to offer direct financial assistance where it is deemed appropriate and have spent £3 million in the first half of the year (H1 2014: £3 million) on such assistance.

The provision of this broad range of services, the direct financial assistance and the regular local support offered by our regional managers are all key elements of the leased and tenanted operating model which assist publicans to thrive through good times and sustain their businesses through more difficult trading periods. As a consequence of the successful application of these initiatives we have delivered a 21% reduction in the level of business failures in the first half of the current year compared to the first half of last year. Such significant reductions in the level of business failures are a key driver of the improvement achieved in our like-for-like net income.

Enhancing returns from the estate

Our capital re-investment strategy is another important contributor to delivering improved like-for-like net income. The objective of this strategy is to dispose of under-performing assets and to re-invest the proceeds to drive like-for-like net income growth and improve the financial returns of our retained estate.

During the first half of the year we have disposed of 133 pubs generating net sale proceeds of £34 million. These proceeds have funded a total capital investment in the first half of the year of £33 million, of which, 42% was directed toward income growth opportunities, up from 32% achieved in the first half of last year. We target Return on Investment (ROI) in excess of 15% on our growth oriented capital expenditure and have achieved an average ROI of 19% on schemes delivered in the last six months.

REGULATORY REVIEW

During 2014, the then Government published its proposals, contained within the Small Business, Enterprise and Employment (SBEE) Bill, to introduce a Statutory Code of Practice, to be overseen by an independent Adjudicator, for all companies with over 500 pubs operating under tied leased and tenancy agreements in the UK. In November 2014, the proposals were amended to include a tenant's right, under certain limited circumstances, to change the freely-negotiated commercial terms of their agreement. This Market Rent Only (MRO) option enables some occupational tenants to elect to opt-out of the supply tie at certain points or after certain events during the term of their lease agreement and therefore occupy the premises on a standard commercial property lease, paying rent only. In the event that a tenant elected to invoke this option, whilst our income derived from the supply of tied drinks products would be partially offset by increases in rent, it is possible that our total income would be adversely affected by this amendment.

Whilst the finer detail of the proposed regulatory regime has yet to be finalised, the SBEE Bill received Royal Assent on 26 March 2015 and has therefore now passed into primary legislation. Further consultation will take place, leading to secondary legislation and the publication of detailed guidance under which the new regime is to operate. The new legislative regime is expected to become operational by June 2016.

While the unintended consequences of the SBEE Act will only become clear over time, we are prepared for the implementation of the legislation and its potential impact on our business. The impact will be phased over five years from the implementation of the Act, as MRO events are largely expected to arise through the cycle of five yearly rent reviews and renewals. In 2016 we expect 200 potential MRO events and some 600 such events per year thereafter.

OUTLOOK

Trading in the first few weeks of the second half of the year is in line with our expectations. Comparatives in our third quarter are particularly challenging as they include enhanced trading from the FIFA World Cup and the full benefit of the Easter trading period, whereas this year the earlier Easter accrued some benefit to our second quarter. However, we continue to target growth in like-for-like net income for the full year.

We are implementing a new strategy for the business, which in addition to optimising returns from each of our assets, will enable us to respond to the potential implications of impending legislation. However, we remain focused on maintaining our trading momentum and we do not envisage any material changes to our financial outlook for the current financial year.

STRATEGIC REVIEW

In summary, our new strategic plan enables us to unlock the embedded value in every one of our assets, using the most appropriate operating model for each asset to secure the optimum level of income. The strategy aims to bring about an evolution of our business model, utilising consumer insight, to develop a plan for every pub in order to maximise value for shareholders.

1. Evolving our business model
2. Consumer insight
3. Strategy for asset optimisation
    a) Continued reinvigoration of our tied tenancy business
    b) Expanded managed business
    c) High quality commercial property portfolio
    d) Disposals where appropriate to optimise returns
4. Delivering our strategic plan
5. An enabling capital structure
6. Maximising value for shareholders

1. Evolving our business model

Since the Group's inception in 1991, our core business model has been the ownership of predominantly freehold pubs operated under leased and tenanted agreements, where the performance of each pub is enabled by a combination of our scale and organisational expertise and the entrepreneurial flair and capability of our publicans.

This model has evolved over time to offer a vast array of flexible commercial terms. Our current suite of agreements includes: assignable leases which vary in tie-type and term from five years to 30 years; non-assignable tenancies of three and five years in length; variable term leases with a turnover-related element of rent; and completely free-of-tie commercial leases. The multiplicity of commercial terms and

conditions demonstrates the highly competitive nature of the marketplace in which we are seeking to attract and retain the best publicans, necessitating flexibility and innovation in our offer.

As we and our publicans have responded to the multiple business challenges of the last few years and constantly evolving consumer demands, it has become clear that an exclusively leased and tenanted operating model, whilst relatively simple in execution and requiring only modest central overheads, does not provide us with sufficient optionality with which to optimise the returns generated from every asset in our pub estate and deliver greater value for shareholders.

Therefore during 2014 we started developing the necessary operational flexibility and capability to enable us to: use alternative models to operate the pubs in our estate; better apply consumer insights to inform our decision-making; optimise our scale and leverage to the benefit of our publicans; access the growing importance of food sales; and seek to attract the very best retailers in the UK.

2. Consumer insight

Our pubs operate in a dynamic marketplace and we have set out to improve our capability in retailing, developing our understanding and usage of consumer and competitor insights to help us to identify the most appropriate retail proposition for each pub, to inform our subsequent investment decisions and to determine whether a pub is capable of sustaining a fully managed operation with which to optimise the pub's performance and deliver greater shareholder value as a result.

In June 2014, we engaged two leading independent consultancies, LEK Consulting and Deloitte, to work with us to develop an approach to the segmentation of the estate which uses geographic location, amenity, competitor analysis and the socio-demographic profile of the local population to assess the supply and demand dynamics of the marketplace in which each of our pubs is located and to determine the appropriate retail proposition which is most likely to fully exploit the trading opportunity presented by each individual site.

We have defined a number of retail propositions into which the majority of the sites in our estate may be categorised, allowing us to identify those sites where the gap to optimum trading is greatest, or where the repositioning of the consumer offer is likely to maximise the performance and profitability of individual pubs. We are already using this information to inform our decision-making in relation to investment and choice of publican, and we are establishing a "plan for every pub" which will identify the desired retail proposition and most appropriate operating model for every asset within our portfolio. We expect to have established a plan for every pub well ahead of the introduction of the MRO option in order that we can proactively manage the implications of the new legislation.

3. Strategy for asset optimisation

Every asset within our property portfolio will operate within our tied tenancy business; our expanded managed house business; our high quality commercial property business or, where it is the route to optimum value, the assets will be sold.

a) Continued reinvigoration of our tied tenancy business

We continue to believe that the optimum level of income that can be generated from a significant proportion of our pubs is through the tied tenancy model, where we work alongside great publicans, and where we can utilise our scale to secure margin from drinks suppliers that is unavailable to such sites on an individual free-of-tie basis.

We will therefore continue to offer tied agreements of up to five years in length, as this model continues to attract ambitious, entrepreneurial individuals who value the opportunity to run their own business supported by Enterprise, and where we share risk and reward in pursuit of mutual success. These agreements enable tenants to give six months' notice of their intention to leave at any time during the term of the agreement. We are receiving over 80 enquiries per week from individuals who are attracted by

this model and as a business our primary focus remains on ensuring the continuing success of our publicans.

The commercial terms of tied agreements will undoubtedly evolve with the value of discounts offered likely to continue to rise as a means of securing greater beer volume. Our willingness to invest in tied pubs and our provision of a wide range of support measures will remain a critical differentiator in favour of tied agreements for many publicans.

However, our strategic objective is to diversify away from a predominantly leased and tenanted business over time. This strategy is focused upon increasing the number of directly managed operations and commercial property agreements across our estate to build a portfolio which provides greater flexibility with which to adapt to market changes.

b) Expanded managed business

We are operating sixteen pubs as managed houses, and have a pipeline of planned conversions which is likely to result in 30 managed houses being operational by September 2015.

We have learnt a great deal from these conversions, and are now better able to determine the success criteria against which every site's potential can be assessed. This has enabled us to identify the retail offer where our developing retail capability is most likely to be effectively executed, where the customer proposition is not overly complicated, and as a result where our current and future estate of managed houses will be operated.

Over time, we will be able to share our experiences in managed pub retailing with our lessees and tenants, leveraging our scale and resources in order to provide additional goods, services and insights to support them. Furthermore, we expect to be able to provide proven off-the-shelf solutions to our publicans to help them compete more effectively in such areas as pricing, promotion and product range. As we develop our retailing capability and infrastructure, we will also be able to step into failing leased and tenanted businesses in order to restore the customer offer and improve the prospects for future letting.

With managed operations often comes complexity and increased costs. It is important that we recognise where our managed operations can best create value whilst mitigating the risks and costs associated with this method of operation. Therefore we have developed an innovative and flexible approach in the way in which we propose to run our managed business through three managed house models:

i) Managed expert

We have a partnership model whereby we can work with expert managed house operators in order to utilise their retailing flair and capability in pubs with exceptional profit potential, thereby optimising the value of such sites. In this model, the operational resource and expertise is provided by our retail partners.

In the first of such partnerships, we are delighted to have agreed terms with Rupert Clevely, founder of Geronimo Inns, who will operate selected sites with us on a managed basis. We have already identified a number of sites which have the potential to be extremely successful under the guidance of Rupert and his team, and we expect to have the first site operational during the second half of this financial year.

We believe this model will be very attractive to other parties whose interests, ambition and geographic coverage are complementary to our own and hope to be able to establish similar ventures with which to expand our managed house estate in partnership with some of the UK's most successful pub retailers.

Based on the profile of our estate, and the likely availability of suitable sites, we have the potential to extend this model by 15-25 sites per year over time, with an average initial capital investment of £400,000 per pub.

ii) Bermondsey Pub Company
Ten of our current managed house estate are operated by our Bermondsey Pub Company. We have recruited and resourced our own team and are using our segmentation work to identify those pubs into which we can most effectively install a managed operating model utilising one of two preferred choices of retail proposition. As demonstrated by our experience in the existing sites this managed model is best suited to a mainstream offer which has a balanced mix of food and wet sales.

Based on the further development of our evolving infrastructure and capability, and the pipeline of sites likely to become available in the foreseeable future, we will ultimately be able to convert 35-50 sites to managed operations per year at an average initial capital investment of £200,000 per pub. Only when we are clearly demonstrating that this model provides the greatest value to shareholders will we build our resources to further accelerate the pace of conversions.

iii) The Craft Union Pub Company
The Craft Union Pub Company has developed a community pub offer which will be operated in predominantly urban and neighbourhood locations. This value orientated offer delivers a local experience, in a well-invested environment designed to meet the needs of the local community. The Craft Union management team has developed this offer utilising experiences gained from the operation of our Beacon pubs over the last two years. This model will allow us to attract the entrepreneurial flair of great managers, who seek the opportunity to enjoy the support and protection of our managed business, whilst retaining some freedom to co-evolve our retail offer in order to best meet the needs of their local communities.

In addition to the ten managed sites operated by the Bermondsey Pub Company we are currently operating six managed sites within Craft Union and we believe that this model will provide publicans with an attractive alternative to sit alongside our tied agreement model. We are therefore developing the capability and infrastructure to potentially convert 100-125 sites per annum to this model at an average initial capital investment of £75,000 per pub. This infrastructure is currently being outsourced and we do not anticipate significant organisational implications in the near term.

c) High quality commercial property portfolio
Our commercial property team already manages a small, but growing, portfolio which now includes 185 properties, of which 162 are being operated as free-of-tie pubs and 23 as retail units. Operationally, our commercial property function incurs minimal overhead cost and requires only a small amount of capital expenditure.

These properties are typically let on standard, commercial, fully repairing and insuring, long-term agreements pursuant to which rents are payable quarterly in advance, subject to indexation and upwards-only rent reviews at five yearly intervals. In some instances this rent can include an incremental element based on a percentage of the total turnover of the tenant's business. Commercial lease terms such as these differ markedly from the traditional tied lease or tenancy, where the balance between the fixed costs of lower rent and the variable costs of beer supply ensure that the operational gearing of the business varies according to levels of trade.

A recent assessment of the freehold assets within our current commercial property portfolio, by Colliers International, has confirmed the attractiveness of this portfolio to property investors, highlighting the diversity of occupation and retail usage, the fact that 98% of the portfolio are let on long-term agreements with an average 13 years unexpired term and that over 90% of the assets are in primary or secondary locations. The average annual rent receivable in the portfolio is currently £53,000.

There are an increasing number of high quality properties in our estate which are operated as food-led pubs, where our income is already predominantly rent and our income from the supply of tied drinks is less significant. In such circumstances, we are prepared to release the tie unilaterally and negotiate rent-only terms which may include a turnover-related element. When we obtain vacant possession of such

properties, we will in future generally offer free-of-tie commercial lease agreements. Our expectation is that many of these properties will be assessed as high quality commercial properties.

We expect to grow the commercial property portfolio significantly in the future and it is our intention to operate these assets in such a way as to enable us to take advantage of the status of a Real Estate Investment Trust, were the Board to determine that such a structure delivers greatest value to shareholders.

Our commercial property business is also developing the capability to seek out property development opportunities from our estate, in particular taking advantage of under-utilised land, outbuildings and upper floors. Whilst we do not envisage establishing our own property development business we do see value in partnership arrangements with skilled experts in this market. We are likely to be able to provide a healthy pipeline of development opportunities where we could create significant value working with development partners.

d) Disposals where appropriate to optimise returns

With changing consumer behaviours and changes to local markets there will be pubs that become economically unviable and there will be pubs where a special purchaser may attribute enhanced economic value to an asset. In such circumstances we will dispose of the assets to optimise returns. This capital recycling is not a new strategy as we have effectively sold underperforming assets and re-invested the proceeds into the retained estate for many years. Crystallising value through disposal will remain a key component of our strategy.

We concur with the Government's own conclusions that the forthcoming legislative changes will lead to some pubs becoming unviable and others being unlikely to deliver the required returns to warrant further investment. We are conducting a comprehensive review of our entire estate to identify those pubs on long-term tied agreements where future investment returns and letting prospects are rendered unattractive by the prospect of an MRO trigger and we are therefore identifying the most appropriate means of realising shareholder value from these pubs, including the potential for disposal.

We have already identified pubs which are unlikely to deliver acceptable returns on capital employed in the medium-term and have revised our expectations of cash proceeds from disposals to be approximately £75 million in each of this financial year and the next. Thereafter we will continue our programme of capital recycling and expect the total estate to reduce to around 4,200 pubs by 2020.

4. Delivering our strategic plan

In an estate with over 5,000 lease and tenancy agreements being administered and operated at any one time, there are a significant number of events that take place every year at which time we have the opportunity to consider the appropriate operating model for each asset. These include the expiry of existing agreements and early surrender of agreements, such as at the time of a business failure.

There are also many events where we and our publicans are able to negotiate changes to existing agreements, such as at the time of rent reviews, agreement renewals or on occasions when we are willing to provide capital investment or financial support. The terms of individual agreements clearly specify the protections for tenants in such circumstances. However, we believe that the alternative operating models we have developed will provide a greater range of options for our publicans to consider at these events and a greater opportunity for us to optimise the performance of individual pubs to the benefit of the communities they serve as well as creating greater value for shareholders.

We have clear line of sight as to the timing of most of these events, so we are well placed to assess the optimum outcome for each asset well in advance of the relevant event and plan the transition of each asset from its current model into our preferred outcome in a phased approach to implementation of the Board's strategy.

In order to prepare for the execution of our new strategy, we have identified the core skills and resources that we require in commercial property, managed house retailing and the change management programme that we are undertaking, and have started to fill the appropriate roles as a priority. We are also continuing to add to our infrastructure in order to enable our plans.

Whilst the implementation of our strategic plan will be event-driven and dynamic our expectation is that the following profile of conversions to managed and commercial property assets will be delivered:

	September 2016	September 2018	September 2020
Number of managed pubs	100	400-500	750-850
Number of commercial properties	300	600-700	900-1,000

5. An enabling capital structure

Whilst our main focus has been the determination of an appropriate strategy for the long-term success of the business, we are mindful that our execution of the strategy should not be constrained by our capital structure.

We believe that our existing capital structure will be able to accommodate our strategic plans and we will engage with all stakeholders with a view to ensuring that our capital arrangements facilitate the most effective implementation of our strategic goals.

The total capital investment requirements for the business to deliver the initial stages of our strategy are £70 million for this financial year and £80 million in the following year. This total investment will be self-funded by the proceeds of planned asset disposals, recycling capital to deliver enhanced returns for shareholders. In future years, whilst the evolution of our business model will change the mix of capital expenditure, we do not envisage a material change in the annual level of investment and we are maintaining our current target hurdle rates for returns on investment.

6. Maximising value for shareholders

Over recent times we have stabilised the business and returned to like-for-like growth in net income and this has created the space and the environment in which to develop strategic options for the business, whilst at the same time preparing for the implementation of legislation governing the relationship between landlord companies and their tenants.

Our approach to the development of a new strategy for the business has been prudent, embracing the opportunity for change whilst at the same time utilising our core business capabilities in the leased and tenanted market, the underlying quality of our pubs operating in this model, our many publicans who run successful businesses and the local communities that they serve.

We are accelerating the pace and extent of delivery of our strategy in order to accommodate the implementation of new legislation and we have already recruited, or are in the process of recruiting, considerable expertise to support the delivery of alternative operating models, enhance our capability in commercial property and assist us to manage the process of change. Furthermore, in order to minimise complexity wherever possible, we are utilising the skills and resources of expert third parties to assist us on this journey.

By implementing this strategy, we aim to unlock the embedded value in every one of our assets, using the most appropriate operating model for each asset to secure the optimum level of income. Achieving sustained growth in net income from our portfolio of operating models will enhance free cash flow which will, in part, be used to satisfy scheduled debt amortisation. As well as continuing this transfer of value

from debt to equity, our strategy will provide the Board with more options with which to sustainably deliver value to shareholders.

FINANCIAL REVIEW

Income statement

We have delivered EBITDA before exceptional items of £144 million, down just £3 million compared to the prior year primarily due to the disposal programme.

Like-for-like net income, the primary component of our EBITDA, is derived from our rental income and our net income from the sale of beer and other products to our publicans. Adjusted for the effect of disposals we have seen our like-for-like net income grow to £178 million (2014: £177 million). In the first six months of the year our like-for-like net income from rents are in line with last year, primarily assisted by the reduction in business failures, whilst our net income from beer supply has grown by £1 million as pricing and mix benefits, net of discounts, have offset volume decline.

Pre-exceptional administrative costs in the first half are £17 million (2014: £17 million). As we recruit additional capability to assist in the delivery of our strategic objectives we will see our administrative costs increase. We expect current year pre-exceptional administrative costs to be in the region of £36 million. The expected introduction of a new Statutory Code of Practice during the next financial year will undoubtedly bring an additional administrative burden and associated costs which we estimate may be in the region of £2 million.

Pre-exceptional net finance costs of £79 million are £5 million lower than the comparative period as a result of our strategy of debt reduction.

Total pre-tax exceptional charges are £47 million (2014: £8 million) comprising a charge of £26 million (2014: nil) in respect of debt refinancing charges, £21 million (2014: £6 million) in respect of property charges and no other charges (2014: £2 million). The property charges are made up of £20 million (2014: £9 million) arising from the revaluation of assets on transfer to non-current assets held for sale and a £4 million (2014: £4 million) charge relating to goodwill allocated to disposals. These exceptional charges are partly offset by the profit on disposal of property, plant and equipment (before goodwill allocation) of £3 million (2014: £7 million).

Total tax in the period was a charge of £6 million (2014: £10 million), representing a charge of £12 million (2014: £12 million) on the pre-exceptional trading profit and a credit of £6 million (2014: £2 million) relating to the tax on exceptional items. The effective tax rate on the pre-exceptional trading profits arising in the period is 20.5% (2014: 21.5%), being our estimated effective tax rate for the full financial year.

Adjusted earnings per share (EPS) of 9.0p, was up 0.4p on the comparative period. Basic EPS was 0.9p compared to 7.4p in the prior year, primarily due to charges incurred in respect of debt refinancing.

Cash flow

Net cash flow from operating activities at £120 million (2014: £126 million), was down primarily due to an increased outflow from working capital which we expect to partially unwind in the second half of the year.

Net cash flows from investing activities generated £1 million in the year (2014: £1 million) as we broadly matched our capital investment of £33 million (2014: £41 million) to the net proceeds received from disposals of £34 million (2014: £42 million).

Financing cash flows primarily reflect interest paid of £77 million (2014: £84 million), the payment of £26 million (2014: £nil) of extinguishment costs in respect of the 2018 bond partial refinancing and net loan repayments of £21 million (2014: £68 million).

Balance sheet

Our balance sheet remains strong with a total net asset value of £1.4 billion, represented by £3.8 billion of property assets offset by net debt of £2.4 billion. The property asset valuation is based upon the valuation undertaken as at 30 September 2014. We have been advised by our external valuers that there is no market evidence to suggest that these property valuations would be materially different as at 31 March 2015. A revaluation of the property assets will be completed for the year end accounts as at 30 September 2015.

Capital structure

We have a long-term, secure, flexible and tax efficient financing structure comprising bank borrowings, securitised notes and corporate bonds. We are a cash generative business and have, over the past few years, used excess cash flows to reduce debt. During the first half of the current financial year we have used cash generated by the business to meet the scheduled amortisation of securitised notes leaving total net debt at £2.4 billion in line with total net debt at the beginning of the financial year. We expect to use cash generated in the second half of the year to further reduce total net debt.

Corporate and convertible bonds
As at 31 March 2015 we had £1,125 million (2014: £1,125 million) of secured corporate bonds outstanding which are non-amortising, secured against ring-fenced portfolios of freehold pubs and attracting fixed interest rates averaging approximately 6.5%.

On 7 October 2014 we completed a partial refinancing of our 2018 corporate bonds. The partial refinancing has resulted in a lower interest cost and an extended debt maturity. Prior to the refinancing, £600 million of 2018 corporate bonds were outstanding with a coupon of 6.5%. We received and accepted tender instructions for £249.5 million of these bonds at a cash purchase price of 108.75% of their principal amount. In connection with this partial refinancing we issued new £249.5 million secured corporate bonds due in October 2023 at a coupon of 6.0%, resulting in a reduction of the corporate bonds due in 2018 to £350.5 million. The new issue benefits from a security package on substantially the same terms as the 2018 bonds.

In addition to the corporate bonds, we have unsecured seven year convertible bonds that were issued in September 2013 for gross proceeds of £97 million. The convertible bonds have a coupon rate of 3.5% and are convertible at a share price of £1.91 into 50.8 million ordinary shares at any time up to 2020.

Bank borrowings
At 31 March 2015 our drawn bank borrowings net of Enterprise company cash were £69 million (2014: £79 million), up from the £46 million drawn as at 30 September 2014 primarily due to the cash cost incurred on the 2018 partial bond refinancing. Operational cash generated from the business has been used to meet the scheduled amortisation of securitised notes.

On 7 October 2014 we also replaced our bank facilities with a new £138 million non-amortising revolving credit facility which is available through to September 2018. This extends the maturity of our previous facility and also benefits from improved terms, simplified covenants and lower pricing with a new interest rate of 300 basis points above LIBOR.

Securitised bonds
During the period we have repaid, in accordance with scheduled amortisation £35 million of the Unique A3 and A4 securitised bonds, which leaves £1.2 billion outstanding at 31 March 2015. The bonds amortise over a period to 2032 and attract interest rates of between 5.7% and 7.4%. At 31 March 2015

the Group was £77 million ahead of the amortisation schedule of the “class A” securitised bonds through early repayment and market purchases.

BOARD CHANGES

As previously announced Marisa Cassoni was appointed as a new Non-Executive Director of the Board with effect from 1 April 2015 and will serve on the Audit, Nomination and Remuneration committees of the Board. Marisa is a qualified ICAEW chartered accountant and finance professional with 40 years of experience. She was previously Finance Director of the Post Office (subsequently Royal Mail), and between 2006 and 2012 she was Finance Director of the John Lewis Partnership. Marisa is currently a Non-Executive Director of AO World plc, Skipton Group Holdings Limited and The People’s Operator plc, where she chairs the Audit Committees; she also sat on the Economics Affairs Committee of the CBI and is currently a panel member of the Competition and Markets Authority.

We intend to issue a trading update on 6 August 2015.

W S Townsend
12 May 2015

Group Income Statement

	Notes	Unaudited Six months ended 31 March 2015			Unaudited Six months ended 31 March 2014			Audited Year ended 30 September 2014		
		Pre-exceptional items £m	**Exceptional items £m**	**Total £m**	Pre-exceptional items £m	Exceptional items £m	Total £m	Pre-exceptional items £m	Exceptional items £m	Total £m
Revenue		**302**	**-**	**302**	308	-	308	632	-	632
Cost of sales		**(141)**	**-**	**(141)**	(144)	-	(144)	(294)	-	(294)
Gross profit		**161**	**-**	**161**	164	-	164	338	-	338
Administrative expenses	3	**(17)**	**-**	**(17)**	(17)	(2)	(19)	(36)	(13)	(49)
EBITDA *		**144**	**-**	**144**	147	(2)	145	302	(13)	289
Depreciation and amortisation		**(8)**	**-**	**(8)**	(8)	-	(8)	(16)	-	(16)
Operating profit/(loss)		**136**	**-**	**136**	139	(2)	137	286	(13)	273
Profit on sale of property, plant and equipment		**-**	**3**	**3**	-	7	7	-	12	12
Goodwill allocated to disposals		**-**	**(4)**	**(4)**	-	(4)	(4)	-	(7)	(7)
Net (loss)/profit on sale of property, plant and equipment	4	**-**	**(1)**	**(1)**	-	3	3	-	5	5
Movements in valuation of pub estate and related assets	5	**-**	**(20)**	**(20)**	-	(9)	(9)	-	(75)	(75)
Finance costs	6	**(79)**	**(26)**	**(105)**	(84)	-	(84)	(165)	(2)	(167)
Profit/(loss) before tax		**57**	**(47)**	**10**	55	(8)	47	121	(85)	36
Taxation	7,8	**(12)**	**6**	**(6)**	(12)	2	(10)	(26)	20	(6)
Profit/(loss) after tax attributable to members of the Parent Company		**45**	**(41)**	**4**	43	(6)	37	95	(65)	30
Earnings per share	9									
Basic				**0.9p**			7.4p			5.9p
Basic diluted				**0.8p**			7.1p			5.8p
Adjusted^		**9.0p**			8.6p			19.0p		
Adjusted diluted^		**8.8p**			8.2p			18.6p		

* Earnings before interest, tax, depreciation and amortisation

^ Excludes exceptional items

Group Statement of Comprehensive Income

	Unaudited Six months ended 31 March 2015 £m	Unaudited Six months ended 31 March 2014 £m	Audited Year ended 30 September 2014 £m
Profit for the period	**4**	37	30
Items that will not be reclassified to the Income Statement:			
Unrealised deficit on revaluation of pub estate	**-**	-	(33)
Movement in deferred tax liability related to revaluation of pub estate	**-**	1	7
Revaluation of assets on transfer to non-current assets held for sale	**(1)**	(1)	(5)
Re-measurement of defined benefit pension scheme	**-**	-	(1)
Other comprehensive loss for the period net of tax	**(1)**	-	(32)
Total comprehensive income/(loss) for the period attributable to members of the Parent Company	**3**	37	(2)

Group Balance Sheet

	Unaudited 31 March 2015 £m	Unaudited 31 March 2014 £m	Audited 30 September 2014 £m
Non-current assets			
Goodwill	**334**	341	338
Intangible assets: operating lease premiums	**10**	10	10
Property, plant and equipment	**3,792**	3,939	3,834
	4,136	4,290	4,182
Current assets			
Trade and other receivables	**42**	51	39
Cash	**116**	113	123
	158	164	162
Non-current assets held for sale	**41**	24	30
Total assets	**4,335**	4,478	4,374
Current liabilities			
Trade and other payables	**(171)**	(166)	(179)
Current tax payable	**(7)**	(17)	(12)
Financial liabilities	**(72)**	(70)	(109)
Provisions	**-**	(6)	-
Pension	**(2)**	-	(3)
	(252)	(259)	(303)
Non-current liabilities			
Financial liabilities	**(2,431)**	(2,520)	(2,418)
Provisions	**(4)**	(4)	(4)
Current tax payable in more than one year	**-**	-	(2)
Deferred tax	**(236)**	(255)	(237)
Pension	**(7)**	-	(7)
	(2,678)	(2,779)	(2,668)
Total liabilities	**(2,930)**	(3,038)	(2,971)
Net assets	**1,405**	1,440	1,403
Equity			
Called up share capital	**14**	14	14
Share premium account	**486**	486	486
Revaluation reserve	**722**	752	723
Capital redemption reserve	**11**	11	11
Merger reserve	**77**	77	77
Treasury share reserve	**(227)**	(227)	(227)
Other reserve	**10**	6	8
Profit and loss account	**312**	321	311
Total equity	**1,405**	1,440	1,403

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 2014	**14**	**486**	**723**	**11**	**77**	**(227)**	**8**	**311**	**1,403**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4**	**4**
Other comprehensive loss	**-**	**-**	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**
Total comprehensive (loss)/income	**-**	**-**	**(1)**	**-**	**-**	**-**	**-**	**4**	**3**
Transfer of realised revaluation surplus	**-**	**-**	**(2)**	**-**	**-**	**-**	**-**	**2**	**-**
Transfer of deferred tax	**-**	**-**	**2**	**-**	**-**	**-**	**-**	**(2)**	**-**
Share option entitlements exercised in period	**-**	**-**	**-**	**-**	**-**	**-**	**4**	**(4)**	**-**
Share-based expense recognised in operating profit	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**
Purchase of shares to be held in trust	**-**	**-**	**-**	**-**	**-**	**-**	**(2)**	**-**	**(2)**
At 31 March 2015	**14**	**486**	**722**	**11**	**77**	**(227)**	**10**	**312**	**1,405**
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	-	-	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 2013	14	486	754	11	77	(227)	2	285	1,402
Profit for the year	-	-	-	-	-	-	-	30	30
Other comprehensive loss	-	-	(31)	-	-	-	-	(1)	(32)
Total comprehensive (loss)/income	-	-	(31)	-	-	-	-	29	(2)
Transfer of realised revaluation surplus	-	-	(6)	-	-	-	-	6	-
Transfer of deferred tax	-	-	6	-	-	-	-	(6)	-
Share-based expense recognised in operating profit	-	-	-	-	-	-	-	2	2
Share option entitlements exercised in the year	-	-	-	-	-	-	6	(5)	1
At 30 September 2014	14	486	723	11	77	(227)	8	311	1,403

Group Cash Flow Statement

	Unaudited Six months ended 31 March 2015 £m	Unaudited Six months ended 31 March 2014 £m	Audited Year ended 30 September 2014 £m
Cash flow from operating activities			
Operating profit	**136**	137	273
Depreciation and amortisation	**8**	8	16
Share-based expense recognised in profit	**1**	1	2
Pension settlement charge recognised in profit	**-**	-	10
(Increase)/decrease in receivables	**(3)**	(1)	9
Decrease in payables	**(8)**	(8)	(4)
Decrease in provisions	**-**	-	(7)
	134	137	299
Tax paid	**(14)**	(11)	(21)
Net cash flows from operating activities	**120**	126	278
Cash flows from investing activities			
Payments made on improvements to public houses	**(32)**	(40)	(64)
Payments to acquire other property, plant and equipment	**(1)**	(1)	(2)
Receipts from sale of property, plant and equipment	**34**	42	73
Net cash flows from investing activities	**1**	1	7
Cash flows from financing activities			
Interest paid	**(77)**	(84)	(167)
Receipts from exercise of share options	**-**	-	1
Repayment of finance lease creditor	**-**	-	(1)
Debt extinguishment costs	**(26)**	-	-
Issue costs of new debt	**(2)**	-	-
Payments to acquire own shares	**(2)**	-	-
New loans	**387**	50	140
Repayment of loans	**(408)**	(118)	(269)
Payments to acquire own debt	**-**	(6)	(10)
Net cash flows from financing activities	**(128)**	(158)	(306)
Net decrease in cash	**(7)**	(31)	(21)
Cash at start of period	**123**	144	144
Cash at end of period	**116**	113	123

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 2014 is extracted from the statutory accounts for that year which have been delivered to the Registrar of Companies, 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 2014 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 have been adopted since 30 September 2014:

- Amendment to IFRS 2: Share Based Payments – Definition of vesting conditions
- Amendment to IFRS 13: Fair Value Measurement – Short-term receivables and payables
- Amendment to IAS 24: Related Party Disclosures – Key management personnel
- Amendment to IAS 32: Financial Instruments: Presentation – Offsetting financial assets and financial liabilities
- IFRIC 21: Levies

The above amendments to the published standards have not had a material impact on the results or the financial position of the Group.

The Group currently 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.

The Directors have considered the impact of the Small Business, Enterprise and Employment Act which includes the introduction of a Statutory Code of Practice for the sector and a Market Rent Only option for certain leased pubs including the current anticipated timetable for implementation and the alternative actions available to the Enterprise Group in response to the legislation.

Based on the outcome of the above consideration the Directors 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 the principal risks and uncertainties section at the end of this report).

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 £nil (31 March 2014: £2 million, 30 September 2014: £13 million) has been incurred. The prior period charges relate to reorganisational costs, primarily costs associated with the retirement of the former Chief Executive Officer, a fundamental reorganisation of the Group's operations team and costs incurred in respect of one-off regulatory matters. The charge to 30 September 2014 also includes a charge of £10 million in relation to the future settlement of the defined benefit pension scheme.

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

	Unaudited Six months ended 31 March 2015 £m	Unaudited Six months ended 31 March 2014 £m	Audited Year ended 30 September 2014 £m
Profits on sale of property, plant and equipment	**5**	8	16
Losses on sale of property, plant and equipment	**(2)**	(1)	(4)
Profit on sale of property, plant and equipment	**3**	7	12
Goodwill allocated to disposals	**(4)**	(4)	(7)
Net (loss)/profit on sale of property, plant and equipment	**(1)**	3	5

During the period, 133 pubs (31 March 2014: 129 pubs, 30 September 2014: 230 pubs) and various other plots of land with a book value of £31 million (31 March 2014: £34 million, 30 September 2014: £61 million) were sold generating gross proceeds of £37 million (31 March 2014: £46 million, 30 September 2014: £80 million) which, after taking account of disposal costs, resulted in an overall profit of £3 million (31 March 2014: £7 million, 30 September 2014: £12 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 2014: £4 million, 30 September 2014: £7 million) has been allocated to the 133 pubs (31 March 2014: 129 pubs, 30 September 2014: 230 pubs) disposed of during the period.

5. Movements in valuation of pub estate and related assets

	Unaudited Six months ended 31 March 2015 £m	Unaudited Six months ended 31 March 2014 £m	Audited Year ended 30 September 2014 £m
Movements in property, plant and equipment from revaluation of pub estate	**-**	-	42
Revaluation of non-current assets held for sale	**20**	9	33
	20	9	75

In respect of assets revalued on transfer to non-current assets held for sale, a total net write-down of £21 million (31 March 2014: £10 million, 30 September 2014: £38 million) has been recorded. Of this net write-down, £1 million (31 March 2014: £1 million, 30 September 2014: £5 million) has been debited to Other Comprehensive Income and £20 million (31 March 2014: £9 million, 30 September 2014: £33 million) has been charged to the Income Statement as an exceptional item. At 31 March 2015, there are 127 pubs (31 March 2014: 87 pubs, 30 September 2014: 118 pubs) included within non-current assets held for sale which have been recorded at the lower of carrying value on transfer to non-current assets held for sale, as assessed at the time of transfer, and fair value less costs to sell.

Following discussions with our external valuers, corroborated by market evidence and after considering the potential effect of the MRO legislation, there is no indication that values recorded in property, plant and equipment in respect of the pub estate would be materially different as at 31 March 2015. A full valuation of the total pub estate is undertaken at the end of each financial year.

6. Exceptional finance costs

On 7 October 2014 the Group completed a partial refinancing of the 2018 corporate bonds. The partial refinancing has resulted in a lower interest cost and an extended debt maturity. Prior to the refinancing £600 million of 2018 corporate bonds were outstanding with a coupon of 6.5%. The Group received and accepted tender instructions for £249.5 million of these bonds at a cash purchase price of 108.75% of their principal amount. In connection with this partial refinancing the Group issued new £249.5 million secured corporate bonds due in October 2023 at a coupon of 6.0%, resulting in a reduction of the corporate bonds due in 2018 to £350.5 million. The new issue benefits from a security package on substantially the same terms as the 2018 bonds.

On 7 October 2014 the Group also replaced the bank facilities previously in place with a new £138 million non-amortising revolving credit facility which is available through to September 2018. This extends the maturity of the previous facility and also benefits from improved terms, simplified covenants and lower pricing with a new interest rate of 300 basis points above LIBOR.

The total cash outflow arising from the bank and bond refinancing was £28 million, being £22 million in respect of the repurchase premium on the extinguished bond, which has been charged as an exceptional item, and total fees and disbursements of £6 million, of which £4 million has been charged as an exceptional item and £2 million arising on the new bond has been deferred over the life of the new debt instruments.

The exceptional finance costs incurred in the prior year included interest accrued on tax provisions and finance arrangement fees written off following the Group's commitment to the new revolving credit facility.

7. Taxation

The pre-exceptional tax charge of £12 million (31 March 2014: £12 million, 30 September 2014: £26 million) equates to an effective tax rate of 20.5% (31 March 2014: 22.0%, 30 September 2014: 21.5%) which is estimated to be the tax rate for the year ending 30 September 2015. 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 changes in the liability are due to changes in 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 £6 million (31 March 2014: £2 million, 30 September 2014: £20 million) comprises the tax consequences of items recorded as exceptional items together with any impact of capital gains indexation relief, restrictions on the extent of any such relief and restrictions on the recognition of capital losses.

The UK Government reduced the rate of corporation tax from 21% to 20% effective from 1 April 2015. Deferred taxation has been calculated based on the current substantively enacted rate of 20%.

9. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to Ordinary Shareholders for the period divided by the weighted average number of equity shares in issue during the period after 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 divided by the weighted average number of equity shares in issue during the period after excluding shares held by trusts relating to employee share options and shares held in treasury.

For the period ended 31 March 2015, diluted earnings per share is based on the profit adjusted to remove the dilutive interest cost associated with the convertible bonds of £nil (31 March 2014: £2.5 million, 30 September 2014: £nil) divided by the weighted average number of equity shares in issue during the period adjusted for dilutive ordinary shares relating to share options and the convertible bonds. Where at 31 March 2015 the adjustment in relation to the convertible bonds is anti-dilutive to the calculation of basic diluted earnings per share it has not been included in the calculation of both basic diluted and adjusted diluted earnings per share. The 30 September 2014 basic diluted and adjusted diluted earnings per share have been amended on the same basis.

	Unaudited Six months ended 31 March 2015		Unaudited Six months ended 31 March 2014		Audited Year ended 30 September 2014	
	Earnings	**Per share amount**	Earnings	Per share amount	Earnings	Per share amount
	£m	**p**	£m	p	£m	p
Basic profit per share	**4.3**	**0.9**	37.2	7.4	29.7	5.9
Diluted profit per share	**4.3**	**0.8**	39.7	7.1	29.7	5.8
Adjusted profit per share	**45.0**	**9.0**	43.2	8.6	94.9	19.0
Adjusted diluted profit per share	**45.0**	**8.8**	45.7	8.2	94.9	18.6

	No. of shares m	No. of shares m	No. of shares m
Weighted average number of shares	**501.1**	499.8	500.5
Dilutive share options	**8.7**	9.6	9.7
Dilutive convertible bonds shares	**-**	50.8	-
Diluted weighted average number of shares	**509.8**	560.2	510.2

10. Additional cash flow information

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

	Unaudited Six months ended 31 March 2015 £m	Unaudited Six months ended 31 March 2014 £m	Audited Year ended 30 September 2014 £m
Decrease in cash in the period	**(7)**	(31)	(21)
Cash outflow from change in debt	**21**	74	139
Issue costs of new debt	**2**	-	-
Movement in finance lease payables	**-**	-	1
Change in net debt resulting from cash flows	**16**	43	119
Amortisation of issue costs and discounts/premiums on long-term loans	**(1)**	(1)	(4)
Amortisation of the fair value adjustments of securitised bonds	**3**	2	4
Convertible bonds effective interest	**(1)**	-	(2)
Movement in net debt in the period	**17**	44	117
Net debt at start of period	**(2,404)**	(2,521)	(2,521)
Net debt at end of period	**(2,387)**	(2,477)	(2,404)

b) Analysis of net debt

	Unaudited Six months ended 31 March 2015 £m	Unaudited Six months ended 31 March 2014 £m	Audited Year ended 30 September 2014 £m
Bank borrowings	**(95)**	(107)	(81)
Corporate bonds	**(1,222)**	(1,222)	(1,222)
Securitised bonds	**(1,186)**	(1,260)	(1,221)
Gross debt	**(2,503)**	(2,589)	(2,524)
Cash	**116**	113	123
Underlying net debt	**(2,387)**	(2,476)	(2,401)
Capitalised debt issue costs	**12**	14	11
Fair value adjustments on acquisition of bonds	**(27)**	(32)	(30)
Convertible bonds effective interest	**(3)**	-	(2)
Convertible bonds reserve	**21**	21	21
Finance lease payables	**(3)**	(4)	(3)
Net debt	**(2,387)**	(2,477)	(2,404)
Balance Sheet:			
Current financial liabilities	**(72)**	(70)	(109)
Non-current financial liabilities	**(2,431)**	(2,520)	(2,418)
Cash	**116**	113	123
Net debt	**(2,387)**	(2,477)	(2,404)

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.

11. Financial instruments

All financial assets and liabilities are carried at amortised cost. The fair values of all financial instruments are either equal to, or not materially different from their book values, with the exception of corporate bonds and securitised bonds. The book values and fair values of these financial instruments are summarised below:

	Unaudited Six months ended 31 March 2015		Unaudited Six months ended 31 March 2014		Audited Year ended 30 September 2014	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m	Book value £m	Fair value £m
Corporate bonds	**1,197**	**1,235**	1,197	1,266	1,197	1,289
Securitised bonds	**1,208**	**1,193**	1,286	1,241	1,246	1,256

12. Related party transactions

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

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

At 31 March 2015, the Group had entered into contractual commitments to purchase £7 million (31 March 2014: £7 million, 30 September 2014: £4 million) of property, plant and equipment.

14. 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 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 2014 with the exception of Marisa Cassoni who was appointed as a new Non-Executive Director on 1 April 2015.

By order of the Board

W S Townsend	**N R Smith**
Chief Executive Officer	Chief Financial Officer
11 May 2015	11 May 2015

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 2014 Annual Report and Accounts, however these have been updated to reflect events that have occurred since this report was published. 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:

Financial risks

The Group has a flexible financing structure comprising notes issued from the Unique securitisation (securitised notes), corporate bonds (Enterprise corporate bonds) and bank borrowings. The primary liquidity risk is the requirement to meet all on-going finance costs and repayments as well as to meet the financial covenants associated with the financing structure.

Mitigation process: The cash inflow required in the next twelve months to meet the funding needs is expected to be generated from the operating cash flow 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.

On 7 October 2014 the Group completed a partial refinancing which resulted in the bank borrowings being extended to 2018 and the balance of corporate bonds due for redemption in 2018 being reduced from £600 million to £350 million, the balance being moved out to 2023.

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 26 March 2015 the SBEE Bill received Royal Assent, which means that the Statutory Code of Practice including the MRO option are now enshrined in primary legislation. The exact detail of the regime will be implemented through secondary legislation, to be consulted upon and finalised by June 2016. Based upon the primary legislation we do not anticipate the Statutory Code element of the legislation to have a significant impact on the Group as it is expected to follow the current self-regulatory regime but with an independent Adjudicator. The MRO element of the Statutory Code is expected to have a more significant impact as publicans with protected agreements can request an MRO at specific trigger points within their agreement term. Therefore it is possible that total income, property valuations and the carrying value of goodwill could be adversely affected by this amendment.

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 impact of the MRO element of the Statutory Code is expected to be phased over the next five years as trigger events occur on individual leases. In addition to the phased impact, the Group is developing the necessary operational flexibility and capabilities to enable it to apply alternative operating models to the pubs in the estate. Whilst this will involve an element of execution risk, management believes that this will result in the Group having greater optionality in order to optimise returns from every asset in the property portfolio.

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 2015 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 (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 2015 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
11 May 2015