THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about any aspect of these proposals and/or any action you should take you should immediately seek advice from your stockbroker, bank manager, solicitor, accountant or other independent financial advisor authorised under the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all of your shares in Punch Taverns plc, please forward this letter and the form of proxy as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.

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6 December 2007

To holders of Punch Taverns plc Ordinary Shares

Dear Shareholder,

Annual General Meeting – Resolutions to adopt the Punch Taverns plc Long-Term Incentive Plan 2008 (the '2008 LTIP') and the Punch Taverns plc Share Bonus Plan 2008 (the '2008 SBP').

I am writing as Chairman of the Board Remuneration Committee (the 'Committee') to explain the revised executive share plans that shareholders are being asked to approve at the AGM.

These share plans are an evolution from the existing plans that shareholders approved at the AGM in 2004.

The proposed 2008 LTIP includes a new performance condition, but the maximum award size remains unchanged from the maximum in the previous plan. The proposed 2008 SBP is a simpler version of the previous Deferred Share Bonus (DSB) plan. It is intended to enable part of the annual bonus to be delivered in Punch Taverns plc shares, but the shares will not be eligible for share matching.

The proposed 2008 LTIP will replace the existing LTIP from 2008. The proposed 2008 SBP will replace the existing DSB for Executive Directors and other senior executives for bonuses payable in 2008 (in respect of the 2007-08 bonus year). For other DSB participants, the existing plan will continue to apply for one further year (the 2007-08 bonus year), but be replaced by the proposed 2008 SBP thereafter.

We have consulted with the Company's principal shareholders on the proposals. The Committee is very grateful for shareholders' comments and questions during the consultation process, and has carefully considered these in finalising the proposals.

The proposals for these new plans follow a detailed review of reward policies undertaken by the Committee. This circular includes an outline of the main conclusions of this review, together with the key features of the new plans.

Copies of the Rules will be available for inspection at the offices of Slaughter and May, One Bunhill Row, London, EC1Y 8YY during usual office hours (Saturdays, Sundays and bank holidays excepted) from the date of despatch of the Chairman's letter up to and including the date of the AGM and at the place of the meeting itself for at least 15 minutes prior and during the meeting.

Your Directors believe that the new plans are in the best interests of the shareholders and the Company and recommends that you vote in favour of the resolutions; as they propose to do in respect of their own holdings amounting to 483,968 ordinary shares, 0.18 % of the ordinary share capital of the Company.

Fritz Ternofsky

Chairman of the Board Remuneration

Summary of the main conclusions from the Committee's review of the reward policy

The Committee conducted a review of the reward policy during 2007. The objectives of the review were:

1. To ensure that the Company has a reward framework to help drive future value growth. This follows a period of 5 years in which it has constantly delivered upper quartile performance as well as being substantially ahead of its peers;
2. To enable the Company to retain and, when necessary, to recruit management talent of the required ability and experience.

The central conclusion of the review was that the Company was correct to continue its policy of placing a strong emphasis on the performance-related components of reward (annual bonus and long-term incentive), whilst containing the fixed elements of reward (base salary and pension).

However, the Committee also concluded from its market benchmarking that performance-related reward would need to increase if the Company was to be able to deliver upper quartile total reward for upper quartile performance. The maximum award size under the existing LTIP was already 200% of base salary, and the Committee has determined that this continues to be an appropriate level. The Committee decided that the annual bonus payable for a combination of outstanding business performance and excellent personal performance should increase to a new maximum of 150% of base salary for Executive Directors, from the previous maximum of 100% of base (125% including the matching shares – see below).

In addition, the Committee decided to propose a simplification to the Deferred Share Bonus (DSB) plan. Under this plan, which was approved by shareholders in 2004, 25% of annual bonus is delivered in shares, these shares are then matched, one-for-one, after a three-year deferral period. The combined total of the maximum annual bonus and the matching shares is therefore 125% of base salary. The matching element is subject to the performance condition that earnings per share growth should be at least at the level of RPI (Retail Prices Index) inflation plus five percentage points per annum. The Committee concluded that the matching element is effectively a second long-term incentive plan, and that it created an unnecessary complexity in the reward package. Instead it was proposed that a new Share Bonus Plan (the '2008 SBP') be introduced in which one third of annual bonus would be delivered in shares, with no share matching opportunity. These shares would be sale–restricted for two years, but not subject to forfeiture.

The Committee also reviewed the performance conditions applying to the LTIP. Under the existing plan, the performance condition is relative Total Shareholder Return (TSR), compared with a peer group of companies selected from the FTSE 350 Travel and Leisure index.

The Committee concluded that for the new LTIP, 50% of each award should be subject to a relative TSR metric, but measured against a broader group of UK companies of similar size to Punch Taverns plc. This would reflect Punch Taverns' status as a FTSE 100 company. It would also be a larger group (40 companies, compared to the 14 in the previous group), which would reduce the risk that the performance outcome might be unduly distorted by abnormal price movements of a single company (such as a 'bid premium').

The Committee concluded that the performance condition for the remaining 50% of each award should be earnings per share ('EPS') growth. The rationale for this was:

1. That, with the removal of matching shares from the DSB, there would no longer be an EPS condition in the reward package. Introducing an EPS condition to the LTIP would help to signal the continued importance of this measure;
2. That an LTIP with an EPS growth metric for part of the award provides a more direct 'line of sight' for participants between business results and the LTIP vesting outcome, than would an LTIP based on TSR alone.

During the Committee's consultation process on the proposals, some shareholders expressed a preference for having an underpinning EPS condition applying to the TSR-related element of the award, and an underpinning TSR condition applying to the EPS-related element. Another suggested permutation of this was to have a matrix approach, with EPS growth on one axis and TSR on the other.

The Committee has given careful consideration to these proposals, and has concluded that two quantitative underpinning conditions would add significant complexity to the LTIP and detract from the 'line of sight' benefits of the EPS condition. However, the Committee is very mindful of the need to ensure that vesting of either element of the award does not occur if the Company's performance has been unsatisfactory. It has therefore proposed that instead of quantitative underpins or a matrix approach, the Committee should retain its existing discretion to disallow the vesting of either or both elements of any LTIP award, if, in its opinion, either the Company's underlying financial performance or total shareholder return (or both) has been unsatisfactory during the performance period.

More details of the proposed share plans are provided in this circular.

Table 1 summarises the total reward package for Executive Directors, following the review, and indicates where this differs from the previous package.

Table 1. Structure of the total reward package

Component	New policy	Change from previous policy
Base salary	Targeted to be in a range between lower quartile and median, amongst comparable companies.	Previously targeted only at lower quartile. The change was made to allow greater flexibility to retain and recruit talent. However, it is important to note that the base salaries of most of the Company's Executive Directors' remain well below the median.
Annual bonus opportunity	Targeted at upper quartile for outstanding performance. Up to 150% of base salary (for the 2007-08 financial year). Bonus is delivered two thirds cash, one third shares. The shares are sale-restricted[1] for 2 years and do not benefit from matching.	Maximum annual bonus opportunity has increased from 100% of base salary to 150%, to take total reward closer to the goal of 'upper quartile for upper quartile performance'. Previously, 25% of annual bonus was delivered in shares, and these were matched 1 for 1, subject to meeting a performance condition. To give a maximum award of 125% of salary.
Long-term incentive	Targeted at upper quartile for outstanding performance. Up to 200% of base salary (face value). 50% subject to relative TSR; 50% subject to EPS growth.	No change to the size of awards. However, previously the performance condition was relative TSR alone.
Pension	Targeted at lower quartile. Defined contribution of between 12% and 12.5% of base salary.	No change.
Total reward	Upper quartile total compensation for upper quartile performance.	No change to policy. The change to the annual bonus opportunity will make this more achievable.
Shareholding requirement	200% for CEO; 150% for other Executive Directors. To be built up over 5 years from appointment.	No change
Employment termination compensation	12 months	No change

[1] The Committee will permit shares to be sold to pay the income tax and employees' NIC liability on the award.

Summary of the proposed 2008 Long-term Incentive Plan (the '2008 LTIP')

This Summary sets out the main features of the 2008 LTIP but does not form part of it and should not be taken as affecting the interpretation of the detailed terms and conditions constituting the Rules. Copies of the Rules will be available for inspection at the offices of Slaughter and May, One Bunhill Row, London, EC1Y 8YY during usual office hours (Saturdays, Sundays and bank holidays excepted) from the date of despatch of the Chairman's letter up to and including the date of the AGM and at the meeting itself. The Directors reserve the right up to the time of the meeting to make such amendments and additions to the Rules as they consider necessary or desirable, provided that such amendments and additions do not conflict in any material respect with that set out in this summary.

Outline of the proposed LTIP

1. Grant of awards

LTIP awards will be in the form of full-value shares (Performance Shares), subject to performance and time-vesting conditions. Eligible employees will normally be considered by the Committee for an award once each financial year.

Awards will normally be made during the period of 42 days following the announcement of year-end or half-year financial results. Exceptionally, the first awards under the plan will be permitted to be made within 42 days following approval of the LTIP at the January 2008 AGM. The timing of this first award takes into account that LTIP awards would normally have been made following the announcement of the results for the 2006-07 year, but have been delayed pending approval of the new plan at the 2008 AGM.

2. Eligibility

The plan is intended to apply to Executive Directors and other employees in senior management or leadership roles. Approximately 80 individuals are expected to be eligible, initially. Exceptionally, other higher performing and high potential employees may be considered for awards.

3. Individual limits

The maximum annual, individual award for Executive Directors will be 200% of base salary (expressed as 'face value' of the shares). This is the same as the limit on awards under the existing LTIP. It is expected that, subject to performance, awards to Executive Directors will be at the scheme maximum. Awards below the maximum will normally be made for other senior executives.

4. 'Expected Value' (EV)

EV is an estimated 'present value' at the time of award of the sum of all the possible outcomes at vesting or release of the award. The EV of the proposed LTIP is approximately the same as the combined EV of the existing LTIP and matching shares under the DSB that it replaces. This is explained as follows:

- The EV of the awards under the proposed 2008 LTIP, with a face value of 200% of salary, is approximately 55-65% of the face value (ie. 110-130% of base salary).
- The proposed 2008 LTIP replaces both the existing LTIP and the matching shares element of the DSB. The most recent EV of the existing LTIP is 55% of face value (110% of base salary). The existing DSB matching shares award has an EV of approximately 65% of face value (10% of base salary, assuming a target bonus of 60% of base salary of which one quarter is in matchable shares). The combined EV of the existing LTIP and existing matching shares under the DSB is therefore also approximately 120% of base salary.

Table 2. Comparison of Expected Value

	Existing plans (Expected Value)		**Proposed new plan (Expected Value)**	
	% of base salary	**Example for individual with base salary of £250,000 (£000s)**	**% of base salary**	**Example for individual with base salary of £250,000 (£000s)**
LTIP	110%	£275	110-130%	£275 - £325
DSB matching shares (Based on an individual receiving a current target annual bonus of 60% of base salary, and matching shares applying to one quarter of this – ie. 15% of base salary. The EV of the matching shares is 65%, ie. 9.75% of base salary).	10%	£25	0%	£0
TOTAL	**120%**	**£300**	**110-130%**	**£275 - £325**

5. Performance Conditions

The vesting of shares under award will be subject to performance conditions agreed by the Committee when the award is made. The Committee will ensure that performance conditions are sufficiently demanding and support profitable growth, capital efficiency, and the creation of shareholder value.

For the first round of awards to be made in 2008, the Committee proposes that awards will be split into two halves:

50% of the award will be subject to relative Total Shareholder Return (TSR)

50% of the award will be subject to Earnings Per Share (EPS) growth

These metrics have been chosen for the following reasons:

1. They ensure that executives are focused both on financial results and achieving share price growth.
2. With the removal of matching shares from the DSB, there would no longer be an EPS condition in the reward package. Introducing an EPS condition to the LTIP helps to signal the continued importance of this metric.
3. An LTIP with an EPS growth metric for part of the award provides a more direct 'line of sight' for participants between business results and the LTIP vesting outcome, than would an LTIP based on TSR alone.

5.1 Total Shareholder Return (TSR)

TSR will be measured in a peer group of 40 companies (including Punch Taverns) in the FTSE index. These will be selected based on size (market capitalisation), and will be 19 companies immediately below Punch Taverns in size and 20 companies immediately above Punch Taverns in size. Size will be measured shortly before the date of each grant (averaged over a 3-month period).

This peer group was selected for the following reasons:

- It takes account of Punch Taverns' current status as a FTSE 100 company, and tests its TSR performance against companies of similar size;
- It includes companies in Punch Taverns' sector that are of similar size;
- It is a larger group than used previously (40 companies compared to the 14 in the previous group), which reduces the risk that the performance outcome might be unduly distorted by abnormal price movements of a single company;
- There are too few listed companies from the pubs, restaurants and hotels sector to create a specific, sector-based peer group;
- The FTSE 350 Travel and Leisure index was considered too broad a selection, as it includes a large number of travel companies, and some other specialist sectors such as gambling.

The proposed vesting scale is as follows:

Table 3. Vesting scale for TSR performance condition

Performance	% vesting
Below median	Zero
Median	25%
Upper quartile or above	100%

(Straight-line pro-ration between median and upper quartile).

5.2 Earnings per Share growth

EPS will be measured relative to the UK Retail Prices Index (RPI). The proposed vesting scale is as follows. The targets have been set taking account of a range of factors such as analysts' forecasts, economic forecasts and historic performance of the pubs sector.

Table 4. EPS growth vesting scale

Performance	% vesting
Below RPI +3% per annum	Zero
RPI + 3% per annum	25%
RPI + 8% per annum	100%

Notes:
1. Straight-line pro-ration between RPI +3% and RPI +8%.
2. EPS is defined as: basic EPS (tax normalised and pre-exceptional items)

5.3 Additional vesting condition
The Committee also has discretion to disallow the vesting of either or both elements of any LTIP award, if, in its opinion, either the Company's underlying financial performance or total shareholder return (or both) has been unsatisfactory during the performance period.

5.4 No re-testing
The plan will not permit re-testing of performance conditions. If conditions are not met, or partially met, the relevant portion of the award will lapse.

6. Back-testing of the performance conditions
The Committee has considered what level of vesting might have been achieved under these performance conditions, if they had applied previously. The analysis indicates that the maximum vesting level would have been achieved over the last three consecutive 3-year periods. The Company has performed very strongly since its flotation in 2002, so this is not a surprising outcome. However, the Committee's view is that, notwithstanding this past outstanding performance, the performance conditions are stretching.

7. Performance period
TSR performance will normally be measured over a three year period, starting from the beginning of the financial year or half year, preceding the date of the award. As outlined above, the starting and ending TSR values will be averaged over the three months leading up to the start and end of the relevant performance period.

The annual growth rate in EPS will normally be measured over three years, using, as the baseline, the EPS for the year immediately preceding the year in which the award is made, and using as the ending figure the EPS for the last year of the performance period.

8. Vesting period
Awards will normally vest on the third anniversary of the date of award. Exceptionally, in the case of the first award to be made following the January 2008 AGM, vesting would take place approximately two years and ten months after the date of award, in November 2010. This is the date awards would normally have vested had they not been delayed pending approval of the new plan at the January 2008 AGM. This shorter vesting period for the first award is intended to ensure that participants are not disadvantaged by the later than normal awards.

9. Dividends
The Remuneration Committee will have discretion to determine at the time of award, whether the award will qualify for accumulated dividends on vesting shares. However, it is the Committee's intention that the first award will not qualify for dividend accumulation. This is intended to help keep the plan simple and straightforward, and the Committee has concluded that the absence or presence of dividend accumulation will have no bearing on the level of dividends paid by the Company. The Committee will keep this policy under review with respect to future awards.

10. Good leaver and Change of Control rules
Good leavers, for such reasons as retirement or redundancy, will retain unvested awards, but these awards will be reduced pro-rata to the portion of the normal vesting period that has elapsed when they leave. The performance conditions will also be applied. In these cases, the Committee may permit early vesting of the award, based on a foreshortened performance period, normally measured to the end of the next financial year-end or half year-end that follows the leaving date.

In the event of a Change of Control, awards may vest early. Performance conditions will continue to apply, but the performance period will be foreshortened. Awards will be pro-rated for the portion of the normal vesting period that has elapsed.

11. Limits on numbers of shares issued
Awards under the LTIP may be satisfied by market purchased shares, treasury shares or newly issued shares. If newly issued shares are issued to satisfy the LTIP awards, the number of new shares available under the LTIP will be limited by the '5% in 10 years' rule (including the aggregate number of shares issued and issue-able in respect of awards under the LTIP or under any other discretionary employees' share plan adopted by the Company). The current level of dilution is 1.29%.

12. Awards not transferable or pensionable
Awards granted under the LTIP will be personal to the participant and may not be transferred (except on death). Benefits under the LTIP will not be pensionable.

13. Administration and amendments
The plan will be administered by the Remuneration Committee.

Amendments to the Rules may be made at the discretion of the Committee. However, the provisions governing eligibility requirements, equity dilution, share utilisation and individual participation limits and the adjustments that may be made following a rights issue or any other variation of capital together with the limitations on the number of Shares that may be issued cannot be altered to the advantage of Participants without prior shareholder approval, except for minor amendments to benefit the administration of the LTIP, or take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for Participants or for the Group.

The Committee may add to, vary or amend the Rules of the LTIP by way of a separate schedule in order that the LTIP may operate to take account of local legislative and regulatory treatment for Participants or the relevant Group company, provided that the parameters of these arrangements will provide no greater benefits than the rules of the LTIP as summarised above.

14. Estimated costs of the plan
The eligibility criteria for the plan are unchanged from the previous LTIP. The face value of the LTIP is unchanged and the Expected Value for the awards is estimated to be broadly similar to the Expected Value for the combined LTIP and DSB matching shares under the previous plans. Therefore, the costs of the LTIP are expected to be approximately the same as under the existing plans. The total accounting charge for the existing LTIP and DSB matching shares awards made in 2006-07 is £1.5m.

Summary of the proposed 2008 Share Bonus Plan (the '2008 SBP')

This Summary sets out the main features of the 2008 SBP but does not form part of it and should not be taken as affecting the interpretation of the detailed terms and conditions constituting the Rules. Copies of the Rules will be available for inspection at the offices of Slaughter and May, One Bunhill Row, London, EC1Y 8YY during usual office hours (Saturdays, Sundays and bank holidays excepted) from the date of despatch of the Chairman's letter up to and including the date of the AGM and at the meeting itself. The Directors reserve the right up to the time of the meeting to make such amendments and additions to the Rules as they consider necessary or desirable, provided that such amendments and additions do not conflict in any material respect with that set out in this summary.

Outline of the proposed plan

1. Introduction
The proposed 2008 SBP is a means of delivering part of annual bonus in non-matched Punch Taverns plc shares. It is not a long-term incentive plan.

The key terms of the plan are outlined below. The key terms are unchanged from the previous DSB which was approved by shareholders in 2004, except that, unlike the DSB, the shares acquired as part of annual bonus are not matched.

2. Grant of awards
Awards will be calculated as a portion of the annual bonus award. The percentage will be determined by the Committee shortly before the award is made. For the first awards under the plan, this portion will be one third of annual bonus.

3. Eligibility
The plan is intended to apply to Executive Directors and other employees in senior management or leadership roles. Approximately 80 individuals are expected to be eligible, initially.

4. Individual limits
The Committee will determine what portion of annual bonus should be delivered under the plan. The current maximum annual bonus for Executive Directors is 150% of base salary. For the first awards, the portion of bonus delivered under the plan will be one third with a maximum of 50% of base salary; this is part of the 150% maximum annual bonus, rather than additional to it.

5. 'Expected Value' (EV)
The 2008 SBP is not a long-term incentive plan, and is not additional to the annual bonus.

For example, if an individual receives an annual bonus of 100% of base salary, and one third of this is delivered under the 2008 SBP, the EV of this is 33.3% of annual of base salary.

6. Performance Conditions
Awards under the plan are part of the annual bonus award and subject to the same annual performance conditions as annual bonus.

7. Vesting period and sales restriction
Awards will vest immediately, but there will be a period during which the recipients will not be permitted to sell the shares. For the first award this period will be two years. The Committee will permit shares to be sold to pay the income tax and employees' NIC liability on the award.

8. Leaver rules
As the awards will vest immediately, leavers will retain their awards in full. However, the period during which they are sale-restricted will continue to apply.

9. Change of control
As the awards will vest immediately, there will be no need for early vesting or pro-ration provisions in the event of change of control. Sale restrictions will cease to apply if there is a change of control.

10. Limits on numbers of shares issued
Awards under the 2008 SBP may be satisfied by market purchased shares, treasury shares or newly issued shares. If newly issued shares are issued to satisfy the awards, the number of new shares available will be limited by the '5% in ten years' rule (including the aggregate number of shares issued and issue-able in respect of awards under the LTIP, the former DSB or under any other discretionary employees' share plan adopted by the Company). The current levels of dilution is 1.29%.

11. Awards not pensionable
Awards under the 2008 SBP will not be pensionable.

12. Administration and amendments
The plan will be administered by the Remuneration Committee.

Amendments to the Rules may be made at the discretion of the Committee. However, the provisions governing eligibility requirements, equity dilution, share utilisation and individual participation limits and the adjustments that may be made following a rights issue or any other variation of capital together with the limitations on the number of Shares that may be issued cannot be altered to the advantage of Participants without prior shareholder approval, except for minor amendments to benefit the administration of the 2008 SBP, or take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for Participants or for the Group.

The Committee may add to, vary or amend the Rules of the 2008 SBP by way of a separate schedule in order that the 2008 SBP may operate to take account of local legislative and regulatory treatment for Participants or the relevant Group company, provided that the parameters of these arrangements will provide no greater benefits than the rules of the 2008 SBP as summarised above.

13. Estimated costs of the plan
The costs of the 2008 SBP are included in annual bonus. The approximate annual cost of bonuses granted to eligible employees in 2006/07 is estimated to be £1.5m, of which going forward up to one third of this amount will be met by awards under the 2008 SBP.