

PUNCH TAVERNS PLC

("Punch" or "the Group")

Preliminary Results for the 52 Weeks ended 20 August 2005

Growth momentum continues across the estate

Punch Taverns plc, the operator of over 8,200 leased and tenanted pubs throughout the UK, today announces preliminary results for the 52 weeks ended 20 August 2005.

Highlights

- Group turnover up 21% to £770 million (2004: £638 million)
 - like for like turnover up 2.5%
- EBITDA (pre exceptional items) increased by 21% to £412 million (2004: £339 million)
 - like for like pub profit up 2.5%
- Profit before tax (pre exceptional items and amortisation) up 28% to £207 million (2004: £161 million)
- Adjusted earnings per share (pre exceptional items) up 28% to 62.3p (2004: 48.8p)
- Good results driven by:
 - continued organic growth – existing Punch estate average EBITDA per pub up 4%
 - acquisition and completed integration of InnSpired and Avebury plus 106 individual pubs
- Proposed final dividend of 7.6p, bringing the total dividend for the year to 11.3p, representing an increase of 26% (2004: 9.0p)
- Continued investment in estate: £63 million including 936 developments
- Trading in the current year is in line with expectations

Giles Thorley, Chief Executive of Punch Taverns plc, commented:

"We have had another year of good progress driven by organic growth and value-enhancing acquisitions. With the constant application of our proven strategy our enlarged estate will continue to deliver sustained growth.

"Current trading is satisfactory and in line with the Board's expectations. We are continuing to focus on supporting our retailers to build their businesses and remain well placed to acquire further quality pubs through piecemeal and innovative corporate acquisitions."

10 November 2005

ENQUIRIES:

Punch Taverns plc

Giles Thorley, *Chief Executive*

Robert McDonald, *Finance Director*

Today: 020 7457 2020

Thereafter: 020 7868 8903

College Hill

Justine Warren

Matthew Smallwood

Tel: 020 7457 2020

Preliminary results for the 52 weeks to 20th August 2005

The financial year to the 20th August 2005 has seen our strategy continue to deliver long term growth for shareholders through organic operational improvement and value enhancing acquisitions.

Punch's strategy is straightforward and has remained consistent since formation. It is to focus on the sustained organic growth of our pub estate by constantly improving the quality of pubs and their consumer offer. This is achieved through the recruitment of high quality pub operators; training and support; capital investment and the continued development of preferential supply arrangements with our suppliers. At the same time, the Group seeks to acquire pubs that meet the Board's criteria for earnings enhancement and to efficiently finance the business using long term debt that complements our income streams and the strength of our balance sheet. Punch's results for the year demonstrate good progress in all of these areas.

Results

A summary of key achievements is set out below. Figures exclude exceptional items:

- Turnover of £770m, up 21%
- EBITDA of £412m, up 21%
- Profit before tax and amortisation of £207m, up 28%
- Adjusted earnings per share of 62.3p, up 28%
- Continued organic growth with like for like turnover and pub profit contribution both up 2.5%. Average EBITDA per pub in the original estate up 4%
- Acquisition and completed integration of InnSpired and Avebury adding a further 880 leased and tenanted outlets

In recognition of these excellent results the Board is recommending a final dividend of 7.6p per ordinary share, taking the full year dividend to 11.3p, an increase of 26% on last year. The final dividend will be payable on 26th January 2006 to shareholders on the register on 30th December 2005.

Corporate Activity and Refinancing

In September 2004, we completed the acquisition of InnSpired with an intention from the outset to refinance that business and sell on those pubs in the estate that did not meet our growth criteria. That process was duly completed in January 2005, at which point we integrated the retained 471 pubs into the Punch infrastructure. The net cost of £213m represented excellent value for the retained estate and we have already seen growth of 4.5% in the operational performance of those pubs, which contributed for 49 weeks in the trading year.

In August 2005, we completed the acquisition of Avebury Holdings, with 409 additional pubs, for a price of £219m including debt. This simple acquisition was fully integrated into the Punch estate by mid October 2005. Results for the year include two weeks' trading from Avebury.

Both InnSpired and Avebury offer great potential for growth, particularly through our investment programme and the introduction of progressive Retailer Agreements over the next few years. The performance of the former Pubmaster estate, acquired in December 2003,

provides a real illustration of the potential which saw EBITDA per pub grow by 7.6% this year.

In addition to these two large acquisitions we continue to secure individual pubs and improve the quality of our estate through disposal of any pubs that do not offer sustainable income. During the year we completed the purchase of 106 individual sites and sold 93 pubs, mostly for alternative use. At the financial year end the estate comprised 8,227 pubs, prior to the sale of 45 pubs to Admiral Taverns on 8th September.

Key to our ability to expand through acquisition is our efficient capital structure. This provides the stability of long term fixed rate finance but also allows us to raise further debt finance as profitability permits. In August 2005, we restructured the securitised debt acquired with the Pubmaster business in 2003. This restructure enabled us to replace all short term facilities, to extend this securitisation to £1.25bn at fixed rates averaging 6.2% and to renegotiate covenants to ensure operational flexibility. This refinancing raised some £150m of new cash, paving the way for the acquisition of Avebury. The Group's financial structure and resources mean that we remain well placed to capitalise on further acquisition opportunities.

Organic Growth

Our business model continues to deliver growth in revenue and profit. We believe that only by encouraging the success of our retailers can we be successful. Our objective is therefore to maximise the overall profit of every pub. To give greater focus to this objective we have increased the face-to-face contact with our retailers.

In those pubs within our estate that we have owned for at least two full years, organic turnover growth of 2.5% and steady margins led to an increase in pub profit contribution of 2.5%.

We continue to seek the best calibre of entrepreneurial retailers. Over the past 12 months, we have tightened our recruitment process combining local knowledge and advertising on a pub by pub basis with a national recruitment campaign tied into our website. The combination of a structured interview process and assistance given to potential retailers in the preparation of business plans has further improved the quality of applicants. At present we have 1,529 registered applicants seeking pubs with Punch.

Over the year some 3,000 retailers and staff have participated in our award winning training programmes which amount to nearly 14,000 training days. Our training focus continues to be on those issues that make the biggest financial impact.

Consumers in Punch pubs are offered an ever-widening choice of drink products with over 250 draught ales and lagers and 500 plus non-beer product lines available to our retailers. We sold 164 different cask ales during the year and our launch of the Connect to Cask awareness campaign highlighted the opportunities to be gained from the proper promotion and sale of cask ale. We also sourced ales from 74 different brewers. Trends in the marketplace have seen the growth of cold variants of lager which has seen the lager category as a whole grow within our estate. As a result of this beer margin in the estate rose by 3% in the year.

Non beer sales continue to grow with comparable margin up 6% in the year. Whilst sales of ready-to-drink flavoured alcoholic beverages are now in market decline, cider and wine continue to show strong growth. We seek to lead these market trends by offering both marketing support and an excellent product range to ensure our retailers are fully able to exploit the opportunities open to them. This year has also seen the launch of a food offer

designed for pubs and retailers with little experience in food - "Food Solutions" - is now available to all our retailers and is already producing positive results in a number of outlets.

Rent in the original Punch estate rose by 6% in the year, with the two key drivers being our new Retailer Agreements and investment. By August, 957 retailers had lease agreements based on the long term version of our Retailer Agreement, which is an evolution of the Punch Growth Lease permitting more flexibility to reflect a retailer's particular business needs.

Our investment programme continues to drive business growth for ourselves and our retailers. During the year we invested over £63m in 936 development schemes, including 423 in the former Pubmaster estate. We continue to see excellent opportunities to use investment to enhance our estate and achieve high returns.

We continue to maximise machine income through machine share agreements with our retailers such that overall income has been steady in an increasingly competitive market.

Industry Issues

Punch Taverns is committed to developing a responsible approach to its corporate social responsibility. Our pubs are an integral part of the local communities in which they are sited and we believe that building strong relationships with the community is a fundamental part of that responsibility.

This can be seen in the proactive approach we have taken to the new licensing regime which comes into force on 24 November and the opportunity it offers both our retailers and their local communities in terms of more flexible and extended trading hours. The support package we offered our retailers, which included making applications on their behalf for both premises and personal licenses, was taken up by 6,537 of our retailers representing 89% of the estate where new arrangements apply. To date 5,448 premises and 5,199 personal licenses have been granted. We have also been successful in extending licensing hours – 99% of our pubs applied for variations and to date 96% of those have been granted. This has been accomplished by working closely with both our retailers and the local communities in which they operate. We remain confident that those licenses outstanding will be granted by the 24 November deadline.

There has been much discussion about prospective legislation imposing restrictions on smoking in public places. Together with many in the industry, we have introduced a smoking charter which has seen 4,291 of our pubs implement a smoking policy in their business. Legislation in Scotland is due to be implemented in March 2006 and we have already developed detailed plans for each of our pubs to create outside smoking areas and to look at other aspects of the pub trade to develop such as food. Prospective legislation for England and Wales has just been announced and again we will address the final legislation on a pub by pub basis to take advantage of the opportunities it may offer for our retailers.

Finance Structure and Accounting

Results for the year are presented in accordance with UK GAAP. IFRS will apply in the current trading year and results on this basis will be presented with our interim results in April 2006. We expect IFRS to cause only minor impact to reported earnings, and there will be no impact on cash flows or debt covenants. Further information will be given in early 2006, including a restatement of 2005 results to an IFRS basis.

The acquisition of InnSpired in September 2004, removal of the associated debt structure and subsequent disposal of part of the estate gave rise to goodwill of £12m. The acquisition of

Avebury in August 2005 gave rise to goodwill of £20m. Under UK GAAP these goodwill provisions are amortised over 20 years and a charge of £0.6m was incurred in the year accordingly.

The restructure of our securitised debt in August 2005 and the acquisition of the Avebury securitisation removed short term debt and increased our securitised debt to £3.25bn, which is entirely at fixed rates of interest averaging 6.8% and repayable from routine cash flows over 30 years. Whilst our debt has increased to fund acquisitions, profit growth means our interest cover continues to rise and exceeded 2.1x in the year.

Exceptional and non recurring costs of £16.3m arose in the year, due mainly to the two major acquisitions, debt refinancing and licensing. These costs were in line with our expectation, the previously announced forecast of £15m being prior to the debt restructure and acquisition of Avebury. The cost includes a £3.5m charge for the expected full cost of licensing.

Our taxation charge continues to benefit from brought forward losses, particularly arising from companies acquired into the Group. Accordingly our tax charge for the year was slightly lower than anticipated, 22% before exceptional items, and 20% post exceptional items. Cash tax paid in the year was £13m.

Adjusted earnings per share of 62.3p are calculated before exceptional items and represents growth of 28% over prior year. On a fully taxed basis, adjusted earnings per share would have been 55.8p, a growth of 27%.

Current Trading and Outlook

The outlook for our business continues to be positive and current trading is satisfactory and in line with the Board's expectations. Both of our recent acquisitions are performing well and we continue to see good opportunities for further acquisitions and property based transactions to enhance value.

The community pub holds a unique and strong position in the social fabric of the UK and we believe that by working closely with our retailers and focusing on investment and training it will continue to do so.

GROUP PROFIT & LOSS ACCOUNT
for the 52 weeks ended 20 August 2005

	52 weeks ended 20 August 2005			52 weeks ended 21 August 2004			
	Notes	Total £m	Non- recurring exceptional items (note 3) £m	Before exceptional items £m	Total £m	Non- recurring exceptional items (note 3) £m	Before exceptional items £m
Turnover							
Ongoing		726.9	-	726.9	637.6	-	637.6
Acquisitions ¹		43.2	-	43.2	-	-	-
Group turnover		770.1	-	770.1	637.6	-	637.6
Cost of sales		(289.4)	-	(289.4)	(240.9)	-	(240.9)
Gross profit		480.7	-	480.7	396.7	-	396.7
Administrative expenses		(95.4)	(7.5)	(87.9)	(81.7)	(8.2)	(73.5)
Operating profit	2						
Ongoing		364.4	(5.3)	369.7	315.0	(8.2)	323.2
Acquisitions ¹		20.9	(2.2)	23.1	-	-	-
Group operating profit		385.3	(7.5)	392.8	315.0	(8.2)	323.2
Loss on sale of tangible fixed assets		-	-	-	(12.0)	(12.0)	-
Profit before interest and taxation		385.3	(7.5)	392.8	303.0	(20.2)	323.2
Interest receivable		15.8	5.0	10.8	9.9	1.8	8.1
Interest payable		(216.9)	(13.8)	(203.1)	(179.6)	(4.7)	(174.9)
Profit on ordinary activities before taxation		184.2	(16.3)	200.5	133.3	(23.1)	156.4
Tax on profit on ordinary activities	4	(37.6)	6.2	(43.8)	(30.8)	4.1	(34.9)
Profit for the period		146.6	(10.1)	156.7	102.5	(19.0)	121.5
Ordinary dividend	5	(28.7)	-	(28.7)	(22.5)	-	(22.5)
Retained profit for the period		117.9	(10.1)	128.0	80.0	(19.0)	99.0
Earnings per share							
Basic (pence)	6(a)	58.3			41.2		
Diluted (pence)	6(b)	57.0			40.3		
Adjusted (pence)	6(c)			62.3			48.8

¹ Acquisitions relate to the acquisitions of InnSpired Group Ltd, ultimate parent of the InnSpired trading companies, and Avebury Holdings Ltd, ultimate parent of the Avebury trading companies. The profit and loss account in the current period includes 49 weeks of results relating to the acquired InnSpired companies and 2 weeks of results relating to the acquired Avebury companies.

The profit and loss account for the periods ended 20 August 2005 and 21 August 2004 is in respect of continuing operations.

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the 52 weeks ended 20 August 2005

	52 weeks ended 20 August 2005 £m	52 weeks ended 21 August 2004 £m
Profit for the period	146.6	102.5
Unrealised surplus on revaluation of tangible fixed assets	128.2	84.7
Total recognised gains and losses for the period	274.8	187.2

NOTE OF GROUP HISTORICAL COST PROFIT AND LOSSES

for the 52 weeks ended 20 August 2005

	52 weeks ended 20 August 2005 £m	52 weeks ended 21 August 2004 £m
Reported profit before taxation	184.2	133.3
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	0.7	0.8
Realisation of property revaluation gains of previous periods	1.7	0.8
Historical cost profit on ordinary activities before taxation	186.6	134.9
Historical cost profit retained after taxation and dividends	120.3	81.6

GROUP BALANCE SHEET
at 20 August 2005

	August 2005 £m	August 2004 £m
Fixed assets		
Goodwill	157.0	132.8
Negative goodwill	(26.5)	(28.2)
	130.5	104.6
Tangible fixed assets	4,231.4	3,569.0
	4,361.9	3,673.6
Current assets		
Debtors due within one year	78.5	74.4
Debtors due after more than one year	11.7	10.8
Cash at bank and in hand ¹	448.5	238.3
	538.7	323.5
Creditors: amounts falling due within one year	(511.3)	(335.0)
Net current assets / (liabilities)	27.4	(11.5)
Total assets less current liabilities	4,389.3	3,662.1
Creditors: amounts falling due after more than one year	(3,214.6)	(2,759.2)
Provisions for liabilities and charges	(121.7)	(103.3)
Net assets	1,053.0	799.6
Capital and reserves		
Called up share capital	0.1	0.1
Share premium	373.0	366.7
Revaluation reserve	311.8	186.0
Profit and loss account	368.1	246.8
Equity shareholders' funds	1,053.0	799.6

¹Cash at bank and in hand includes £30.7m (August 2004: £73.0m) of deposits used as security for guaranteed loan notes and £172.1m (August 2004: £nil) of monies raised from the refinancing of Punch Taverns Finance B Ltd debt deposited on escrow to fund the redemption of floating rate debt due on 30 September 2005.

GROUP CASH FLOW STATEMENT
for the 52 weeks ended 20 August 2005

	Notes	52 weeks ended 20 August 2005 £m	52 weeks ended 21 August 2004 £m
Net cash inflow from operating activities	7	396.2	327.5
Returns on investment and servicing of finance			
Interest paid		(211.5)	(181.5)
Interest received		9.0	8.5
Cost of terminating financing arrangements		(25.5)	(10.4)
Deferred issue costs paid		(11.0)	(14.9)
Dividends paid to preference shareholders of acquired subsidiary		-	(6.6)
		(239.0)	(204.9)
Taxation paid		(13.5)	(4.4)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets ¹		(139.9)	(99.4)
Receipts from sales of tangible fixed assets		29.0	75.6
		(110.9)	(23.8)
Acquisitions			
Payments to acquire subsidiary undertakings		(141.4)	(223.0)
Net cash acquired on acquisition of subsidiary undertakings		72.2	39.9
Cash receipts in respect of assets held for disposal		175.4	-
		106.2	(183.1)
Equity dividends paid		(24.7)	(18.1)
Net cash inflow / (outflow) before financing		114.3	(106.8)
Financing			
Issue of Ordinary share capital		6.3	3.2
Loans raised ²		1,063.9	1,017.3
Loans repaid		(974.3)	(854.1)
(Increase) / decrease in cash deposits		(129.8)	1.2
		(33.9)	167.6
Increase in cash		80.4	60.8

¹ Payments to acquire tangible fixed assets includes payments of £65.1m on the acquisition of new pubs (August 2004: £48.7m).

² Loans raised includes £625.0m of new floating rate debt issued as part of the refinancing of Punch Taverns Finance B Ltd's debt on 1 August 2005 of which £172.1m was deposited on escrow, included in the increase in cash deposits in the period, to fund the redemption of the old floating rate debt not subject to a tender offer, due on 30 September 2005, together with interest accruing from refinancing to redemption.

Cash flows in respect of the 52 weeks ended 20 August 2005

Net cash inflow from operating activities includes outflows of £7.5m relating to license reform costs, redundancy, costs to integrate acquisition of subsidiaries and other related one-off costs treated as exceptional during the period. Interest paid includes outflows of £4.7m and interest received includes £0.3m of items treated as exceptional. Costs of terminating financing arrangements includes £8.8m treated as exceptional within interest payable (note 3) with the remaining £16.7m being reflected in the fair value of assets acquired at the date of acquisition of InnSpired Group Ltd (see note 8). Receipts from disposal of assets held for resale relate to the disposal of 596 of the 1,064 estate acquired through the InnSpired Group Ltd acquisition that were either identified as non-core to the Group's long-term strategy or sold to comply with competition guidelines. The discounted proceeds are used in determining the fair value of assets held for resale (note 8) with the discount effect of £4.7m being included as exceptional within interest receivable (note 3).

Cash flows in respect of the 52 weeks ended 21 August 2004

Net cash inflow from operating activities includes outflows of £8.2m relating to license reform costs, redundancy, costs to integrate acquisition of subsidiary and other related one-off costs treated as exceptional during the period. Interest paid includes outflows of £2.4m and interest received includes inflows of £1.8m relating to items treated as exceptional items in the period. Costs of terminating financing arrangements includes £2.5m of items treated as exceptional within interest payable (note 3) in the period together with a £5.2m deferred fee paid on redemption of loans and £2.7m paid to terminate interest rate swap arrangements on loans redeemed. Both the deferred fee and swap termination costs relate to loan arrangements within Pubmistress Ltd, the acquired subsidiary, and are reflected in the fair value of assets acquired. Receipts from sales of tangible fixed assets include £53.9m of net proceeds relating to disposals treated as exceptional in the period (note 3).

1. BASIS OF PREPARATION

The figures for the 52 weeks ended 20 August 2005 are unaudited and are not the Company's statutory accounts which have not yet been filed with the Registrar of Companies and on which the auditors have not yet reported.

The comparative figures for the 52 weeks to 21 August 2004 have been extracted from the Annual Report and Accounts, which has been filed with the Registrar of Companies and on which the auditors gave an unqualified report.

This preliminary announcement has been prepared using accounting policies consistent with those adopted in the previous year's annual report and accounts.

Copies of the Annual Report and Accounts will be mailed to members in December 2005 and will be available from the company's registered office, Jubilee House Second Avenue, Burton on Trent, Staffordshire DE14 2WF.

2. OPERATING PROFIT

The profit and loss account down to operating profit is split between ongoing and acquired operations as follows:

	52 weeks ended 20 August 2005			52 weeks ended 21 August 2004
	Ongoing £m	Acquisitions ¹ £m	Total £m	Total £m
Turnover	726.9	43.2	770.1	637.6
Cost of sales	(272.1)	(17.3)	(289.4)	(240.9)
Gross profit	454.8	25.9	480.7	396.7
<i>Administrative expenses:</i>				
Amortisation of goodwill	(7.6)	(0.6)	(8.2)	(6.4)
Amortisation of negative goodwill	1.7	-	1.7	1.6
Depreciation	(12.2)	(0.6)	(12.8)	(11.4)
Exceptional items (note 4)	(5.3)	(2.2)	(7.5)	(8.2)
Other	(67.0)	(1.6)	(68.6)	(57.3)
Total administrative expenses	(90.4)	(5.0)	(95.4)	(81.7)
Operating profit	364.4	20.9	385.3	315.0

¹ Acquisitions relate to the acquisitions of InnSpired Group Ltd, ultimate parent of the InnSpired trading companies, and Avebury Holdings Ltd, ultimate parent of the Avebury trading companies. The profit and loss account in the current period includes 49 weeks of results relating to the acquired InnSpired companies and 2 weeks of results relating to the acquired Avebury companies.

3. EXCEPTIONAL ITEMS

Included in continuing operations are the following exceptional items:

	52 weeks ended 20 August 2005 £m	52 weeks ended 21 August 2004 £m
Exceptional administrative expenses		
License reform costs, redundancy, costs to integrate acquisition of subsidiaries and other related one-off costs	(7.5)	(8.2)
Loss on disposal of tangible fixed assets¹	-	(12.0)
Interest receivable		
Interest receivable on deposits to fund repayment of old floating rate notes ²	-	1.8
Effect of discounting assets ³	4.7	-
Other ⁴	0.3	-
	5.0	1.8
Interest payable and similar charges		
Secured loan interest ⁵	(1.3)	(2.3)
Bank loan interest ⁶	(3.2)	-
Cost of terminating financing arrangements ⁷	(9.3)	(2.4)
	(13.8)	(4.7)
Total exceptional items	(16.3)	(23.1)
Tax impact of exceptional items	6.2	4.1
Exceptional items included in retained profit	(10.1)	(19.0)

¹ The profit and loss account for the period ended 21 August 2004 includes £12.0m losses made on the sale of a package of 256 pubs from the existing pub estate following the acquisition of Pubmistress Ltd in order to comply with competition guidelines. In the current period a package of 37 pubs from the existing estate were disposed of following the acquisition of InnSpired Group Ltd in order to comply with competition guidelines. No profit or loss was made on these disposals.

² During the comparative period £277m was paid into an escrow account to cover redemption of and associated interest payable on floating rate notes relating to the old financing structure that were not subject to an acceptance of tender offer before the refinancing. The exceptional interest receivable represents the interest earned on these funds from date of refinancing (3 November 2003) to the final redemption of the loans (on the following interest payment date) that would not otherwise have been earned had the loans been settled at the date of the debt restructure.

³ Discounting has been applied to the proceeds received from sale of 51 pubs on 24 September 2004 and 545 pubs on 28 January 2005 out of the total 1,064 InnSpired pubs acquired on 10 September 2004 to reflect the fair value of assets acquired (note 8).

⁴ Funds were held in an escrow account to fund the cost of acquisition of InnSpired Group Limited. The exceptional interest receivable in the current period relates to the proportion of funding relating to the 545 pubs of the total 1,064 pubs acquired on 10 September 2004 that were subsequently disposed of on 28 January 2005.

⁵ In the current period interest was incurred on the secured loan notes acquired through the InnSpired Group acquisition from the date of acquisition to their subsequent redemption on 21 October 2004. The exceptional secured loan note interest charge represents the portion of the loan relating to the 545 of the total 1,064 pubs acquired that were subsequently disposed of on 28 January 2005. In the comparative period the exceptional secured loan note interest represents interest payable on the floating rate notes not subject to acceptance of a tender offer from the date of debt restructure to final redemption that would not otherwise been paid had the loans been repaid at the date of debt restructure.

⁶ A bank facility was drawn down to fund the acquisition of InnSpired Group Limited. 545 of the 1,064 pubs acquired were subsequently sold on 28 January 2005 with the receipts used to repay a portion of the facility drawn down. The exceptional bank loan interest represents the interest and fees incurred on the portion of the loan relating to the 545 pubs from acquisition to 28 January 2005 when that portion was repaid.

⁷ In the current period the cost of terminating financing arrangements represents premiums paid to redeem secured loan notes acquired through the acquisition of InnSpired Group Ltd, break costs incurred to cancel swap arrangements associated with these loans and premiums incurred to redeem secured floating rate notes as part of the debt restructure. In comparative periods the cost of terminating financing arrangements represents premiums paid together with write-off of deferred issue costs, fair value premiums and other balances relating to the floating rate notes redeemed as a part of the debt restructure on 3 November 2003.

4. TAXATION

The tax charge is made up as follows:

	52 weeks ended 20 August 2005 £m	52 weeks ended 21 August 2004 £m
<i>Current tax</i>		
UK corporation tax	28.6	6.0
Tax over provided in previous periods	(6.3)	-
	22.3	6.0
<i>Deferred tax</i>		
Current period charge	15.3	24.8
	15.3	24.8
	37.6	30.8

Factors affecting current and future tax charges

The current tax charge for the period reflects the utilisation of brought forward losses not previously recognised as deferred tax assets.

The deferred tax charge arises in respect of the origination and reversal of timing differences. The Group's current period deferred tax charge reflects that in the period capital allowances exceeded depreciation. This position is expected to continue given the Group's accounting policy not to charge depreciation on freehold and long leasehold buildings on the basis that this would not be material.

The tax charge will be lower than the standard corporation tax rate of 30% over the next two to three years if the Group is successful in using brought forward losses.

As a result of the acquisition of InnSpired Group Ltd, the Group owns further companies having tax losses carried forward. These tax losses are only recognised as a deferred tax asset where it is reasonably foreseeable that they will be utilised in the next accounting period against taxable profits of the companies in which they originated.

5. DIVIDENDS

	52 weeks ended 20 August 2005 £m	52 weeks ended 21 August 2004 £m
Equity dividends on ordinary shares:		
Interim paid 3.7 pence (2004: 2.9 pence)	9.4	7.2
Final proposed 7.6 pence (2004: 6.1 pence)	19.3	15.3
	28.7	22.5

6. EARNINGS PER ORDINARY SHARE

(a) Basic earnings per share

The calculation of basic earnings per share of 58.3 pence (August 2004: 41.2 pence) is based on a total profit of £146.6m (August 2004: £102.5m), and weighted average number of equity shares in issue during the period of 251,642,029 (August 2004: 249,082,407).

(b) Diluted earnings per share

Diluted earnings is the basic earnings per share after allowing for the dilutive effect of the conversion into ordinary shares of the weighted average number of options outstanding during the period. Diluted earnings per share of 57.0 pence (August 2004: 40.3 pence) has been calculated using basic earnings of £146.6m (August 2004: £102.5m) and after including the effect of all dilutive potential ordinary shares. The weighted average number of shares can be reconciled as follows:

	52 weeks ended 20 August 2005 £m	52 weeks ended 21 August 2004 £m
Basic weighted average number of ordinary shares	251,642,029	249,082,407
Dilutive effect from share options	5,382,428	5,206,056
Diluted weighted average number of ordinary shares	257,024,457	254,288,463

(c) Adjusted earnings per share

Adjusted earnings per share is based on basic profits adjusted to exclude non-recurring exceptional items and is presented to show the underlying performance of the Group. It is calculated as follows:

	52 weeks ended 20 August 2005 £m	52 weeks ended 21 August 2004 £m
Profit for the period	146.6	102.5
Non-recurring exceptional items (note 4)	10.1	19.0
Adjusted earnings	156.7	121.5
Basic weighted average number of ordinary shares	251,642,029	249,082,407
Adjusted earnings per share	62.3	48.8

7. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	52 weeks ended 20 August 2005 £m	52 weeks ended 21 August 2004 £m
Operating profit	385.3	315.0
Depreciation	12.8	11.4
Amortisation of goodwill / negative goodwill	6.5	4.8
Decrease in debtors	0.6	0.8
Decrease in creditors and provisions	(9.0)	(4.5)
Net cash inflow from operating activities	396.2	327.5

8. ACQUISITIONS DURING THE PERIOD

Acquisition of subsidiaries

During the period the Group acquired the entire share capital of InnSpired Group Ltd (10 September 2004) and Avebury Holdings Ltd (8 August 2005). At the date of acquisition the InnSpired and Avebury estates consisted of 1,064 and 409 leased and tenanted pubs respectively.

The acquisitions are summarised as follows:

	InnSpired Group Ltd £m	Avebury Holdings Ltd £m	Total £m
Tangible fixed assets	202.9	233.8	436.7
Assets held for resale	170.7	-	170.7
Debtors	5.8	1.3	7.1
Cash	28.4	43.8	72.2
Creditors and provisions	(44.7)	(28.6)	(73.3)
Loans	(337.1)	(147.4)	(484.5)
Net assets acquired	26.0	102.9	128.9
Provisional goodwill arising on acquisition	12.4	20.0	32.4
Total consideration	38.4	122.9	161.3
Consideration is analysed as follows:			
Loan notes issued in consideration	-	15.7	15.7
Cash	38.4	107.2	145.6
	38.4	122.9	161.3

InnSpired Group Ltd

	Book value £m	Fair value adjustments			Fair value £m
		Revaluation £m	Assets held for resale £m	Other £m	
Intangible fixed assets	30.0	(30.0)	-	-	-
Tangible fixed assets	330.4	41.8	(169.3)	-	202.9
Assets held for resale	-	-	170.7	-	170.7
Debtors	8.0	-	(2.2)	-	5.8
Cash	28.4	-	-	-	28.4
Creditors and provisions	(32.9)	(8.5)	0.8	(4.1)	(44.7)
Loans	(311.6)	(25.5)	-	-	(337.1)
Net assets acquired	52.3	(22.2)	-	(4.1)	26.0

The principal fair value adjustments were in respect of:

Revaluations

- revaluation of fixed assets and reversal of consolidated goodwill;
- revaluation of loans and other financial instruments (included within creditors and provisions) to their fair value.

Assets held for resale

- reclassification of fixed assets, trade debt and security deposits to assets held for resale relating to 545 pubs identified at the time of acquisition as non-core to the Group's long-term strategy and sold on 28 January 2005;
- reclassification of 51 pubs sold on 24 September 2004 in order to comply with competition guidelines;
- assets held for resale valued at discounted sales proceeds.

Other

- provision for property lease obligations;
- provision for deficit on the defined benefit scheme;
- deferred tax asset associated with the onerous property lease provision and deficit on the defined benefit scheme.

8. ACQUISITIONS DURING THE PERIOD *(continued)*

Avebury Holdings Ltd

	Book Value £m	Fair value adjustments		Fair value £m
		Revaluation £m	Other £m	
Intangible fixed assets	(37.5)	37.5	-	-
Tangible fixed assets	168.6	65.2	-	233.8
Debtors	3.2	-	(1.9)	1.3
Cash	43.8	-	-	43.8
Creditors and provisions	(26.4)	(1.0)	(1.2)	(28.6)
Loans	(122.0)	(25.4)	-	(147.4)
Net assets acquired	29.7	76.3	(3.1)	102.9

The principal fair value adjustments were in respect of:

Revaluations

- revaluation of fixed assets and reversal of consolidated goodwill;
- revaluation of loans and other financial instruments (included within creditors and provisions) to their fair value;

Other

- provision for doubtful debts;
- provision for property lease obligations;
- deferred tax asset associated with the onerous property lease provision.