



Acquisition of Spirit Group

1st December 2005



Transaction Overview

- Exceptional deal to grow and enhance the Punch business
- Acquisition of Spirit for aggregate value of £2,679m
 - £1,429m equity and subordinated debt repaid
 - £1,250m assumed debenture
- 1,832 of the highest quality managed pubs in the country
 - Non-core portfolios of high street and smaller pubs sold earlier in the year
- Funded by:
 - £1,250m acquisition facility
 - £275m convertible bond
 - £75m cash equity placing
- Subject to shareholder approval
- Expected completion late December 2005

Transaction Rationale

- Benefits of acquiring the entire Spirit estate
 - Maximises control and flexibility to effect reorganisation of Spirit
 - Time to perform review post acquisition to maximise value realisation
 - Optimises competitiveness in auction process
- Significant value creation opportunity
 - Conversion of pubs better suited to leased/tenanted format
 - Operational benefits through improving quality of overall estate
 - Strategic disposals under competitive auction to realise best value
- Significant earnings enhancement from current financial year
- Returns in excess of cost of capital in first full year of ownership



Spirit Group – Overview

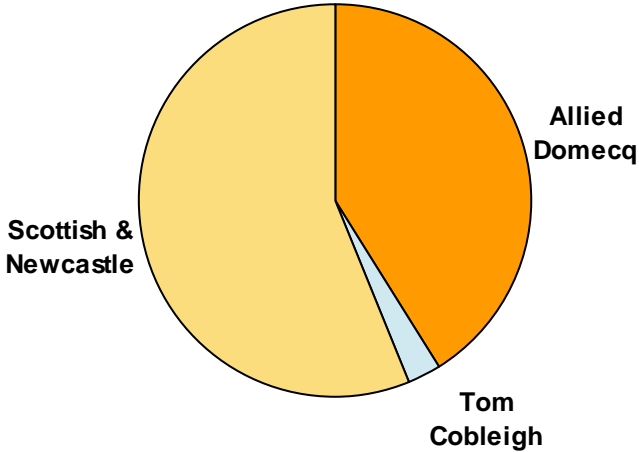
- Quality portfolio of 1,832, mostly freehold pubs
 - Lightly branded 'community locals'
 - Improving performance
 - Attractive regional distribution
 - Well maintained
- Diversified estate presents significant opportunities to realise value
 - Large number of sites more suited to lease model
 - 40% of estate <£10K AWT
 - Remaining estate represents one of the highest performance managed portfolios in the market-place
 - Strong food-led profit growth
 - Strong brand in Chef & Brewer
 - Opportunities to sell 82 sites (already identified) for alternative use
 - 26 already exchanged; scheduled to complete in January / February 2006



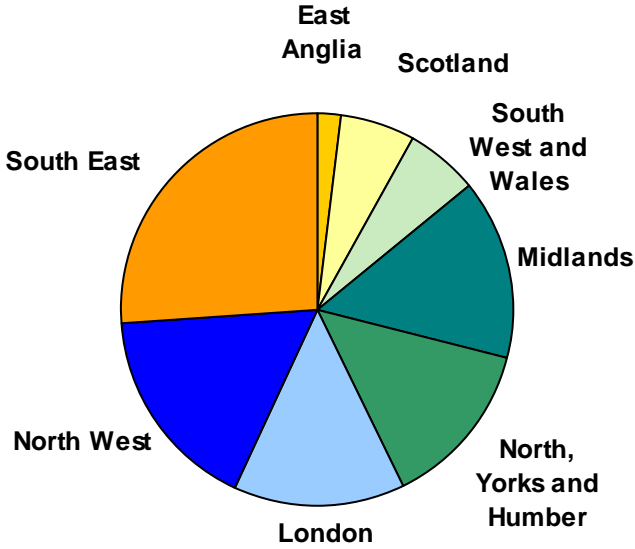
Spirit Group – Overview

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Origins of the Spirit Estate



Geographic Distribution



2005 Q4 Trading Highlights⁽¹⁾

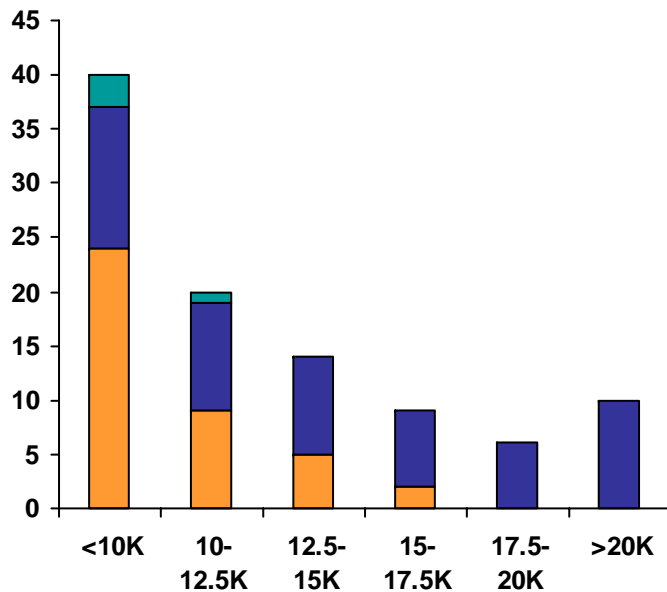
- Like for like sales up +3.9%
- Like for like food sales up +7.7%
- EBITDAR before exceptional items up + 6.3%

Source: Spirit Issuer – Financial Quarter 4, 2005 Bondholder Report 19th October 2005
Note: 1. Continuing business basis

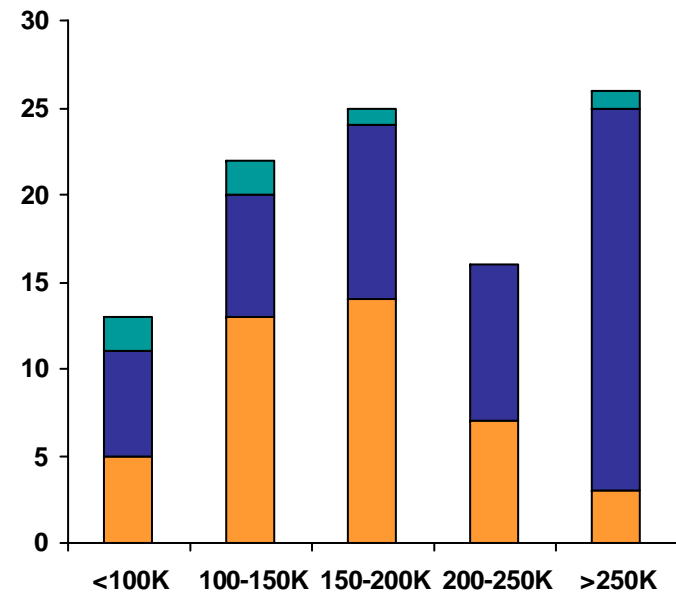


Segmenting The Estate

AWT Banding (%)



Outlet EBITDA per Pub (%)



■ Leased Conversion
 ■ Managed
 ■ Alternative Use

Source: AWT and EBITDA extracted from Spirit 2004 statutory accounts

- Punch has extensive experience of converting managed houses to leased pubs
- Significant scope to benefit from the introduction of independent lessees to operate smaller pubs



Segmenting The Estate

	Total	Lease Conversion	Managed	Alternative Use
No. of Pubs	1,832	753	997	82
2004 Sales	1,201	388	770	44
2004 Outlet EBITDAR	401	123	266	13
2004 Outlet EBITDA ⁽¹⁾	340	121	207	12
2004 EBITDA ⁽²⁾	277	95	172	9

Source: Extracted from Spirit 2004 statutory accounts. Financial disclosure on Spirit limited by UKLA Listing Rules requirements

Notes: 1. Adjusted for rent increase related to sale and leaseback transactions

2. Adjusted for current overheads of £34k per pub

Funding

- Acquisition of Spirit for aggregate value of £2,679m
 - £1,429m equity and subordinated debt repaid
 - £1,250m retained Spirit debenture
- Funded by:
 - £1,250m of retained Spirit debenture
 - £1,250m acquisition bridge facility
 - £275m convertible bond
 - £75m cash equity placing
- Acquisition facility to be refinanced within 3 years from:
 - Cash proceeds from disposal of pubs
 - Cash generation from business
 - Extension of existing Punch and Spirit securitisations
 - Converting to long-term fixed rate debt



Valuation Multiples & Financial Impact

	£m	Implied Multiples ⁽¹⁾
2004 Adjusted Outlet EBITDA ⁽²⁾	340	7.9x
2004 Adjusted EBITDA ⁽³⁾	277	9.7x

Notes:

1. Based on aggregate value of £2,679m

2. Adjusted for rent increase related to sale and leaseback transactions

3. Adjusted for current overheads of £34k per pub

- Significantly earnings accretive from current financial year
- Returns in excess of cost of capital in the first full year of ownership



Value Creation – Conversion of Pubs

- c. 750 managed pubs to be converted to lease/tenanted model
- Conversion decision based on economics
 - Comparison of EBITDA and cash flow per pub pre-and post conversion
 - Typically more attractive to convert smaller pubs
- Conversion transfers operational control to lessees in exchange for:
 - Long-term rent contract
 - Drink supply agreements
 - Sharing of machine income
 - Purchase of F&F and ongoing maintenance responsibility
- Benefits of conversion include:
 - Individuality and entrepreneurial skills to grow retail profits
 - Operational decision making closer to the consumer
 - Diversity leads to stability and predictability of cash flows

Conversion Process

- Managed infrastructure retained throughout conversion process
 - Ensures stability and support
- Letting process handled by separate team of specialists
 - Ability to capitalise on talent bank of c.1,500 existing applicants for sites
 - Pubs of high quality, which will attract a wider range of high calibre operators
 - Existing managers are an additional source of applicants
- Pubs transferred to core leased business post conversion
- Planned to take place over a 2 year period
- Estimated conversion costs of £25 million built into the business plan

Value Creation – Performance Review

- Detailed performance review to determine best method of realising value across enlarged estate
- Ability to optimise and tailor strategic disposal packages, based on existing market conditions
- Strong demand for various parts of the Spirit estate
- Flexibility to sell large number of unsecuritised properties
- Further potential value realisation from sale of 82 sites (already identified) for alternative use



Management Arrangements

- During performance review, operate directly managed pubs within separate division
 - Maintain operational focus
 - Maintain accountability
 - High quality core team from Spirit
- Small central team to oversee synergy and collaboration benefits
- Punch has extensive experience of operating and converting managed pubs
 - Robert McDonald (CFO) – 17 years' experience at Allied Domecq
 - Jonathan Paveley (Commercial Director) – formerly Commercial Director at Greene King
 - Francis Patton (Customer Services Director) – 15 years' experience at Allied Domecq
 - Significant number of ex-managed pubs in the current Punch estate

Value Creation – Operational Benefits

- Significant operating benefits
 - Attract the best retailers and staff
 - Selection of the best pub estate
- Maximises trading potential of each site
 - Leased operation will add value and sustainability
- Optimises supplier agreements
 - Through scale and variety of offer
- Leverages Punch retail capabilities
 - Direct access to growing income streams
 - Increase the proximity to the consumer



Transaction Mechanics

- Subject to Punch shareholder approval
 - Circular to be posted shortly
 - EGM expected end December 2005
- Completion expected end December 2005
- Disposal of c. 190 pubs to satisfy competition issues
 - c. £9m of outlet EBITDA
 - Expected to complete early January 2006
- Further disposals of other low profit pubs within existing Punch estate
 - Exchanged on sale of 203 pubs to Admiral Taverns for £40m; completion due in mid-December



Summary

- Significant value creation opportunity
- Adds further scale and strengthens platform for future growth
- Significant earnings enhancement from current financial year
- Returns in excess of cost of capital in first full year of ownership

Punch

TAVERNS

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**Leather Bottle
Leverstock Green**



**Old Surrey Hounds
Caterham**



**Green Man
Brentford**



**Lyndon
Solihull**



**Ye Olde Mitre
Charterhouse, London**



**Pig & Whistle
Mortlake**



**Scotts Arms
Wetherby**



**Parsons Pig
Crawley**



**Bricklayers
Newbury**

Some London gems

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