

PUNCH TAVERNS PLC

("Punch" or "the Group")

Preliminary Results for the 52 weeks to 18 August 2007

Passionate about our pubs

Punch Taverns plc, the UK's leading pub operator of over 8,400 leased, tenanted and managed pubs, today announces preliminary results for the 52 weeks ended 18 August 2007

Highlights

Financial Results (before exceptional items)

- Group revenue up 10% to £1,705 million (2006: £1,546 million)
- EBITDA up 9% to £664 million (2006: £606 million)
- Profit before tax up 13% to £282 million* (2006: £250 million)
- Basic earnings per share up 13% to 84.4p (2006: 74.9p)
- Proposed final dividend of 10.2p, bringing the total dividend for the year to 15.3p, representing an increase of 14% (2006: 13.4p)

Financial Results (after exceptional items)

- Profit before tax up 8% to £305 million (2006: £281 million)
- Basic earnings per share up 11% to 104.9p (2006: 94.9p)

Operational

- Continue to pursue the creation of the highest quality pub estate
 - Like for like pub contribution for the leased business increased 2.7%; like for like sales for the core managed estate rose by 3.5%
 - Average profit per pub up by 11% in the leased business and up 15% in the managed business
 - 563 pubs transferred from managed to leased in the current year, following 74 completed in 2006
 - Disposal of 986 non-core smaller pubs; 178 pubs acquired (including 82 Mill House Inns)
 - Continued investment with £202 million spent on enhancing over 1,500 pubs across the estate
- Integration of acquired businesses completed and synergies extracted
- Matthew Clark joint venture further expands Group capabilities and retailer support
- Completion of £825 million refinancing in July at an effective rate of 6.4%, ahead of current debt market tightening

* Inclusive of profit on disposal of non-current assets of £3.0 million (2006: £1.4 million)

Giles Thorley, Chief Executive of Punch Taverns plc, commented

"This has been a year of intense activity, significant operational change and business improvement for the Group. We are continuing to further improve the quality of our estate whilst maintaining the robust nature of the business model. We are pleased to have once again delivered a strong set of results despite the challenges of the last quarter of the year.

"The completion of our integration programme leaves us in our best ever shape from which to further develop the business and capitalise on the opportunities open to us. Whilst the sector is experiencing a degree of uncertainty and is not without its short term challenges, we remain confident about the long term future prospects for the business."

8 November 2007

Enquires;

Punch Taverns plc

Giles Thorley, *Chief Executive*

Phil Dutton, *Finance Director*

Today: 020 7457 2020

Thereafter: 020 7255 4002

College Hill

Justine Warren

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PRELIMINARY RESULTS FOR THE 52 WEEKS TO 18 AUGUST 2007

OVERVIEW

The financial year ended 18 August 2007 has been one of significant change and business improvement for Punch Taverns. We have delivered substantial improvements in quality and profitability with growth in EBITDA per pub of 11% and 15% in the leased and managed estates respectively, reflecting the largest and one of the best quality pub estates in the country.

Delivering this position has required unprecedented levels of activity. The corporate strategy behind the acquisition of the Spirit Group has been successfully executed. Of the 1,830 directly managed pubs acquired, 400 were sold, 637 converted from managed to leased (including 74 last year and 563 in the current year) with the remaining 793 pubs retained as managed. In addition, we acquired 178 pubs (including 82 Mill House Inns), disposed of 986 non-core smaller pubs and completed over 1,500 individual pub investment schemes, investing £202 million, to improve the quality of experience offered to our customers. All this activity has once again enhanced the quality of our estate leaving us with some 7,561 leased pubs and 887 managed pubs as at 18 August 2007.

Our strategy remains to assist and support our retailers and pub managers to maximise the trading opportunity for them and their pubs. To further improve the service given to our pubs, our field and central support teams have been completely refocused over recent months. Furthermore, we have successfully renegotiated contracts with most of our major suppliers onto more beneficial terms to reflect our high quality estate.

The reorganisation and integration of field and central support teams has already resulted in significant cost reductions with in year managed overhead savings in excess of £14 million. Further managed overhead savings are anticipated for 2008.

Against this backdrop of intense operational activity, our business has continued to perform well and all of our key financial measures have improved. Across the year, like for like profits within our leased business were up by 2.7% and like for like sales within our core managed estate were up by 3.5%. This level of performance was all the more pleasing as it was achieved despite a difficult final quarter where unprecedented poor weather and flooding restricted the trading for many of our pubs.

Revenue was £1,705 million, representing an increase of 10% on the previous year. On a pre-exceptional basis, EBITDA was £664 million, up 9%, profit before tax increased 13% to £282 million and similarly basic earnings per share rose by 13% to 84.4p.

In recognition of these results, the Board is recommending a final dividend of 10.2p per ordinary share, taking the full year dividend to 15.3p, an increase of 14% on last year. The final dividend will be payable on 23 January 2008 to shareholders on the register on 4 January 2008.

The successful completion of such a demanding level of activity together with the delivery of an improved business performance is testament to the hard work and commitment of everyone connected with Punch Taverns. We would particularly like to congratulate and thank our pub retailers and managers and all of our staff and colleagues for their support during the year.

OPERATING REVIEW

Our operating strategy continues to focus upon delivering a high quality pub experience to each of our customers.

We achieve this through three key attributes:

- **Passionate about our pubs:** continually enhancing the quality of our customers' environment within each pub
- **Passionate about our people:** attracting the best people to run our pubs and constantly striving to deliver high standards of customer experience
- **Passionate about service:** delivering industry-leading training and support to our pubs to ensure we provide the best customer service

Passionate about our pubs

We have continued to make significant investment in developing the quality of our estate.

Over the last financial year we have completed over 1,500 individual pub investment schemes across the leased and managed estates at a total cost of £202 million. These schemes are designed to improve the quality of experience and environment enjoyed by our customers. Much of this activity has also enabled our pubs to ensure that appropriate solutions were determined on a site by site basis ahead of the smoking ban which was introduced in England (July) and Wales (April) earlier this year.

We do not overtly brand our pubs, our objective being to establish a true 'local' in each of our sites. Our focus on maximising the value of each site allows us to determine the most effective approach to operating each pub.

Smaller, lower turnover pubs which lend themselves to a more entrepreneurial management style are independently operated within our leased delivery model. Larger, higher turnover pubs, typically taking on average £16k per week, lend themselves to the managed model.

Passionate about our people

Whether a pub is leased or managed, we believe that attracting the best people to run our pubs is pivotal in determining the delivery of a high level of service to our customers.

Within the leased estate, we have received enquiries from over 6,600 applicants in the year and have let a record 1,800 pubs onto substantive agreements, with the transfer to lease process attracting some particularly high calibre retailers to Punch.

We continue to develop our partnerships with our retailers with over 4,000 retailers attending our award-winning training programmes in the year. Demonstrating our commitment to sharing the success of our business with our retailers, average retailer profitability has improved in line with the improved quality of the leased estate, up by 9%, to an average of c.£38k per annum. Our approach has seen other tangible benefits in terms of lower overdue debt levels, and rental concession levels remain unchanged at c.1% of rent roll.

Within the managed estate, we launched an in-house training academy for managers and every pub manager has completed an annual personal development programme. We constantly measure our customer service delivery through independent mystery customer visits. Across the year, service scores have improved by 5% and food quality measures have improved by 10%, all due to the efforts of our colleagues.

Passionate about service

We continually strive to improve the quality of service to our customers and believe a key strength of our operating approach is the delivery of industry-leading service and support to each of our pubs.

Whilst the leased and managed estates are operated separately, our support teams ensure that best practice, key learnings and synergy benefits are shared across the Group.

During the year, our field and central support teams have been completely reorganised to improve the level of service given to each of our pubs. The next challenge will be to complete the successful integration of central support functions, such as IT, to achieve further efficiencies and cost savings.

Consolidation of buying functions across the two operations has also allowed us to renegotiate virtually all of our major supplier contracts to reflect our transformed estate whilst delivering improved service levels and product offerings to our customers.

Finally, during the year we acquired a 50% stake in Matthew Clark, the UK's leading independent drinks wholesaler. Working with our partner, Constellation, we believe we can greatly enhance the wine offer to our pubs, delivering industry leading product quality and choice.

FINANCIAL REVIEW

We continue to see good opportunities for further investment to improve the quality of our pubs either through acquisition or investment in the existing estate. During the year, cash generated from the management of our finances has funded further site acquisitions (including Mill House Inns and Matthew Clark JV) to a value of £139 million (net of acquired debt) and investment in the estate of £202 million.

As part of our ongoing assessment of the quality of our estate, 986 pubs - which we considered to have less sustainable prospects - were disposed of during the year. The disposal raised proceeds of £405 million, which was used to pay down bank debt.

Our debt strategy continues to leverage the improved quality of our pub estate. 94% of our estate is either freehold or long leasehold which forms good security for the use of debt finance to efficiently fund our business. With the improved quality and size of our pub estate, we have been able to further improve the efficiency of our debt finance. In July, we successfully refinanced £825 million of debt at an average interest rate of 6.4%, ahead of the tightening debt market which became apparent in August.

Of the £1.4 billion debt taken out to fund the Spirit and Mill House acquisitions, all but £43 million had been repaid at the year end date, the remainder having been fully repaid since.

Year end net debt fell to £4.9 billion (2006: £5.1 billion) representing a multiple of 7.4x (2006: 8.3x) our reported Group EBITDA. The debt amortises over terms extending to 28 years and is all effectively at fixed rates of interest. Interest cover maintained at 2.0x in the year.

A net exceptional credit of £54 million was recorded in the year. One-off expenditure on the completion of the integration and transfer programme amounted to £42 million, offset by a reduction in property liabilities in the acquired Spirit business of £22 million. Costs of terminating financing arrangements were £11 million whilst the mark to market of certain interest rate swaps resulted in a credit of £54 million. The tax effect of these items together with the release of various tax provisions gave rise to an exceptional tax credit of £31 million.

The effective tax charge before exceptional items was 20% (2006: 22%), and included the benefit of ongoing indexation allowance taxation credits. Tax paid in the year was £19 million, an effective rate of 7%.

Operational update and new financial reporting

We will issue our first Interim Management Statement on 16 January 2008, to coincide with our Annual General Meeting.

It should also be noted that financial year 2008 will be a 53 week year.

STRATEGY

Our overriding objective is to continue to maximise the long-term shareholder value of the Group. Our strategy to date of investment and acquisition has delivered excellent returns for shareholders.

We have always believed that the property component of our business is a highly valuable constituent of the model. Whilst we are constantly seeking to maximise the use and the value of the real estate, we will continue to evaluate other ways (including REITs) of extracting the best value from our assets and maximising shareholder returns.

Our current business structure and the use of long term amortising investment grade debt has continued to demonstrate its robustness during a period when financial markets have tightened.

CORPORATE SOCIAL RESPONSIBILITY

Smoke Free

We still hold the view that the smoking ban will have a positive effect on the industry in the medium to long-term. However, it is too early as yet to evaluate any impact of the smoking ban introduced in England and Wales earlier this year.

Our experience from Scotland is that a full year's trading, including the winter period when the smoking pub goes resolve will be tested, is needed in order to establish any long term trends. However, our Scottish pubs have now returned to growth and we are fully prepared in terms of smoking solutions in our managed and leased businesses in England and Wales.

The ban has provided the industry with an opportunity to attract a different customer base which is reflected in the growth in food sales, up by 6% (to 38% of sales) in 2007 within the core managed estate. Moreover we have received considerable feedback from our retailers about the improved environment and the positive reaction of customers.

Pubs – the home of responsible drinking

The British pub is one of the few remaining components which is unique to the UK's social culture and yet it is constantly being put under pressure by misguided challenges. We are strongly of the view that the pub is the best place for responsible adults to socialise and enjoy great food, drink and entertainment. We believe that the Government should recognise this and make positive efforts to protect the pub industry.

However, as the largest operator of pubs in the UK, we also recognise our responsibility to lead on managing issues such as antisocial behaviour and underage drinking. There is a need as an industry to ensure that all pubs trade responsibly and we therefore actively support initiatives such as Challenge 21, Best Bar None and local pub watch schemes. We are also about to introduce a risk assessment review on a pub by pub basis, developed by the British Beer and Pub Association for the industry as a whole, and we will continue to work constructively with local authorities, police forces, Government, industry bodies and our retailers and pub managers to continue to raise standards within the industry.

The Environment

At Punch we fully understand the importance of our role within the environment and local communities. To that end, we have been working with the Carbon Disclosure Project to improve our carbon footprint across the whole supply chain with the intention of achieving an estimated carbon base reduction of 17% by 2010.

We have also appointed a Carbon Manager to look at our energy consumption, understand our energy usage and implement initiatives to reduce consumption in our pub estate. This has included initiatives such as smart metering, improved insulation, more efficient boilers, heating controls and low energy lighting. In addition, we are reviewing energy consumption at our head office and have recycling initiatives throughout the business. In January 2007, we were delighted to be recognised as finalists for the Environment Agency Water Efficiency Awards in the Leisure and Tourism Category.

The importance of the pub as the centre of the community should not be forgotten. We have long been supporters of HRH The Prince of Wales Pub is the Hub initiative aimed at using the community pub, particularly in rural areas, as a focus for local facilities such as shops, post offices and banks. We are working closely with Pub is the Hub and a number of regional Development Agencies to implement schemes around the estate.

MANAGEMENT CHANGES

Punch continues to ensure that we have a management team of the highest calibre to match the aspirations for the success of the business. During the year there have been a number of changes to the management team.

In January, Phil Cox stepped down as Chairman of the Group. Phil was involved with Punch prior to flotation in 2002 and has been a major contributor to the success of the business. He was succeeded by Peter Cawdron who has been on the Board since 2003 and brings a wealth of experience as a Director of GCap Media plc, Compass Group plc, ProStrakan plc, Capita Group plc and Johnston Press plc. In April, Deborah Kemp took over from Adrian Fawcett as Managing Director of the leased business and today we are announcing her appointment to the Board. Deborah has been with the Group since 1998 and has extensive experience of both the property and operations side of the business.

In September, we announced the retirement of Robert McDonald as Finance Director. Robert, with 25 years of experience in the sector, provided the Group with a huge amount of support during the early years as a public company. He has been replaced by Phil Dutton, former Chief Financial Officer of Matalan plc, who joined the Board as a Non Executive Director in January 2007.

Finally, we are today announcing the appointment of a new Board Director. Mark Pain joins the Board as an independent Non Executive Director. Mark is currently Chief Financial Officer of Barratt Developments plc and was previously Group Finance Director of Abbey National Group PLC.

CURRENT TRADING AND OUTLOOK

Since the year end, the managed estate has traded broadly in line with last year's sales levels with an increased proportion of the sales mix coming from food. In the leased estate the growth trends seen in the second half of last year have continued into the current financial year.

Whilst the sector is experiencing a degree of uncertainty and is not without its short term challenges, we remain confident about the long term future prospects for our business.

Punch benefits from an extremely high quality pub estate and the Group has never been in better shape to face any future challenges. Over the last 18 months the quality of our estate has been significantly transformed, our acquisitions have been fully integrated and synergies delivered and there is clear evidence that the financial health of our retailers remains robust. We continue to see good opportunities to grow the business and have an excellent platform in place from which to continue to further develop and progress.

Consolidated income statement
for the 52 weeks ended 18 August 2007

	Notes	52 weeks to 18 August 2007			52 weeks to 19 August 2006		
		Before exceptional items £m	Exceptional items (note 3) £m	Total £m	Before exceptional items £m	Exceptional items (note 3) £m	Total £m
Revenue	2	1,704.9	–	1,704.9	1,546.1	–	1,546.1
Operating costs before depreciation and amortisation		(1,042.9)	(20.3)	(1,063.2)	(939.8)	(8.2)	(948.0)
Share of post-tax profit from joint venture		1.6	–	1.6	–	–	–
EBITDA¹	2	663.6	(20.3)	643.3	606.3	(8.2)	598.1
Depreciation and amortisation		(56.5)	–	(56.5)	(46.1)	–	(46.1)
Operating profit		607.1	(20.3)	586.8	560.2	(8.2)	552.0
Profit on sale of non- current assets		3.0	–	3.0	1.4	–	1.4
Finance income		20.2	–	20.2	19.1	–	19.1
Finance costs		(348.6)	(10.9)	(359.5)	(331.1)	(0.1)	(331.2)
Movement in fair value of interest rate swaps	3	–	54.2	54.2	–	39.7	39.7
Profit before taxation		281.7	23.0	304.7	249.6	31.4	281.0
UK income tax (charge) / credit	4	(57.7)	31.4	(26.3)	(54.8)	20.6	(34.2)
Profit for the financial period attributable to equity shareholders		224.0	54.4	278.4	194.8	52.0	246.8
Earnings per share	5						
Basic (pence)		84.4		104.9	74.9		94.9
Diluted (pence)		82.6		101.2	73.6		92.4
Dividend per share paid or proposed in respect of the period (pence)	6			15.3			13.4
Total dividend paid or proposed in respect of the period (£m)	6			40.6			35.4

¹ EBITDA represents earnings before depreciation and amortisation, profit on sale of non-current assets, finance income, finance costs, movement in fair value of interest rate swaps and UK income tax.

Consolidated statement of recognised income and expense
for the 52 weeks ended 18 August 2007

	52 weeks to 18 August 2007 £m	52 weeks to 19 August 2006 £m
Income and expense recognised directly in equity:		
Actuarial gains on defined benefit pension schemes	26.1	33.8
Gains on cash flow hedges	34.0	48.8
Tax on equity component of convertible bonds	9.0	(9.0)
Tax credit related to indexation on revalued properties	15.3	5.9
	84.4	79.5
Transfers to the income statement:		
On cash flow hedges	(1.9)	(13.3)
	82.5	66.2
Tax on items taken directly to equity	(17.5)	(20.8)
Net gain recognised directly in equity	65.0	45.4
Profit attributable to shareholders	278.4	246.8
Total recognised income for the period attributable to equity shareholders	343.4	292.2
Effects of changes in accounting policy attributable to equity shareholders:		
Net loss on recognition of derivative financial instruments at fair value on first-time application of IAS 39	–	(68.6)
	–	(68.6)

Consolidated balance sheet
at 18 August 2007

	Notes	18 August 2007 £m	19 August 2006 £m
Assets			
Non-current assets			
Property, plant and equipment		6,495.5	6,506.0
Goodwill		556.2	537.8
Intangible assets		157.3	163.3
Receivables		–	1.4
Retirement benefit assets		10.4	–
Deferred tax assets		123.7	190.6
Investments in joint ventures		38.1	–
Other investments		3.5	–
Derivative financial instruments		16.1	5.8
		7,400.8	7,404.9
Current assets			
Inventories		7.9	12.2
Trade and other receivables		101.8	107.4
Current income tax receivables		37.5	–
Cash deposits used as security for loan notes		14.7	15.8
Cash and cash equivalents		267.7	562.4
		429.6	697.8
Non-current assets classified as held for sale		8.2	28.5
Total assets		7,838.6	8,131.2
Liabilities			
Current liabilities			
Trade and other payables		(364.5)	(443.7)
Short-term borrowings		(62.2)	(85.1)
Current income tax liabilities		–	(15.8)
Provisions		(18.1)	(23.7)
		(444.8)	(568.3)
Non-current liabilities			
Borrowings		(4,771.1)	(5,128.5)
Convertible bonds		(253.1)	(242.5)
Derivative financial instruments		(113.0)	(189.8)
Deferred tax liabilities		(467.7)	(478.4)
Retirement benefit obligations		(3.7)	(24.7)
Provisions		(41.7)	(65.5)
Other liabilities		(6.6)	(6.9)
		(5,656.9)	(6,136.3)
Total liabilities		(6,101.7)	(6,704.6)
Net assets		1,736.9	1,426.6
Shareholders' equity			
Called up share capital		0.1	0.1
Share premium		454.7	452.4
Equity component of convertible bonds		30.0	21.0
Hedge reserve		(15.2)	(37.6)
Other reserves		6.3	4.3
Retained earnings		1,261.0	986.4
Total shareholders' equity	7	1,736.9	1,426.6

Consolidated cash flow statement
for the 52 weeks ended 18 August 2007

	Notes	52 weeks to 18 August 2007 £m	52 weeks to 19 August 2006 £m
Cash flows from operating activities			
Operating profit		586.8	552.0
Depreciation and amortisation		56.5	46.1
Decrease in inventories		4.5	0.9
Decrease in trade and other receivables		11.0	47.2
Decrease in trade and other payables		(74.0)	(32.8)
Difference between pension contributions paid and amounts recognised in the income statement		(2.7)	(34.0)
Decrease in provisions and other liabilities		(32.6)	(12.0)
Share of post-tax profit from joint venture		(1.6)	–
Cash generated from operations		547.9	567.4
Income tax paid		(18.6)	(32.3)
Net cash from operating activities		529.3	535.1
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		(21.1)	(205.5)
Purchase of property, plant and equipment			
– acquisitions		(81.0)	(65.1)
– investments		(202.1)	(139.0)
Proceeds from sale of property, plant and equipment		369.9	348.7
Proceeds from sale of other non-current assets		32.8	479.5
Purchase of intangible assets		–	(2.0)
Proceeds from sale of intangible assets		1.9	–
Investment in joint venture		(36.5)	–
Proceeds from sale of joint venture		–	6.8
Net cash generated from investing activities		63.9	423.4
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital		2.3	79.4
Proceeds from issue of new loans and borrowings		1,255.0	1,216.0
Issue costs paid		(6.7)	(20.9)
Proceeds from issue of convertible bonds		–	275.0
Costs of issuing convertible bonds		–	(9.3)
Net proceeds from issue of derivative financial instruments		–	50.0
Net proceeds on redemption of derivative financial instruments		5.8	–
Repayment of borrowings		(1,745.9)	(1,966.5)
Interest paid		(347.5)	(319.1)
Interest received		19.6	19.4
Repayments of obligations under finance leases		(6.9)	(4.6)
Interest element of finance lease rental payments		(1.6)	(1.6)
Costs of terminating financing arrangements ¹		(25.7)	(115.1)
Decrease in cash deposits used as security for loan notes		1.1	187.0
Dividends paid	6	(37.4)	(31.5)
Net cash used in financing activities		(887.9)	(641.8)
Net (decrease) / increase in cash and cash equivalents		(294.7)	316.7
Cash and cash equivalents at beginning of period		562.4	245.7
Cash and cash equivalents at end of period		267.7	562.4

¹ In the current period, costs of terminating financing arrangements represents premiums paid to redeem secured loan notes and break costs incurred to cancel swap arrangements associated with these loans on the prepayment of the Avebury securitisation on 21 May 2007. In the prior period, costs of terminating financing arrangements include outflows of £114.6m on the redemption of swaps following the repayment of £525.0m of bank loans on the acquisition of the Spirit group.

1. Basis of preparation

The figures for the 52 weeks ended 18 August 2007 have been extracted from the audited financial statements of Punch Taverns plc which have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. The summary of results does not constitute the full financial statements within the meaning of s240 of the Companies Act 1985.

The financial information for the 52 weeks ended 19 August 2006 has been extracted from the Punch Taverns Annual Report and Financial Statements for that year as filed with the Registrar of Companies.

The auditors, Ernst & Young LLP, have given an unqualified report under Section 235 of the Companies Act 1985, as amended, in respect of the full Group financial statements for both years referred to above.

2. Segmental analysis

The primary segmental reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services provided.

The Group operates in two business segments; a leased estate and a managed estate. Between 19 August 2006 and 18 August 2007, 563 pubs with a fair value of £746.1m have transferred from the managed to the leased estate.

The Group operates solely in the United Kingdom and therefore has only one geographical segment.

	2007			
	Leased £m	Managed £m	Unallocated £m	Total £m
Revenue	845.1	859.8	–	1,704.9
Operating costs ¹	(365.9)	(677.0)	–	(1,042.9)
Share of post-tax profit from joint ventures	–	–	1.6	1.6
EBITDA ¹	479.2	182.8	1.6	663.6
Depreciation and amortisation	(17.5)	(39.0)	–	(56.5)
Operating profit before exceptional items	461.7	143.8	1.6	607.1
Exceptional items	(6.1)	(14.2)	–	(20.3)
Operating profit	455.6	129.6	1.6	586.8
Profit on sale of property, plant and equipment	1.5	1.2	–	2.7
Segment result	457.1	130.8	1.6	589.5
Profit on disposal of subsidiaries and joint ventures	–	–	0.3	0.3
Net finance costs	–	–	(339.3)	(339.3)
Movement in fair value of interest rate swaps	–	–	54.2	54.2
UK income tax expense	–	–	(26.3)	(26.3)
Profit attributable to shareholders	457.1	130.8	(309.5)	278.4

1 Pre exceptional items.

	2006			
	Leased £m	Managed £m	Unallocated £m	Total £m
Revenue	803.3	742.8	–	1,546.1
Operating costs ¹	(367.6)	(572.2)	–	(939.8)
EBITDA ¹	435.7	170.6	–	606.3
Depreciation and amortisation	(15.3)	(30.8)	–	(46.1)
Operating profit before exceptional items	420.4	139.8	–	560.2
Exceptional items	(3.4)	(4.8)	–	(8.2)
Operating profit	417.0	135.0	–	552.0
(Loss) / profit on sale of property, plant and equipment	(0.1)	2.4	–	2.3
Segment result	416.9	137.4	–	554.3
Loss on disposal of subsidiaries and joint ventures	–	–	(0.9)	(0.9)
Net finance costs	–	–	(312.1)	(312.1)
Movement in fair value of interest rate swaps	–	–	39.7	39.7
UK income tax expense	–	–	(34.2)	(34.2)
Profit attributable to shareholders	416.9	137.4	(307.5)	246.8

¹ Pre exceptional items.

3. Exceptional items

In order to provide a trend measure of underlying performance, profit is presented excluding items which management consider will distort comparability, either due to their significant non-recurring nature or as a result of specific accounting treatments. Included in the income statement are the following exceptional items:

	52 weeks to 18 August 2007 £m	52 weeks to 19 August 2006 £m
Operating		
Redundancy, costs to integrate acquisition of subsidiary, licensing reform costs and other related one-off costs	(41.8)	(8.2)
Movement on property liabilities ¹	21.5	–
	(20.3)	(8.2)
Finance costs		
Cost of terminating financing arrangements ²	(10.9)	(0.1)
Movement in fair value of interest rate swaps³	54.2	39.7
Total exceptional items before tax	23.0	31.4
Tax		
Tax impact of exceptional items	11.7	(9.4)
Adjustments to tax in respect of prior periods ⁴	1.7	15.0
Release of tax provision ⁵	2.5	15.0
Tax credit in respect of change in tax rate ⁶	15.5	–
	31.4	20.6
Total exceptional items after tax	54.4	52.0

¹ Represents the movement in property liabilities in respect of which the relevant statutory limitation period has expired (credit of £27.9m) and provision for rent payments following the reversion of eleven onerous leases to the Group (charge of £6.4m).

² Represents premiums in excess of the net book value of loans, borrowings and swap arrangements in relation to the redemption of the Avebury securitisation on 21 May 2007 and other refinancing.

³ Represents the movement in the fair value of interest rate swaps which do not qualify for hedge accounting. Whilst the interest rate swaps are considered to be effective in matching the amortising profile of existing or planned floating rate borrowings, they do not meet the definition of an effective hedge due to the relative size of the mark to market difference of the swap at the date of acquisition or inception.

⁴ In the current period this represents the recognition of losses previously not recognised and adjustments following the finalisation of prior year computations together with changes to tax base cost information in relation to property assets. In the comparative period, adjustments to tax in respect of prior periods represent adjustments to current tax of £8.6m and deferred tax of £6.4m.

⁵ In the current period, this represents the release of a provision following the finalisation of past tax matters. In the comparative period, the tax treatment of an onerous contract was clarified and the associated tax provision was released.

⁶ A tax credit has been recognised in the period following the enactment of legislation in July 2007 which lowers the standard rate of corporation tax in the UK from 30% to 28% with effect from 1 April 2008.

4. Taxation

Reconciliation of the total tax charge

The effective rate of tax is lower than the full rate of corporation tax. The differences are explained below:

	52 weeks to 18 August 2007 £m	52 weeks to 19 August 2006 £m
Profit on ordinary activities before tax	304.7	281.0
Tax at current UK tax rate of 30% (2006: 30%)	91.4	84.3
Effects of:		
Adjustments to tax in respect of prior periods	–	(0.2)
Net effect of expenses not deductible for tax purposes and non-taxable income	(2.1)	(0.5)
Deferred tax credit on indexation of properties	(24.7)	(20.1)
Short-term temporary differences upon which deferred tax is not recognised	–	0.7
Exceptional tax credits	(38.3)	(30.0)
Total tax expense reported in the income statement	26.3	34.2

5. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in the employee share trust, which are treated as cancelled.

Diluted earnings per share is calculated by dividing the earnings attributable to ordinary shareholders (after adding back interest on dilutive convertible bonds) by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive options and dilutive convertible bonds).

The equity portion of the convertible bonds has been assessed and its impact at 18 August 2007 is dilutive (19 August 2006: dilutive on basic earnings and not dilutive on adjusted earnings).

Reconciliations of the earnings and weighted average number of shares are set out below:

	52 weeks to 18 August 2007		52 weeks to 19 August 2006	
	Earnings £m	Per share amount pence	Earnings £m	Per share amount pence
Basic earnings per share	278.4	104.9	246.8	94.9
Effect of dilutive options	–	(1.2)	–	(1.6)
Effect of dilutive convertible bonds	17.0	(2.5)	12.3	(0.9)
Diluted earnings per share	295.4	101.2	259.1	92.4
Supplementary earnings per share figures:				
Basic earnings per share	278.4	104.9	246.8	94.9
Effect of:				
Exceptional items	(54.4)	(20.5)	(52.0)	(20.0)
Basic earnings per share before exceptional items	224.0	84.4	194.8	74.9
Diluted earnings per share	295.4	101.2	259.1	92.4
Effect of:				
Exceptional items	(54.4)	(18.6)	(52.0)	(19.7)
Reverse impact of convertible bonds	–	–	(12.3)	0.9
Diluted earnings per share before exceptional items	241.0	82.6	194.8	73.6

The impact of dilutive ordinary shares is to increase weighted average shares by 3.1 million (August 2006: 4.6 million) for employee share options and 23.3 million (August 2006: 15.9 million) for convertible bonds.

	52 weeks to 18 August 2007 No. (000)	52 weeks to 19 August 2006 No. (000)
Basic weighted average number of shares	265,351	259,953
Discretionary Share Plan and SAYE scheme	2,157	3,816
Long Term Incentive Plan	881	687
Deferred Bonus Shares	105	77
Potential dilutive impact of convertible bonds	23,341	15,902
Diluted weighted average number of shares	291,835	280,435

6. Dividends

	52 weeks to 18 August 2007 £m	52 weeks to 19 August 2006 £m
Declared and paid during the year:		
Final dividend for 2006 for the 52 weeks ended 19 August 2006 of 9.0p (2005: 7.6p)	23.9	20.0
Interim dividend for the 52 weeks ended 18 August 2007 of 5.1p (2006: 4.4p)	13.5	11.5
	37.4	31.5

In addition, the Directors are proposing a final dividend in respect of the financial year ended 18 August 2007 of 10.2 pence per share which will absorb an estimated £27.1m of shareholders' funds. Subject to approval at the AGM, it will be paid on 23 January 2008 to shareholders who are on the register of members on 4 January 2008. These financial statements do not reflect this dividend payable, which has still to be approved by the Company's shareholders.

7. Analysis of changes in shareholders' equity Group

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 20 August 2005	0.1	373.0	1.9	747.7	1,122.7
Effect of implementing IAS 32 / 39	–	–	(62.5)	(6.1)	(68.6)
At 21 August 2005	0.1	373.0	(60.6)	741.6	1,054.1
Total recognised income and expense for the period	–	–	15.9	276.3	292.2
Shares issued	–	74.1	–	–	74.1
Exercise of share options	–	5.3	–	–	5.3
Share based payments	–	–	2.4	–	2.4
Equity dividends	–	–	–	(31.5)	(31.5)
Equity component of convertible bonds	–	–	30.0	–	30.0
At 19 August 2006	0.1	452.4	(12.3)	986.4	1,426.6
Total recognised income and expense for the period	–	–	31.4	312.0	343.4
Exercise of share options	–	2.3	–	–	2.3
Share based payments	–	–	2.0	–	2.0
Equity dividends	–	–	–	(37.4)	(37.4)
At 18 August 2007	0.1	454.7	21.1	1,261.0	1,736.9

8. Changes in net debt

	At 19 August 2006 £m	Acquisitions £m	Cash flow £m	Non-cash movements £m	At 18 August 2007 £m
Current assets					
Cash at bank and in hand	562.4	4.8	(299.5)	–	267.7
Cash deposits	15.8	–	(1.1)	–	14.7
Cash and cash deposits	578.2	4.8	(300.6)	–	282.4
Debt					
Borrowings	(5,197.8)	(132.4)	491.0	20.6	(4,818.6)
Guaranteed loan notes	(15.8)	(12.4)	13.5	–	(14.7)
Derivative financial instruments	(184.0)	(0.1)	(5.8)	93.0	(96.9)
Debt component of convertible bonds	(242.5)	–	–	(10.6)	(253.1)
	(5,640.1)	(144.9)	498.7	103.0	(5,183.3)
Net debt per balance sheet	(5,061.9)	(140.1)	198.1	103.0	(4,900.9)

Net debt incorporates the Group's borrowings, bank overdrafts, derivative financial instruments and obligations under finance leases, less cash and cash equivalents and cash deposits. The cash deposits are used as security for loan notes.

9. Business combinations

Acquisition of subsidiaries in the current period: Mill House

On 14 September 2006 the Group acquired the entire share capital of Broomco (3708) Limited, the holding company of the Mill House group which operated a managed estate of 82 pubs at the date of acquisition.

From the date of acquisition to the year end, the Mill House group contributed £43.6m to Group revenues and £9.6m to EBITDA. If the acquisition had been completed on the first day of the financial year, Group revenues for the year would have been £3.4m higher and Group EBITDA would have been £0.8m higher. All intangible assets were recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill in the financial statements.

The adjustments applied to the book values of the assets and liabilities of the Mill House group in order to present the net assets at fair values in accordance with Group accounting principles were £16.3m, details of which are in the table below.

Acquisition of subsidiaries in the prior period: Spirit Group

On 5 January 2006 the Group acquired the entire share capital of Spirit Group Holdings Limited, on a cash and debt free basis for £2,695.3m, including acquisition costs of £16.3m, resulting in a total consideration paid of £439.6m. The Spirit group operated a managed estate of 1,830 pubs at the date of acquisition.

From the date of acquisition to the year ended 19 August 2006, the Spirit group contributed £744.6m to Group revenues and £171.6m to EBITDA. If the acquisition had been completed on the first day of the previous financial year, Group revenues for the previous year would have been £480m higher and Group EBITDA would have been £106m higher. All intangible assets were recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill in the financial statements.

	2007 ¹			2006 ²		
	Pre-acquisition IFRS values £m	Fair value adjustments £m	Fair values £m	Pre-acquisition IFRS values £m	Fair value adjustments £m	Fair values £m
Goodwill	19.5	(19.5)	–	65.7	(65.7)	–
Intangible fixed assets	4.2	2.1	6.3	147.6	1.0	148.6
Property, plant and equipment	117.2	26.5	143.7	2,277.7	57.8	2,335.5
Assets held for resale	–	12.0	12.0	–	569.8	569.8
Investments in joint ventures	–	–	–	6.8	–	6.8
Inventories	0.5	–	0.5	15.9	–	15.9
Current taxation	–	–	–	0.6	–	0.6
Deferred taxation	–	(2.3)	(2.3)	14.6	(48.1)	(33.5)
Receivables	2.9	–	2.9	80.8	–	80.8
Cash and cash equivalents	4.8	–	4.8	234.1	–	234.1
Payables and provisions						(456.4)
	(12.8)	(2.4)	(15.2)	(434.8)	(21.6)	()
Loans and swaps			(132.5)			(2,731)
	(132.4)	(0.1)	()	(2,625.1)	(106.5)	(.6)
Net assets acquired	3.9	16.3	20.2	(216.1)	386.7	170.6
Goodwill			18.4			269.0
Consideration			38.6			439.6
Consideration satisfied by:						
Cash			26.2			439.6
Loan notes issued			12.4			–
Total consideration			38.6			439.6

¹ 2007 fair values relate to the acquisition of Broomco (3708) Limited on 14 September 2006.

² 2006 fair values relate to the acquisition of Spirit Group Holdings Limited on 5 January 2006.

In the current year, the fair value adjustments primarily relate to the revaluation of freehold and leasehold trading properties and the recognition of deferred tax liabilities on revalued properties.

Included in the £18.4m (August 2006: £269.0m) of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include an assembled workforce and operating synergies.

The fair values that were disclosed in the prior year for the Spirit Group were finalised at 5 January 2007. The impact was to reduce the fair value of net assets acquired by £34.4m due to the recognition of additional deferred tax liabilities on properties following the finalisation of tax base costs. The updated numbers have been shown in the table above.