

Enterprise Inns plc

Interim Report 2004

for the six months ended 31 March 2004



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Interim Results Highlights

- Operating profit before exceptionals £149.7 million
(2003: £142.6 million) **Up 5%**
- Profit before tax and exceptionals £93.7 million
(2003: £81.1 million) **Up 16%**
- Adjusted earnings per share 19.5 pence (2003: 17.0 pence)*
Up 15%
- Interim dividend of 3.6 pence (2003: 2.85 pence)* **Up 26%**
- Average operating profit per pub in core estate **Up 9%**
- These results include operating profit of £19.0 million in respect of the Group's 16.8% share in The Unique Pub Company Limited. The acquisition of the balance of the equity not already owned was completed on 31 March 2004.

* For the comparative period, earnings and dividend per share have been restated for the subdivision of shares, from 10p per share to 5p per share, on 23 January 2004.

Chairman's Interim Statement

I am delighted to report on our interim results for the six months to 31 March 2004, which reflect continuing improvements in the quality and profitability of our core estate and a strong performance from The Unique Pub Company Limited (Unique). At the AGM of the Company held on 22 January 2004, shareholders approved the subdivision of each of the ordinary shares of 10 pence into two new ordinary shares of 5 pence each. The interim results have therefore been adjusted to reflect this share split where appropriate.

The acquisition of the balance of the equity in Unique which we did not already own (the Call Option) was completed on 31 March 2004. Consequently, our results for the period include our 16.8% share of Unique's profits, accounted for as an associate company.

Total operating profit in the period increased by 5% over the prior year to £149.7 million and profit before tax and exceptional items rose by 16% to £93.7 million. Adjusted earnings per share increased by 15% to 19.5 pence per share.

The directors intend to pay an interim dividend of 3.6 pence per share on 2 July 2004 to shareholders on the register of members on 4 June 2004. The directors consider that this dividend, which represents an increase of 26% over the prior year, is appropriate given the Company's strong and stable cash flows and high level of dividend cover.

The Company has continued to enhance the quality and profitability of its core estate, through investment, acquisitions and disposals. During the period the Company incurred capital expenditure of £15.7 million in the estate, investing alongside licensees to improve the potential of their pub businesses. Furthermore, 13 top quality individual pubs were purchased at a cost of £7.7 million and 116 poorer performing pubs, surplus land and outlets with high alternative-use value were sold for a total of £20.1 million.

As a result of underlying core growth, augmented by investment and estate churn, average operating profit per pub in our core estate, which averaged 5,036 pubs during the period, increased by 9% over the prior year.

Following the exercise of the Call Option our total estate at 31 March 2004 comprised 9,038 pubs, 4,054 from Unique and 4,984 from Enterprise.

The assets and liabilities of Unique have been consolidated into the balance sheet of the enlarged Enterprise Group at 31 March 2004. We have reviewed the fair value of the non-pub assets and liabilities and incorporated these into the Group Balance Sheet, resulting in initial goodwill of £44.8 million. A full valuation of the Unique pub estate will be carried out at 30 September 2004 and the impact on the value of goodwill will be incorporated into the accounts for the full year.

On 14 April 2004, the Group completed the sale of 239 pubs to Admiral Taverns Limited, realising proceeds of £61.0 million, net of disposal costs, which was in line

Chairman's Interim Statement (continued)

with book value. This sale, which included pubs from both the Enterprise and Unique estates, was undertaken to reduce the number of pubs owned by the Group to no more than 25% of the total number of pubs in any Petty Sessional Division (PSD).

On 30 April 2004, the Group made a submission to the Office of Fair Trading (OFT) in relation to the acquisition of Unique. The OFT's practice in similar transactions has been not to refer mergers to the Competition Commission where the merged companies do not reach the 25% threshold of pubs in any PSD. Hence, Enterprise believes that the sale to Admiral Taverns will make it unlikely that the OFT will consider it necessary to refer the acquisition of Unique to the Competition Commission.

On 6 May 2004, the House of Commons Trade and Industry Select Committee announced that it is to carry out an inquiry into the relationship between pub companies and their tenants and requested written evidence on a number of specific commercial issues.

Enterprise will naturally give the Committee a full response to its questions but is surprised that widely practised commercial arrangements that have been upheld in both UK and European Courts and by the UK Competition Authorities should again be the subject of an inquiry.

These are strong interim results and reflect our continuing success in developing a high quality leased and tenanted pub estate. Key to this success is our ability to attract and retain the committed, entrepreneurial licensees who are at the heart of every successful pub. To this end we remain committed to charging rents which are fair and to offering a wide range of products, training and business support to reinforce the profit opportunity for our licensee partners.

The priority for the Group over the next twelve months is the successful integration of the Unique business which is already well advanced with the support and co-operation of the Unique team. Performance of the Group to date in the second half of the year has continued strongly and the Board anticipates being able to report another year of solid progress.

H V Reid
Chairman

Summarised Consolidated Profit and Loss Account

	Notes	Unaudited Six months ended 31 March 2004		Total £m
		Continuing Operations £m	Share of Associate £m	
Turnover		240.3	—	240.3
Group operating profit		130.7	—	130.7
Share of operating profit from associated undertakings		—	19.0	19.0
Total operating profit		130.7	19.0	149.7
Exceptional items:				
Net profit/(loss) on disposal of tangible fixed assets		0.2	0.1	0.3
		130.9	19.1	150.0
Net interest payable		(42.3)	(13.7)	(56.0)
Exceptional interest payable and similar charges		(4.6)	—	(4.6)
Profit on ordinary activities before taxation		84.0	5.4	89.4
Taxation	3	(25.9)	(1.6)	(27.5)
Profit attributable to members of the parent company		58.1	3.8	61.9
Dividend on equity shares	4			(12.5)
Retained profit for the period				49.4
Earnings per share*				
— basic	5			18.2p
— adjusted†	5			19.5p
— diluted	5			18.0p

* For the comparative periods, Earnings Per Share has been restated for the sub-division of shares, from 10 pence per share to 5 pence per share, on 23 January 2004.

† Adjusted Earnings Per Share excludes exceptional items, goodwill amortisation and a one-off tax credit which occurred in 2003.

Unaudited Six months ended 31 March 2003			Audited Year ended 30 September 2003		
Continuing Operations £m	Share of Associate £m	Total £m	Continuing Operations £m	Share of Associate £m	Total £m
234.0	—	234.0	480.6	—	480.6
124.5	—	124.5	254.2	—	254.2
—	18.1	18.1	—	39.0	39.0
124.5	18.1	142.6	254.2	39.0	293.2
(0.2)	0.3	0.1	0.1	(0.2)	(0.1)
124.3 (47.1)	18.4 (14.4)	142.7 (61.5)	254.3 (92.0)	38.8 (28.0)	293.1 (120.0)
—	(0.2)	(0.2)	—	—	—
77.2 (21.7)	3.8 (1.1)	81.0 (22.8)	162.3 (45.6)	10.8 (3.0)	173.1 (48.6)
55.5	2.7	58.2	116.7	7.8	124.5
		(9.6)			(29.0)
		48.6			95.5
		17.2p			36.8p
		17.0p			36.1p
		17.1p			36.5p

Consolidated Statement of Total Recognised Gains and Losses

	Unaudited six months ended 31 March 2004 £m	Unaudited six months ended 31 March 2003 £m	Audited year ended 30 September 2003 £m
Profit for the period excluding share of associated undertakings	58.1	55.5	116.7
Share of profit in associated undertakings	3.8	2.7	7.8
Profit for the period attributable to members of the parent company	61.9	58.2	124.5
Unrealised surplus on revaluation of licensed estate	—	—	283.5
Share of unrealised surplus on revaluation of licensed estate in associate	—	—	9.6
Share of actuarial loss recognised in the defined benefit pension scheme of associate	—	—	(0.4)
Total recognised gains and losses relating to the period	61.9	58.2	417.2

Reconciliation of Movements in Shareholders' Funds

	Unaudited six months ended 31 March 2004 £m	Unaudited six months ended 31 March 2003* £m	Audited year ended 30 September 2003* £m
Total recognised gains and losses	61.9	58.2	417.2
Dividends	(12.5)	(9.6)	(29.0)
New share capital subscribed	49.4	48.6	388.2
Premium on issue of shares	0.5	—	—
Cost of shares issued through the Quest sharesave scheme	50.5	0.3	2.5
Movement on treasury shares net of provision	—	(0.7)	(1.9)
Net addition to shareholders' funds	0.7	(0.4)	(0.9)
Opening shareholders' funds	101.1	47.8	387.9
Closing shareholders' funds	1,081.4	693.5	693.5
	1,182.5	741.3	1,081.4

* Restated for the change in accounting policy as described in note 2.

Consolidated Balance Sheet

	Unaudited six months ended 31 March 2004 £m	Unaudited six months ended 31 March 2003* £m	Audited year ended 30 September 2003* £m
Fixed assets			
Intangible fixed assets	89.9	47.6	46.3
Tangible fixed assets	4,816.7	2,230.1	2,524.8
Investments in associated undertakings	0.2	101.9	121.3
	4,906.8	2,379.6	2,692.4
Current assets			
Assets held for resale	7.6	5.6	4.3
Debtors	75.8	49.8	39.5
Cash at bank and in hand	161.0	—	3.9
	244.4	55.4	47.7
Creditors: amounts falling due within one year			
— Bank overdrafts and loans	(55.6)	(63.2)	(132.6)
— Other	(232.9)	(165.0)	(173.8)
	(288.5)	(228.2)	(306.4)
Net current liabilities			
	(44.1)	(172.8)	(258.7)
Total assets less current liabilities			
	4,862.7	2,206.8	2,433.7
Creditors: amounts falling due after more than one year			
— Bank loans and debentures	(3,630.4)	(1,404.3)	(1,276.1)
Provisions for liabilities and charges			
	(49.8)	(61.2)	(76.2)
	1,182.5	741.3	1,081.4
Capital and reserves			
Called up share capital	17.5	17.0	17.0
Share premium account	485.3	432.6	434.8
Revaluation reserve	402.9	104.2	402.3
Capital redemption reserve	7.6	7.6	7.6
Merger reserve	77.0	77.0	77.0
Other reserve — treasury shares	(3.8)	(2.6)	(4.4)
Profit and loss account	196.0	105.5	147.1
Equity shareholders' funds	1,182.5	741.3	1,081.4

*Restated for the change in accounting policy as described in note 2.

Consolidated Statement of Group Cash Flows

	Unaudited six months ended 31 March 2004 £m	Unaudited six months ended 31 March 2003 £m	Audited year ended 30 September 2003 £m
Net cash inflow from operating activities	139.0	127.6	269.0
Return on investments and servicing of finance			
— Interest received	9.1	0.3	0.5
— Interest paid	(61.6)	(36.2)	(84.0)
— Issue costs of long-term loans	(8.2)	(1.9)	(1.9)
	(60.7)	(37.8)	(85.4)
Taxation	(16.4)	(7.5)	(16.5)
Capital expenditure and financial investment:			
— Payments to acquire public houses	(7.7)	(5.9)	(16.2)
— Receipts from sales of tangible fixed assets	20.1	26.1	40.8
— Payments made on improvements to public houses	(15.7)	(12.7)	(22.0)
— Payments to acquire other fixed assets	(0.2)	(0.3)	(2.5)
— Payments to acquire investments	—	—	(2.1)
	(3.5)	7.2	(2.0)
Acquisitions and disposals:			
— Purchase of subsidiaries*	(247.4)	—	—
— Net cash acquired with subsidiaries	191.3	—	—
— Expenses of acquisition paid	(1.3)	—	—
	(57.4)	—	—
Equity dividends paid	(19.3)	(15.9)	(25.5)
Cash (outflow)/inflow before financing	(18.3)	73.6	139.6
Financing			
Issue of ordinary share capital	50.9	0.3	1.4
Debt due within 1 year:			
— new short-term loans	30.0	—	130.0
— repayment of short-term loans	(130.0)	—	(60.5)
Debt due beyond 1 year:			
— new long-term loans	1,003.5	247.5	307.5
— repayment of long-term loans	(417.5)	(325.0)	(515.0)
Repayment of Deep Discounted Bonds*	(361.5)	—	—
Increase/(decrease) in cash	157.1	(3.6)	3.0

* Principal elements of cash consideration of purchase of subsidiary totalling £608.9m.

Reconciliation of Net Cash Flow to Movement in Net Debt

	Unaudited six months ended 31 March 2004 £m	Unaudited six months ended 31 March 2003 £m	Audited year ended 30 September 2003 £m
Increase/(decrease) of cash in the period	157.1	(3.6)	3.0
(Increase)/decrease in debt and lease financing	(124.5)	77.5	138.0
Issue costs of long-term loans	8.2	1.9	2.0
Change in net debt resulting from cash flows	40.8	75.8	143.0
Debt acquired with subsidiaries	(2,158.4)	—	—
Amortisation and write-off of issue costs and discounts on long-term loans	(4.3)	(2.9)	(5.6)
Amortisation of interest rate swap	1.7	1.7	3.3
Movement in net debt in the period	(2,120.2)	74.6	140.7
Net debt at 1 October	(1,404.8)	(1,545.5)	(1,545.5)
Net debt at 31 March/30 September	(3,525.0)	(1,470.9)	(1,404.8)

Reconciliation of Operating Profit to Operating Cash Flows

	Unaudited six months ended 31 March 2004 £m	Unaudited six months ended 31 March 2003 £m	Audited year ended 30 September 2003 £m
Operating profit	130.7	124.5	254.2
Depreciation and amortisation	2.1	1.9	3.9
Provision for incentive payments	0.7	0.4	1.8
Decrease in debtors	3.4	1.9	12.0
Increase/(decrease) in creditors	1.6	(3.1)	(6.3)
Decrease in assets held for resale	0.5	2.0	3.4
Net cash inflow from operating activities	139.0	127.6	269.0

Notes to the Unaudited Interim Results

1. Publication of non-statutory accounts

The financial information contained in this interim statement, which is unaudited, does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The financial information for the full preceding year is based on the statutory accounts for the financial year ended 30 September 2003. These accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

2. Accounting policies and basis of preparation of interim financial information

The unaudited interim financial information has been prepared on the basis of the accounting policies set out in the Company's statutory accounts for the year ended 30 September 2003 with the exception of the change in accounting policy noted below. Fixed annual charges are apportioned to the interim period on the basis of time elapsed. Other expenses are accrued in accordance with the same principles as used in the annual accounts. The tax charge for the period has been calculated at the effective rate expected to apply for the full year.

For the year ending 30 September 2004 the Group is required to comply with the provisions of UITF 37 — Purchases and sales of own shares and UITF 38 — Accounting for ESOP Trusts. These provisions have been adopted in the Interim accounts and prior year reserves have been restated accordingly. As a result of this, investments in own shares, with a cost at 30 September 2003 of £4.4m (2003: interim £2.6m) have been reclassified to other reserve — treasury shares. The associated provision against this investment of £3.5m at 30 September 2003 (2003: interim £2.2m) has been reclassified to Profit and Loss account reserves. The current year Profit and Loss Account charge has increased from £0.5m to £0.7m. No adjustment has been made to the comparative Profit and Loss Accounts as the amounts involved are immaterial.

Prior to becoming a subsidiary undertaking, Unique was accounted for as an associated undertaking. In accordance with FRS2 — 'Accounting for Subsidiary Undertakings', and in order to give a true and fair view, purchased goodwill has been calculated as the sum of the goodwill arising on each purchase of shares in Unique, being the difference at the date of each purchase between the fair value of the consideration paid and the fair value of the identifiable assets and liabilities attributable to the interest purchased.

The statutory method would not give a true and fair view because it would result in the Group's share of Unique's retained reserves, actuarial loss on the defined benefit pension scheme and revaluation surplus during the period that it was an associated undertaking, being recharacterised as goodwill. As a result of this, the Group's share of Unique's retained profits and revaluation surplus totalling £36.7m is included within the total cost of acquisition when arriving at the goodwill on acquisition.

Notes to the Unaudited Interim Results

3. Taxation

The total taxation charge of £27.5m for the six months equates to an effective tax rate of 30.8% which is in line with the expected effective rate for the full year.

4. Dividends

An interim dividend of 3.6 pence per Ordinary Share is proposed (2003: interim 2.85* pence; final 5.7* pence), which will be payable on 2 July 2004 to Shareholders on the register of members on 4 June 2004.

* Restated for the subdivision of shares from 10 pence to 5 pence per share on 23 January 2004.

5. Earnings per Ordinary Share

Basic earnings per ordinary share is based on earnings of £61.9m (2003: six months £58.2m, full year £124.5m) and on 339,702,129 (2003: six months 337,505,854*, full year 337,987,140*) ordinary shares in issue excluding shares held by trusts relating to employee share options.

Adjusted earnings per share is based on earnings adjusted for the effects of exceptional items, net of tax, of £66.1m (2003: six months £57.3m, full year £122.1m) and on 339,702,129 (2003: six months 337,505,854*, full year 337,987,140*) ordinary shares in issue excluding shares held by trusts relating to employee share options.

Diluted earnings per share is based on earnings of £61.9m (2003: six months £58.2m, full year £124.5m) and on 343,885,273 (2003: six months 340,638,805*, full year 341,327,489*) ordinary shares in issue adjusting for shares held by trusts relating to employee share options.

* Restated for the subdivision of shares from 10 pence to 5 pence per share on 23 January 2004.

Notes to the Unaudited Interim Results

6. Acquisition

Analysis of the acquisition of The Unique Pub Company Limited;

On 31 March 2004 the Group acquired the remaining 83.2% equity share of The Unique Pub Company Limited. The cash purchase price of £608.9m comprises £247.4m paid for shares and £361.5m redemption of Deep Discounted Bonds and accrued interest. The net assets at the date of acquisition are analysed as follows:

	Book Value £m	Reclassification £m	Provisional adjustments £m	Fair value to the Group £m
Intangible fixed assets	(78.9)	—	78.9 (2)	—
Tangible fixed assets	2,297.2	—	—	2,297.2
Debtors due within one year	39.9	—	—	39.9
Cash	191.3	—	—	191.3
Creditors due within one year — other	(51.4)	—	(3.8) (3)	(55.2)
Creditors due within one year — bank loans	(14.1)	(455.7) (1)	(11.9) (4)	(481.7)
Creditors due after more than one year	(2,171.4)	455.7 (1)	(63.5) (4)	(1,779.2)
Deferred taxation	6.4	—	23.8 (5)	30.2
Pension liability	(0.6)	—	—	(0.6)
Net assets	218.4	—	23.5	241.9
Provisional goodwill				44.8
Total consideration				286.7

Total consideration comprises the following; £m

Cash paid to acquire The Unique Pub Company Limited	247.4
Carrying value of investment as associate	36.7
Expenses of acquisition	2.6
Total consideration	286.7

- (1) Reclassification of Deep Discounted Bonds and accrued interest to creditors due within one year, of which £361.5m relates to creditors external to the Group and repaid on acquisition.
- (2) Removal of negative goodwill.
- (3) Liabilities crystallising on change of ownership.
- (4) Mark to market valuation of bonds and swaps as at 31 March 2004. The valuation was completed by JC Rathbones Associates Limited, the Company's independent valuers.
- (5) Deferred tax in respect of notes 3 and 4.

Tangible fixed assets were not valued at the date of acquisition. The Unique estate will be valued as part of the annual valuation.

Notes to the Unaudited Interim Results

7 Independent Review Report to Enterprise Inns plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 31 March 2004, which comprises the Summarised Consolidated Profit and Loss Account, Consolidated Statement of Total Recognised Gains and Losses, Reconciliation of movements in shareholders' funds, Consolidated Balance Sheet, Consolidated Statement of Group Cash Flows and related notes 1 to 6. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by the 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 interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 March 2004.

Ernst & Young LLP

Birmingham
18 May 2004



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