21 November 2006

Enterprise Inns plc
Preliminary announcement
For the financial year ending 30 September 2006

Enterprise Inns plc (Enterprise), the leading specialist operator of leased and tenanted pubs in the UK, today announces its results for the year ending 30 September 2006. These are the first full set of results reported under International Financial Reporting Standards (IFRS) and comparatives have been re-stated accordingly.

Results highlights

	2006	2005	Increase
EBITDA*	£547m	£528m	3.6%
Profit before tax and exceptional items	£315m	£290m	8.6%
Earnings per share	100.9p	61.0p	65.4%
Adjusted earnings per share +	68.3p	58.4p	17.0%
Dividends	27.0p	18.0p	50.0%

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

- Average EBITDA per pub has increased by 5.2% to £64,200.
- The quality of the pub estate has been improved through the acquisition and disposal of pubs and capital expenditure of £54 million.
- At 30 September 2006 the estate comprised 7,809 pubs valued at £5.4 billion.
- Cash generated after interest, tax, dividends and capital expenditure amounted to £107 million.
- At 30 September 2006 underlying net debt was £3,166 million, an increase of £45 million on the prior year.
- 42.3 million shares were repurchased during the year for consideration of £393 million (excluding costs).

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

"This has been another excellent year for the Enterprise Inns team, working together with our licensees to improve the quality and profitability of our pubs and once again delivering substantial growth in shareholder value. The new financial year has started well and we look forward to another year of solid progress."

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The investor presentation will be available on the company website at www.enterpriseinns.com on Tuesday 21 November 2006. A live recording of the presentation can be accessed at 9.30am GMT by dialling +44(0)20 7162 0125. A recorded version will be available from 12 noon GMT on +44(0)20 7031 4064 passcode 720623 (for European callers) or +1 954 334 0342 passcode 720623 (for US callers).

RESULTS

The year to 30 September 2006 has once again seen continued improvements in the quality and profitability of the Enterprise Inns (ETI) estate and further growth in shareholder value.

Group EBITDA before exceptional items increased to £547 million, equivalent to £64.2k per pub based upon the weighted average number of pubs (8,522) owned during the year, an increase of 5.2% in EBITDA per pub over the prior year. Profit before tax and exceptional items grew by 8.6% to £315 million and adjusted earnings per share increased by 17% to 68.3p.

For the second consecutive year, the Board is recommending a 50% increase in the rate of dividend paid to shareholders, giving a total for the year of 27.0p per share. Dividend cover based on adjusted EPS is 2.5 times, in line with the policy described a year ago. The final dividend of 18.0p per share will be payable on 22 January 2007 to shareholders on the register on 29 December 2006.

STRATEGY

The key strengths of the ETI business have been clarity and focus. From the day that the business was created in 1991, our two Mission Statements have remained unchanged: "to deliver long term sustainable growth in shareholder value" and "to be the leading specialist operator of leased and tenanted pubs in the UK".

This clarity of purpose and consistency of application has delivered excellent results over the years. Not only has our estate increased in size from the 368 pubs that we purchased in 1991 to the 7809 at 30 September 2006 but, more importantly, we have seen a continuous increase in the quality, profitability and sustainability of the pubs. This is reflected in average EBITDA per pub having increased from £19.7k in 1992 to £66.7k today.

We remain convinced that the leased and tenanted model, combining the entrepreneurial flair and commitment of independent licensees with the experience and financial strength of a major company, offers the best formula to create ongoing success in the pub industry of the future. We never cease to admire the ingenuity and professionalism of our licensees, whether it is their gritty determination in the tough times or outstanding innovation and flair in exciting times.

The clarity and simplicity of our operating model has also delivered outstanding returns to our shareholders, with Total Shareholder Return (TSR) of some 2640% over the eleven years since our flotation on the London Stock Exchange in 1995, compared to 147% for the FTSE All-Share over the same period.

This commitment to shareholder value underlies our current strategy of returning cash to shareholders through our ongoing share buy-back programme. We believe that prices paid for pubs in some recent corporate transactions may in time prove to be value destructive, particularly where the prices paid seem not to be driven by the long term quality and sustainability of the pubs but by the availability of large amounts of relatively cheap funding.

In such a market, we prefer to take the opportunity to sell pubs which do not fit in with our long term quality objectives and to use the strength of the financial markets to optimise the performance of our balance sheet for the benefit of our shareholders. It is of course possible that acquisition opportunities at a sensible price may become available, in which case we would review these in detail and pursue them with vigour if appropriate.

TEAM

Our strategy has been driven by a commitment throughout the organisation to integrity, simplicity and empowerment. These values have enabled ETI to expand rapidly through acquisition, effectively integrating large numbers of pubs into the organisation with minimum disruption. Rapid expansion does from time to time bring with it some inevitable inefficiencies and cultural differences and it has been particularly rewarding in the past twelve months to enjoy a period of stability where we were able to make some structural and organisational changes, not so much to reduce costs but primarily to streamline the business and improve the quality of support that we give to our licensees.

Ownership, commitment and reward are critical ingredients in the motivation and retention of key staff and we are delighted that 100% of senior managers at ETI have some form of interest in the ownership of the business, through direct share ownership, share options, Share Incentive Plans or the Save as you Earn scheme. Indeed, 90% of all employees who have been with ETI for two years or more have an interest in the shares of the company.

Shareholders will be aware from the interim statement that Gordon Harrison, Operations Director had decided to retire from the business at the end of September this year. The Board, in reiterating its thanks for his tremendous contribution wishes to record its appreciation of all that he has done for the Company over fifteen years.

ESTATE

The quality, value and profitability of the ETI estate have continued to improve during the year, reflecting our investment alongside licensees and astute acquisitions and disposals.

We invested £54 million of capital expenditure into the estate and, together with a similar level of expenditure by our licensees, have improved 1390 pubs, either through major schemes or minor refurbishments. Much of this expenditure has been focused on preparing our pub estate for the forthcoming ban on smoking, due to be introduced in Wales in April 2007 and England in July 2007. With 89% of our pubs having already developed outside trading areas and over 85% now offering food, we are confident that the majority of our licensees are well placed to benefit from the forthcoming ban which will, after all, make pubs more attractive to the significant majority of pub goers and current non - users who do not smoke.

We continued to improve the quality of the estate through churn, buying 95 excellent pubs for a total consideration of £80 million. Furthermore, we took advantage of a very strong market to sell those pubs which we had already identified as not fitting our quality and profitability profile for the future. During the year we sold 107 pubs in individual and small package transactions, generating proceeds of £48 million. In addition, in September 2006, we completed the sale of 769 pubs to Admiral Taverns for total consideration of £318 million. Our total disposal programme delivered a net profit, accounted for as an exceptional item in the accounts, of £67 million above book value.

This policy of investment and churn, plus an encouraging revaluation of 6.5% in the underlying value of the estate, has seen average EBITDA per pub increase to £66.7k for the 7809 pubs which we owned at 30 September 2006. The book value of the pub estate at the year end, valued on an individual pub by pub basis, was £5.4 billion, equivalent to an average value per pub of £685k. Our independent valuers advise us that the valuation would be some 15% higher if valuing the estate as a whole.

As part of our annual estates review, we form a view of the quality and sustainability of every pub in the estate. Although inevitably somewhat subjective, this process has provided a useful measure of the improving nature of the estate over time and we see strong correlations between pub quality and licensee profitability. It is very satisfying to see that both the average quality score and the quality profile of the estate have continued to improve over the year.

On 20 November 2006 we entered into a binding agreement for the sale of our entire Scottish estate of 137 pubs to Retail & Licensed Properties Limited for a consideration of £115 million, generating a profit over book value of £13 million. Whilst many of these pubs matched our normal retention criteria, this was a strategic sale reflecting our lack of critical mass in Scotland, a market that has many different characteristics to England and Wales and one where the leased and tenanted concept is not so well established.

LICENSEES

A top quality estate of pubs generates sustainable profits for shareholders and licensees alike and it is the link between the quality of our pubs, the profitability of our licensees and our operating profit which is critical to our long-term success. If we are to attract the best licensees, they must be able to see the opportunity to achieve appropriate rewards for their hard work and investment. This is not just a function of pub quality but also, against a backdrop of increasing costs and bureaucracy, of the essential fairness of the package that we offer, particularly the level of rent charged and the help and support that we give.

In what has been a year of rising costs for licensees, we are satisfied that we have maintained our commitment to fair rents and once again we are pleased that our estate leads the way in providing worthwhile returns for our hard working licensees. Based upon our annual review of the ETI estate, we estimate that the average level of licensee profitability in the 7809 pubs that we owned at 30 September 2006 has increased by 7% to £45,000. There is of course a benefit of estate churn in this average increase, but we nevertheless estimate that on a like for like basis, licensee profitability in our pubs has increased in line with inflation.

We are pleased that licensees recognise that the higher quality and profitability of our estate, together with the essential fairness of the package that we offer, gives them real opportunities to be successful. This is once again supported by improvements in key performance indicators:

- During the year we received more than 5,000 enquiries from licensees looking to take a pub with ETI, with more than 30% of these enquiries converting to formal applications.
- We have 995 fully funded, fully screened licensees in our applicant database.
- There have been 820 lease assignments during the year, at an average premium of £68k (£85k including licensee fixtures and fittings).
- Rent concessions at 30 September 2006 remained consistent at less than 0.4% of the rent roll.
- 1,317 rent reviews were completed during the year and these resulted in an average rental increase of 2.1% per annum. Just two rent reviews went to arbitration.
- Adjusted for changes to licensee trading terms where appropriate, average rental income per pub increased by 2.6%, broadly in line with inflation.
- Bad debt costs once again reduced and remain around 0.1% of turnover.

We do not expect the coming year to be materially easier for the on-trade and it is clear that poorer quality pubs will struggle, particularly if they are unable to create opportunities from the forthcoming ban on smoking. Nevertheless, we are confident that our constant pursuit of quality, and the related improvements in potential licensee profitability, will once again ensure that the majority of our pubs continue to gain market share and to prosper.

SHARE BUY BACK PROGRAMME

Last year we announced our intention to commence a rolling share buy-back programme to return surplus cash to shareholders and to ensure that the balance sheet remains efficient. Market purchases totalling 42.3 million of our ordinary shares were made for an aggregate consideration of £393m (excluding costs) which, together with £70m of dividends paid, resulted in a total of £463m being returned to shareholders in the year. In the absence of material pub acquisitions and subject to overall market conditions and shareholder approval, we expect that at least this level of returns will be made in the year to 30 September 2007. Indeed, since the year end we have purchased a further 6.0 million shares at a cost of £65m.

FINANCIAL STRUCTURE

Cash inflow

Free cash inflow during the year amounted to £107 million, based on operating cash inflow and after deduction of mandatory payments in respect of interest and tax and discretionary payments in respect of capital expenditure and dividends.

In addition, net receipts from the purchase and sale of pubs in the year amounted to £282 million, which included cash receipts of £316 million in respect of the sale of 769 pubs to Admiral Taverns.

Debt facilities

In May, the Group agreed a refinancing of its syndicated debt facilities at attractive rates, increasing these facilities from £490 million to £1 billion. At the end of the financial year £575 million was available for drawdown. The Group has a flexible financial structure comprising these syndicated debt facilities, a portfolio of corporate bonds and the Unique securitisation.

At 30 September 2006 underlying net debt was £3,166 million, similar to the level of £3,121 million at the start of the year. Underlying net debt represents amounts repayable to banks and other lenders net of cash retained in the business.

Financial leverage

The Board's policy is to maintain efficient leverage of the balance sheet in the context of the level of profit generated and the valuation of the pub estate.

The two key metrics used to measure financial leverage are interest cover based on EBITDA and the ratio of debt to EBITDA. Based on the current financing structure, the Board considers optimal leverage ratios for the Group as a whole to be around 2.2 times interest cover and approximately 6.6 times debt to EBITDA. At the end of the financial year interest cover was 2.4 times and underlying net debt to EBITDA was 5.8 times. There is therefore scope to increase leverage, providing significant headroom for continuing the share buy-back programme or for acquisitions should the opportunity arise.

Balance sheet

The net assets of the Group at year-end were £1,676 million which compares with £1,573 million as at 30 September 2005.

The book value of the pub estate at year-end was £5.4 billion, which included a cumulative revaluation surplus of £845 million.

Tax charge

The tax charge of £90 million represents 22% of profit before tax. The pre-exceptional tax charge of £95 million equates to 30% of profit before tax and exceptional items.

The £5m exceptional tax credit comprises a credit of £34m in relation to indexation on the tax base cost of certain properties together with a tax charge of £29m which primarily relates to the movement in fair value of swaps and profit on sale of property, plant and equipment.

Cash outflow in respect of tax during the year was £69 million and represents 22% of profit before tax and exceptional items.

Exceptional items
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. Exceptional items are generally those which the Board does not consider to be part of the core operations of the Group. As a result, the Group focuses on 'pre-exceptional' performance measures in order to compare underlying performance year on year.

The most significant exceptional items in the year are the profit on disposal of property, plant and equipment of £67 million and the movement in fair value of interest rate swaps of £40 million. The profit on disposal is highlighted as exceptional as it is not considered to be part of the core business of the Group. The profit of £67 million includes £51 million of profit arising on the batch disposal to Admiral Taverns. The movement in fair value of interest rate swaps is classified as exceptional as it is a non-cash item which is driven by factors outside of the control of the Group. The valuation of interest rate swaps in the year has led to a £40 million credit in 2006 compared to a £20 million charge in the previous year. This volatility is largely due to changes in forecast interest rates which have increased this year, reducing the forecast cost of maintaining the swaps.

INTERNATIONAL FINANCIAL REPORTING STANDARDS
The new International Financial Reporting Standards (IFRS) apply for our 2005/6 financial year, with our Group accounts presented accordingly. The restated financial results under IFRS for the year ended 30 September 2005 and the 6 months ended 31 March 2005 were published in May 2006.

REAL ESTATE INVESTMENT TRUSTS (REITs)
We continue to monitor the potential for creating shareholder value that REITs may offer. Detailed legislation has now been issued, albeit subject to further guidance notes and the ability of government to change the rules without reference to further legislation. We therefore continue to review with our advisers the costs, benefits and risks of structuring the Group to take advantage of this potentially favourable tax regime and the potential increase in long term shareholder value that would result from any change.

INDUSTRY ISSUES
Licensing reform
These results reflect almost a full year of trading under the new, more flexible licensing regime introduced in November 2005. Despite some early problems caused primarily by lack of clarity in the detail of the legislation, the system has now settled down and can be seen as broadly positive. Although the additional trading hours have had only a minimal effect on pub profitability, the increased flexibility in opening hours has benefited the consumer and helped to reduce alcohol related disorder. We share the government's determination to tackle irresponsible drinking and continue to work hard with our colleagues in the on-trade to tackle underage drinking and irresponsible promotions.

Ban on smoking in pubs
Our experiences in Scotland, where the ban on smoking was introduced in April this year, confirmed that good quality pubs continued to perform well, particularly where licensees had prepared for the ban, taking advantage of available outside areas and developing their pub to reflect the changed circumstances.

The smoking ban will become effective in Wales and in England in April and July 2007 respectively and we are confident that our licensees are in a position to make the most of this evolution in pub going.

CONCLUSION AND OUTLOOK
This has been another exciting year for ETI, working alongside our licensees to grow market share and profitability. The team has once again delivered substantial growth in earnings and dividends and we have made excellent progress with our ongoing share buy back programme. The new financial year has started well and we look forward to our pubs continuing to perform ahead of the market and to the team delivering further solid growth in shareholder value.

Group Income Statement
For the year ended 30 September 2006

	Notes	**2006** Pre-exceptional items	**2006** Exceptional items	**2006** Total	2005 re-stated # Pre-exceptional items	2005 re-stated # Exceptional items	2005 re-stated # Total
		£m	**£m**	**£m**	£m	£m	£m
Revenue		**970**	**-**	**970**	952	-	952
Cost of sales		**(387)**	**-**	**(387)**	(385)	-	(385)
Gross profit		**583**	**-**	**583**	567	-	567
Administrative expenses		**(36)**	**(2)**	**(38)**	(39)	-	(39)
EBITDA +		**547**	**(2)**	**545**	528	-	528
Depreciation and amortisation		**(8)**	**-**	**(8)**	(10)	-	(10)
Operating profit		**539**	**(2)**	**537**	518	-	518
Net profit on sale of property, plant and equipment		**-**	**67**	**67**	-	14	14
Movements from revaluation of pub estate		**-**	**(2)**	**(2)**	-	(4)	(4)
Interest receivable		**6**	**-**	**6**	9	-	9
Interest payable		**(230)**	**-**	**(230)**	(237)	-	(237)
Write off of unamortised issue costs		**-**	**(3)**	**(3)**	-	(5)	(5)
Movement in fair value of interest rate swaps		**-**	**40**	**40**	-	(20)	(20)
Total finance costs		**(230)**	**37**	**(193)**	(237)	(25)	(262)
Profit before tax		**315**	**100**	**415**	290	(15)	275
Taxation	4	**(95)**	**5**	**(90)**	(90)	24	(66)
Profit after tax and attributable to members of the parent company		**220**	**105**	**325**	200	9	209
Earnings per Share							
Basic	5			**100.9p**			61.0p
Diluted	5			**100.1p**			60.3p
Adjusted *	5	**68.3p**			58.4p		
Adjusted diluted *	5	**67.8p**			57.7p		
Dividends	6						
Dividends paid per share in respect of the year				**9.0p**			5.6p
Dividends proposed per share in respect of the year				**18.0p**			12.4p
				27.0p			18.0p

see note 2

+ Earnings before interest, tax, depreciation and amortisation

* Excludes exceptional items

Group Statement of Recognised Income and Expense
For the year ended 30 September 2006

	2006 £m	Re-stated # 2005 £m
Unrealised surplus on revaluation of licensed estate	**323**	273
Movement in deferred tax liability related to revaluation of licensed estate	**(91)**	(74)
Deferred tax related to share schemes recognised directly in equity	**5**	7
Write down of non-current assets held for sale (see note 2)	**-**	(4)
Actuarial gain on defined benefit pension scheme	**-**	1
Net income recognised directly in equity	**237**	203
Profit for the year	**325**	209
Total recognised income and expense for the year attributable to members of the parent company	**562**	412

see note 2

Group Balance Sheet
At 30 September 2006

	2006 £m	Re-stated # 2005 £m
Non-current assets		
Goodwill	**417**	417
Investments	**2**	-
Intangible assets: operating lease premiums	**24**	27
Property, plant and equipment	**5,343**	5,157
Financial assets	**1**	-
	5,787	5,601
Current assets		
Assets held for sale	**6**	7
Trade and other receivables	**94**	81
Cash	**111**	96
Financial assets	**1**	-
	212	184
Non-current assets held for sale	**10**	36
Total assets	**6,009**	5,821
Current liabilities		
Trade and other payables	**(210)**	(217)
Current tax payable	**(52)**	(46)
Financial liabilities	**(54)**	(122)
Provisions	**(1)**	(1)
	(317)	(386)
Non-current liabilities		
Financial liabilities	**(3,316)**	(3,260)
Accruals and deferred income	**(4)**	(5)
Provisions	**(4)**	(7)
Deferred tax	**(692)**	(590)
	(4,016)	(3,862)
Total liabilities	**(4,333)**	(4,248)
Net Assets	**1,676**	1,573
Equity		
Called up share capital	**16**	17
Share premium account	**486**	486
Revaluation reserve	**845**	667
Capital redemption reserve	**9**	8
Merger reserve	**77**	77
Treasury share reserve	**(227)**	-
Other reserve	**(42)**	(56)
Profit and loss account	**512**	374
Enterprise Inns shareholders' equity	**1,676**	1,573

see note 2

Group Cash Flow Statement
For the year ended 30 September 2006

	2006 £m	2005 £m
Cash flow from operating activities		
Operating profit	**537**	518
Depreciation and amortisation	**8**	10
Share-based expense recognised in profit	**3**	3
(Increase)/decrease in receivables	**(10)**	5
Decrease in payables	**(2)**	(12)
(Decrease)/increase in provisions	**(3)**	2
Decrease/(increase) in current assets held for sale	**1**	(2)
	534	524
Tax paid	**(69)**	(53)
Net cash flows from operating activities	**465**	471
Cash flows from investing activities		
Payments to acquire public houses	**(80)**	(14)
Payments made on improvements to public houses	**(54)**	(49)
Payments to acquire other property, plant and equipment	**(7)**	(1)
Receipts from sale of property, plant and equipment	**362**	47
Net cash flows from investing activities	**221**	(17)
Cash flows from financing activities		
Interest paid	**(234)**	(244)
Interest received	**7**	9
Issue costs of long-term loans	**(4)**	(2)
Equity dividends paid	**(70)**	(48)
Payments to acquire shares held in employee benefit trust	**(17)**	(23)
Payments to acquire own shares	**(388)**	-
Receipts from exercise of share options	**5**	3
Re-structuring of interest rate swaps	**(30)**	-
Debt due beyond one year		
– new long term loans	**602**	771
– repayment of long term loans	**(542)**	(971)
Net cash flows from financing activities	**(671)**	(505)
Net increase/(decrease) in cash	**15**	(51)
Cash at 1 October	**96**	147
Cash at 30 September	**111**	96

Notes

1. Status of information

The financial information contained within this announcement does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The figures for the year ended 30 September 2005 have been derived from the UK GAAP statutory accounts, which have been filed with the registrar of companies and on which the auditors gave an unqualified opinion, as restated to comply with International Financial Reporting Standards (IFRS).

2. Accounting policies and basis of preparation

With effect from 1 October 2005, Enterprise Inns plc moved to reporting its Group financial results in accordance with IFRS as required by European Union Law. These results have therefore been prepared in accordance with IFRS. The results for prior periods have been re-stated using IFRS so that proper comparison can be made with the results for the current period.

The Group's IFRS accounting policies along with reconciliations of the results for the periods to 31 March 2005 and 30 September 2005 from UK GAAP into IFRS were published on 4 May 2006. The document 'Re-statement of financial information under International Financial Reporting Standards' is available on the company's website at http://www.enterpriseinns.com/investor_zone/

Since the publication of the 'Restatement of Financial Information under IFRS' released in May 2006, the Group has amended the 2005 Income Statement and Balance Sheet in respect of the application of IFRS 5 'Non-current assets held for sale and discontinued operations'. This amendment relates to the treatment of the write-down of property on classification as 'held for sale' under IFRS 5. The write down to fair value less costs to sell is first recognised in the Revaluation Reserve, to the extent of any existing surplus for the asset. It is then recognised in the Income Statement within the line 'movements from revaluation of pub estate'. Previously, the entire write down was recognised in the Income Statement within the line 'Net profit on sale of property, plant and equipment'. The impact of this amendment is as follows:

- Net profit on sale of property has been increased by £11 million being the amount previously recognised on write down of pubs identified for sale.
- The first £4 million of these write downs has been recognised in the Revaluation Reserve against surpluses that existed for the individual pubs concerned.
- The remaining £7 million of write downs has been recognised within the line 'movement from revaluation of pub estate', reducing the previously reported credit to a £4 million charge.
- Profit before tax has been increased by £4 million, being the combination of the amendments above
- The tax credit within exceptional items as been reduced by £1 million being the deferred tax impact of the amendments made.
- Profit after tax is therefore increased by £3 million being the post-tax impact of the amendments made.

In addition to the above amendment, the 2005 Balance Sheet has been reclassified in respect of the application of IAS 1 'Presentation of financial statements' and IAS 39 'Financial instruments: recognition and measurement'. The interaction of these two standards means that all derivatives that are not part of a designated and effective hedging relationship should be classified as current assets or liabilities. The Group has therefore re-classified the fair value of all interest swaps as current liabilities in 2005. Previously, the fair value of the swaps was allocated between 'current' and 'non-current' liabilities. £86m of fair value was previously classified as non-current and this amount has therefore been re-classified as current.

3. Exceptional items

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 include the following:

Exceptional administrative costs
The exceptional item shown within administrative costs relates to restructuring costs.

Net profit on sale of property
Net profit arising from the sale of property, plant and equipment.

Movements from revaluation of pub estate
Under IFRS any revaluation that causes the book value of a pub to fall below historic cost will lead to a charge in the Income Statement. If that same pub later recovers in value so that its book value exceeds historic cost, the increase in value is credited to the Income Statement to the extent that a debit was previously recognised. Where pubs identified for disposal are written down to 'fair value less costs to sell', this write down is also recognised in this line. Most of the impact of the annual revaluation exercise is accounted for in equity and recognised in the Statement of Recognised Income and Expense.

Movement in fair value of interest rate swaps
Under IFRS the interest rate swaps are re-valued to fair value at each Balance Sheet date and the movement is recognised in the Income Statement unless hedge accounting is adopted. The movement in the fair value of swaps where hedge accounting is not applied is shown as an exceptional item

Tax
Under IFRS, a deferred tax liability has been recognised on the balance sheet relating to the pub estate. On transition to IFRS, the Group elected to apply IFRS 3 retrospectively to acquisitions from 1 January 1999. This led to an increase in goodwill in respect of this deferred tax. As this pre-acquisition liability reduces due to capital gains indexation relief, a credit is recognised in the Income Statement. This credit of £34m has been classified as an exceptional item. All other movements in respect of this deferred tax liability are accounted for in equity and recognised in the Statement of Recognised Income and Expense.

The tax charge relating to other exceptional items of £29m is also included in exceptional items. The total exceptional tax credit is therefore £5m.

4. Taxation

The pre-exceptional tax charge of £95m for the year equates to an effective tax rate of 30.2%. This effective tax rate does not include the effect of exceptional items.

	2006			2005 re-stated #		
	Pre-exceptional items	**Exceptional items**	**Total**	Pre-exceptional items	Exceptional items	Total
	£m	**£m**	**£m**	£m	£m	£m
Current tax	**79**	**(1)**	**78**	71	(1)	70
Deferred tax	**16**	**(4)**	**12**	19	(23)	(4)
Total	**95**	**(5)**	**90**	90	(24)	66

see note 2

5. Earnings per Ordinary Share

The calculation of basic earnings per ordinary share is based on earnings of £325m (2005: £209m) and on 322.1million (2005: 342.4 million) shares being the weighted average number of equity shares in issue during the year 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 adjusted for the effects of exceptional items, net of tax, of £220m (2005: £200m) and on 322.1 million (2005: 342.4 million) shares being the weighted average number of equity shares in issue during the year after excluding shares held by trusts relating to employee share options and shares held in treasury.

Diluted earnings per share is based on profit for the year of £325m (2005: £209m) and adjusted profit of £220m (2005: £200m) and on 324.7 million (2005: 346.6 million) ordinary shares being the weighted average number of equity shares in issue during the year adjusted for dilutive ordinary shares relating to employee share options.

6. Dividends

	2006	2005
Paid during the year	**£m**	£m
Equity dividends on ordinary shares:		
Final dividend relating to prior year 12.4 pence (2005 - 8.4 pence)	**42**	29
Interim dividend for current year 9.0p (2005 - 5.6 pence)	**28**	19
	70	48
Proposed for approval by shareholders at the AGM		
Final dividend for current year 18.0 pence (2005 - 12.4 pence)	**54**	42

Proposed dividends are not accounted for until they are approved at the AGM. The final dividend of 18.0 pence per share will be paid on 22 January 2007 to members on the register on 29 December 2006.

7. Proposed share split

The Company will be seeking shareholder approval at the Annual General Meeting on 16 January 2007 for the subdivision of each ordinary share of 5 pence (issued and un-issued) into two ordinary shares of 2.5 pence. If approved, this share split will be implemented as soon as practicable after the Annual General Meeting. The directors believe that this share split should be attractive to shareholders by improving liquidity in the Company's shares.

8. Statement of changes in equity

	2006 £m	Re-stated # 2005 £m
Total equity at start of year	**1,573**	1,240
Total recognised income and expense for the year	**562**	412
Equity dividends paid	**(70)**	(48)
Consideration paid for purchase of own shares	**(230)**	-
Purchase of shares to be held in trust	**-**	(37)
Cancellation of ordinary shares	**(166)**	-
Employee share option entitlements exercised in the year	**4**	3
Share-based expense recognised in operating profit	**3**	3
Total equity at end of year	**1,676**	1,573

see note 2

Note – the cost of the shares re-purchased during the year was £393m and in addition £3m of costs were incurred. Of this total, £388m was paid in cash which can be seen in the cash flow statement. The remaining £8m was accrued at the year end as the shares had been re-purchased but the cash was not yet paid at 30 September.

9. Events after the balance sheet date

On 20 November 2006 the Group entered into a binding agreement to sell its entire Scottish estate of 137 pubs to Retail & Licensed Properties Limited for consideration of £115m.

10. Additional cash flow information

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

	2006 £m	2005 £m
Increase/(decrease) in cash in the year	**15**	(51)
Cash (inflow)/outflow from change in debt	**(30)**	200
Issue costs of new long term loans	**4**	2
Change in net debt resulting from cash flows	**(11)**	151
Amortisation of issue costs and discounts/premiums on long-term loans	**(7)**	(4)
Amortisation of securitised bonds	**10**	5
Change in fair value of interest rate swaps	**40**	(20)
Write off of unamortised issue costs	**(3)**	(5)
Movement in net debt in the year	**29**	127
Net debt at start of year	**(3,286)**	(3,413)
Net debt at end of year	**(3,257)**	(3,286)

b) Analysis of net debt

	2006 £m	2005 £m
Corporate bonds	**(1,185)**	(1,185)
Syndicated bank borrowings	**(425)**	(260)
Securitised bonds	**(1,667)**	(1,772)
Gross debt	**(3,277)**	(3,217)
Cash	**111**	96
Underlying net debt	**(3,166)**	(3,121)
Capitalised debt issue costs	**20**	27
Fair value adjustments on acquisition of bonds	**(67)**	(77)
Fair value of interest rate swaps	**(39)**	(109)
Finance lease payables	**(5)**	(6)
Net debt	**(3,257)**	(3,286)
Balance sheet:		
Current financial assets	**1**	-
Non-current financial assets	**1**	-
Current financial liabilities	**(54)**	(122)
Non-current financial liabilities	**(3,316)**	(3,260)
Cash	**111**	96
Net debt	**(3,257)**	(3,286)

Underlying net debt represents amounts repayable to banks and other lenders net of cash retained in the business.