

PUNCH TAVERNS PLC

Preliminary Results for the 53 weeks to 23 August 2008

Resilient performance in a challenging market

Punch Taverns plc (“Punch” or “the Group”), the UK’s leading pub operator of over 8,400 leased, tenanted and managed pubs, today announces preliminary results for the 53 weeks ended 23 August 2008

Highlights

Financial Performance*

- Profit before tax of £262 million (2007: £282 million) in line with market expectations, reflecting a 7% reduction in the average size of the estate following non-core divestments
- EBITDA of £623 million (2007: £664 million)
- Basic earnings per share of 80.2p (2007: 84.4p)
- Strong cash flow generation with free cash flow before investing activities of £298 million; year end cash balance of £321 million (2007: £268 million)
- Interest cover maintained at 2x EBITDA and no refinancing requirements before December 2010

Statutory Results (after exceptional items)**

- Basic loss per share of 24.3p (2007 earnings per share: 104.9p) following a non-cash exceptional charge of £276 million and a cash exceptional charge of £2 million
- Exceptional items include a charge for pub impairment and the mark-to-market of certain interest rate swaps

Operating Performance*

- Group EBITDA per pub at £72k, similar to prior year
- Average EBITDA per pub up 4% in the leased estate; like-for-like contribution down 3.4%
- Majority of licensees are performing well, 89% of our leased estate is on substantive leases. Average licensee profitability remains in line with last year
- Average EBITDA per pub down 4% in the managed estate; like-for-like sales down 3.3%
- Continued investment with £133 million spent on enhancing over 1,000 pubs across the leased and managed estates

Capital Structure

- Since the year end, £171 million of Group debt has been repurchased and cancelled at a cash cost of £144 million, including the repayment and cancellation of £68 million (24%) of the Convertible Bond, increasing the certainty of repaying the Convertible due December 2010

* before exceptional items

** full analysis of exceptional items is shown in notes 3 and 4 to the Financial Statements

Throughout this document, the results are positively impacted by an additional week’s trading relative to last year; like-for-like measures and profit per pub figures are shown before exceptional items and on an equivalent 52 week basis

- Gross debt has been reduced by £243 million (4.9%) since the August 2007 year end
- £50 million bank facility renewed and extended to October 2010; currently undrawn
- Significant headroom to financial debt covenants
- Repurchase and cancellation of £77 million Punch A debt significantly increases headroom against its restricted payment test
- Group debt supported by pub assets valued at £2bn more than the nominal value of net debt

Giles Thorley, Chief Executive of Punch Taverns plc, commented

“Our operational performance has been robust, delivering strong cash flow generation and an underlying profit of £262 million before tax which was in line with market expectations.

“We have secure long-term debt and no near-term requirement for funding. We have also proactively taken prudent steps in utilising cash to reduce our level of debt, whilst maintaining investment in our pubs to further improve what is one of the most diversified and highest quality pub estates in the country.

“Whilst we are not immune to the current difficult trading conditions, the steps we have taken over the last two years have strengthened our position and leave us well placed operationally to capitalise on any improvement in the wider consumer environment.”

4 November 2008

Enquires:

Punch Taverns plc
Giles Thorley, *Chief Executive*
Phil Dutton, *Finance Director*

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Forward-looking statements

This report may contain certain statements about the future outlook for Punch. Although we believe our expectations are based on reasonable assumptions, any statements about future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

The preliminary results presentation will be available on the Group’s website at www.punchtaverns.com

A live video webcast of the presentation will also be available on the investor section on the above website from 9.25am.

PRELIMINARY RESULTS FOR THE 53 WEEKS TO 23 AUGUST 2008

OVERVIEW

I am pleased to report a robust set of results for Punch covering the 53 weeks ended 23 August 2008. We have achieved a profit before tax and exceptional items of £262m, and generated strong cash flows with a free cash inflow before investment of £298m.

Our balance sheet remains strong and we have been taking steps to increase flexibility in order to equip ourselves better to cope with the more challenging trading environment. Since 18 August 2007 £243m (4.9%) of the Group's debt has been repaid from operating cash flows and included within this the repayment and cancellation of £68m of the Convertible Bond, which represents 24% of the issue, due to be redeemed in December 2010. As at 3 November 2008 the Group maintains c.£115m of freehold and long leasehold pubs outside of the securitisation structures and has renewed and extended a £50m bank facility to October 2010, this facility is currently undrawn.

As announced in September, the Board considers it prudent to retain cash and further strengthen the balance sheet ahead of returning cash to shareholders through distributions. Consequently and as previously announced, the Board does not intend to propose a final dividend for the year ended 23 August 2008. However, the Board will continue to review its distribution policy and the use of cash against the objective of maximising long-term shareholder value.

These results demonstrate the ongoing resilience of our business model in the changing market environment. The successful delivery of these results is again testament to the hard work and commitment of everyone connected with Punch. I would particularly like to thank our pub licensees and managers and all of our staff and colleagues for their support during the year. Cognisant of the challenges facing some of our licensees over the shorter-term, we remain committed to building long-term business partnerships with our lessees. As such, we will continue to advise and support them in every way available to us through what remain testing trading conditions for the industry as a whole.

The Market

Since last autumn, we have seen a slowdown in consumer spending which has been detrimentally impacted by the turmoil in the banking sector, a rise in the cost of food and fuel, and higher interest and borrowing rates. Along with the rest of the industry, we have felt the effects of this slowdown which has coincided with changing consumer trends following the first full year of trade under the smoking ban in England and Wales.

Whilst we continue to be optimistic about the longer-term prospects for Punch and for the industry as a whole, we remain cautious about the short-term recessionary impact of an expected rise in unemployment and a worsening consumer slowdown.

Estate Strategy

The continued investment in our estate, in partnership with our licensees, has ensured that our pubs are best placed to trade through the current difficult climate and are ready to benefit when the economy begins to recover. We are committed to investing wisely to ensure an attractive return and have spent £133m on enhancing over 1,000 pubs across the estate during the year.

During the past two years we have actively churned the estate through the acquisition of high quality pubs and the disposal of less sustainable/less profitable pubs. This has resulted in Punch developing what is today one of the most diversified, highest quality pub estates in the country.

During the year under review, Punch acquired 20 pubs for £24m and disposed of 39 individual pubs together with other assets for £35m, leaving a year end estate of 8,424 pubs comprising 7,560 leased and tenanted pubs and 864 managed. Our strategy of churning the estate to improve the quality will continue and as part of a detailed estate review we have identified c.500 leased and tenanted pubs which generated a profit of c.£10m during the year, that are unlikely to generate long-term sustainable growth and are likely to be sold or converted for alternative use within the next few years.

Leased Estate

During these challenging times, the strength of the leased and tenanted model has continued to prove its resilience and defensive characteristics by delivering a robust performance. We work in close partnership with our licensees, supporting them in every way to maximise the business opportunities open to them. Punch's high quality pub estate continues to attract talented entrepreneurs in the sector. We offer industry-leading support to our licensees and remain confident that both our pubs and our licensees are as well equipped as they can be to weather the current economic downturn.

Despite the much publicised market challenges, it is extremely pleasing to see that we have again been able to improve the quality of the leased estate with average EBITDA per pub up 4% to £64k. This represents a 23% improvement in the average quality of the estate over the last four years since the acquisition of the Pubmaster business in 2003.

Following a strong first quarter to the year in which the business continued in like-for-like growth, trading in the following three quarters was weaker with like-for-like contribution down 5.1%, resulting in a full year like-for-like contribution down 3.4%.

The smoking ban and weaker consumer environment has impacted both the level of footfall and spend per visit, resulting in a reduction in beer volumes, as seen across the sector. Our experience here is broadly in line with data provided by the British Beer and Pub Association ("BBPA").

Despite tougher trading conditions, the majority of our licensees are performing well, with 89% of our pubs being let on substantive agreements. The number of closed pubs continues to be relatively small, representing c.3% of the estate as at the year end. Average licensee profitability, whilst slightly down on the half year position, remained in line with that of last year. The leased model provides attractive returns for licensees, with low initial capital outlay, accommodation and immediate business support. We estimate that the average income for a Punch licensee operating on a substantive lease agreement is c.70% above that of the average full-time adult worker earnings.

Operational activity continues to be high. During the course of the year there were 485 assignments at an average premium of £71k, 985 licensees undertook investment schemes with Punch and we received over 5,000 applications and let 852 pubs in the year. At the year end, we have 944 registered applicants on our database of prospective licensees wanting to

take on a Punch pub, being of a similar level to 2007. We have also continued to see rising rental levels at both rent review and lease renewal with a 4% average uplift on rent review (of which only 9% of reviews resulted in a rent reduction) and a 13% average uplift on lease renewal.

We are, however, seeing a slow down in the overall rate of rental growth due to a relatively small number of pubs that have been significantly impacted by the smoking ban and the economic conditions. Like-for-like rental growth has slowed to 2.1% in the year, compared with a growth of 4.2% in 2007.

We are pleased with the improvement in the estate quality during the year, however we are very much aware of the challenges that our licensees are facing in the short-term. As a consequence we have increased the level of support to licensees where appropriate and remain committed to providing industry leading support through a number of educational and financial initiatives.

During the year to 23 August 2008, the level of rent and non standard discount concessions amounted to £8m. The level of concessions as at 23 August 2008 had increased to £14m of which £6m was provided in the way of rent concessions. Financial support through the provision of temporary rent concessions or additional discounts is reviewed on a case by case basis and is dependent upon the licensee working with Punch to identify and implement a business plan that will advance the business, including for example, improved retail standards, food offer development and a more active marketing and promotional plan.

We are committed to helping our licensees build better businesses into the longer-term and have the most comprehensive training and support package in the industry. During the course of the year we held almost 9,000 licensee training days and provided catering support for 1,200 licensees to introduce a new food offer or help further develop their existing food offer. By leveraging terms available to the Group from the managed side of the business we have also been delivering improved margins for our licensees. For example, our 'Big Orange Food Book' and our Connect drinks brochure enable licensees to access cost effective deals so they, too, are able to deliver better value to their customers.

Managed Estate

As in the leased estate, a stronger first quarter gave way to weaker trading in the following three quarters. However, trading in the fourth quarter did show signs of improvement as the business traded through the first full year of the smoking ban in England and Wales, with a like-for-like sales decline of 2.2% compared to a full year like-for-like sales decline of 3.3%.

Performance has been impacted by the smoking ban and the weaker consumer environment resulting in reduced drinks volumes, and this has had an adverse gross margin impact. Like-for-like food sales have been stable but this masks a slowing performance within the Chef & Brewer (premium food) concept. These pubs have good locations and we have recently taken action to improve performance through a fully-revamped menu and enhanced customer service.

As a consequence of the managed to leased conversion programme in 2007, we have improved the quality of the estate. As a result the decline in average EBITDA per pub has been limited to 4%.

The terms of our supplier contracts and tight cost control have ensured that the business has not been dramatically impacted by the rising cost of food and fuel. In addition, plans to improve our energy efficiency and the forward purchasing of gas and electricity will help combat rising utility costs. Despite these mitigating actions, we still expect above inflation cost increases of c.£8m in the next financial year.

There have been a number of changes in the management team during the course of the year and the business has now been refocused into regional geographies rather than operational concept. This will allow the business to react faster to market change in different parts of the country and deliver improved customer offers, in a much more efficient and timely manner.

The economic environment has put disposable incomes under pressure and consumers are understandably seeking better value for money. Our existing concepts are well positioned to provide our customers with exceptional value and great service. Our Two for One concept, for example, has always offered families a great value and entertainment experience. Elsewhere in the estate, we have re-positioned menus and pricing and provided promotional offers to deliver greater value across the portfolio.

Matthew Clark Joint Venture

Matthew Clark, the 50% joint venture with Constellation Brands, Inc., continues to perform satisfactorily in a very competitive market, providing a post-tax contribution to the Punch Group of £3m during the year. Whilst being relatively small compared to the rest of the Group on a profitability basis, Matthew Clark has significant scale in its marketplace as the largest independent drinks wholesaler and distributor to the UK leisure and hospitality industry, with gross turnover in excess of £500m and c.20,000 customers.

Matthew Clark has a strong strategic fit with the Punch Group, and has enabled Punch licensees to benefit from an enhanced range of goods and services by leveraging Matthew Clark's market leading wines and spirits expertise.

Financial

Full year earnings amounted to £214m after tax and before exceptional items. After exceptional items the Group recorded a loss of £65m. Punch continues to deliver strong levels of cash generation with free cash flow before investing activities of £298m, and after investing activities of £173m.

Total exceptional items amounted to a charge of £278m, the principal items being £295m of impairment charges, a £31m charge for the mark-to-market of certain interest rate swaps and £14m for reorganisation costs. The tax effect of these items together with finalising a number of prior year tax matters with HMRC gave rise to an exceptional tax credit of £64m. Only the £11m of reorganisation costs net of tax and a £9m tax credit in respect of prior year tax matters are of a cash nature. All of the other exceptional charges are of a non-cash nature.

The effective pre-exceptional tax charge of 19% (2007: 20%) remains below the standard rate of UK corporation tax due to indexation of acquired asset base costs. Cash tax in the year amounted to a net receipt of £21m (2007: £19m payment) following the finalisation of prior tax matters with HMRC.

Since flotation, we have maintained an appropriate debt structure funded almost entirely by long term mortgage finance, secured on our sizeable freehold property portfolio. This remains the case today with £4.5bn of long-term debt secured on over 8,000 pub properties. The debt fully repays over terms extending to 27 years and is all effectively at fixed rates of interest. The only debt we have other than this is a Convertible Bond due for repayment in December 2010 and a £50m undrawn revolving credit facility ("RCF") which expires in October 2010.

As with all debt finance, there are covenants and performance tests. In these exceptionally difficult market conditions, we have maintained significant headroom in the key financial 4-quarter DSCR (Debt Service Cover Ratio) covenant test with headroom of 26%, 42% and 50% for the Punch A, Punch B and Spirit securitisations respectively. The Punch A and Punch B securitisations met their Restricted Payment Condition (RPC) tests throughout the year resulting in £137m of cash being available to upstream from the securitisations. The cash held in the Spirit securitisation, following Spirit falling below the RPC test level at the end of the year, was subsequently utilised through acquiring £50m of pubs from the Punch A securitisation.

We have stable long-term amortising debt and no near-term requirement for funding. We have taken additional prudent steps in utilising cash to reduce our level of debt, whilst maintaining investment in our pubs. The nominal value of year end net debt fell to £4.5bn (2007: £4.7bn) representing a multiple of 7.3x (2007: 7.0x) our reported pre-exceptional EBITDA. Interest cover was maintained at 2.0x EBITDA in the year.

Since the financial year end we have continued to review our debt levels and taken the opportunity presented by the market to re-purchase and cancel several tranches of our debt at substantial discounts to the nominal value. During October 2008 we re-purchased £77m of Punch A debt at a cost of £73m, £25m of Punch B debt at a cost of £20m and £68m (accrued value) of Convertible Bonds at a cost of £50m. The repurchase of the Punch A debt will reduce the level of debt service charge in 2009 for this securitisation by £22m, resulting in a substantial increase in the headroom against the restricted payment test. In addition, we have secured a renewal of our existing undrawn RCF which was due to expire in December 2008, with a revised RCF now expiring in October 2010, on broadly similar terms.

We have also ensured that the strength of our balance sheet is underpinned by conservative asset valuations. The carrying value of pub assets shown in the accounts is based on historic (or deemed) cost. Each year we conduct an impairment review, and given the exceptional circumstances in the economy, we have recognised a pub impairment charge of £295m before tax. The charge reflects the reduced level of profitability in the managed business, together with the reduction in profitability within the leased business for those pubs that have been significantly impacted by the current market conditions.

Accounting standards requires that where the value-in-use of individual pubs falls below their carrying value, then this reduction is charged to the income statement. Whereas, uplifts in value are not reflected in the financial statements, unless and to the extent that they reverse a previous impairment charge.

As in prior years, we have undertaken an external valuation of the licensed pub estate which amounts to some £6.5bn which whilst representing a reduction to that of the prior year continues to exceed the current book value by more than £100m and provides a current property valuation of £2.0bn over net debt .

Financial Strategy

Our overriding objective is to continue to maximise the long-term shareholder value of the Group.

As previously announced, clearance has been received from HMRC for a structure which would allow Punch to elect to a REIT (Real Estate Investment Trust) regime whilst retaining all existing businesses. However, in the current environment our main priorities are to maintain the strength of our balance sheet and to continue to invest in our business.

Our current business structure, which incorporates the use of stable long-term amortising debt, has continued to demonstrate its robustness during a period when financial markets have tightened. As the Group has no near-term requirement for funding, the Board believes that the main priority for the use of cash is to prepare the business through continued investment in our pubs. However, we also remain focused on the repayment of the Group's Convertible Bond due in December 2010. A number of measures have already been implemented to ensure the certainty of repayment, including, the purchase and cancellation of 24% of this Bond two years early, creating significant savings of £21m.

Management Changes

Punch continues to ensure that we have a management team of the highest calibre to drive the continued success of the business.

On 7 July 2008 Mike Tye was appointed to the Board as Managing Director of Spirit. Mike has nearly 20 years experience in the leisure industry, notably with Whitbread, Aramark and Forte. He has considerable experience in the pub and pub restaurant markets, as well as the casual dining sector.

More recently, Roger Whiteside joined the Group and was appointed to the Board on 3 November 2008 as Managing Director of the leased business. Roger has nearly 30 years experience in retail, notably with Marks & Spencer, Ocado and Thresher.

Mike and Roger replace Andrew Knight, Managing Director of Spirit and Deborah Kemp, Managing Director of the leased business respectively. The Board would like to express its gratitude to both Andrew and Deborah for their exceptional service to the Group, having been instrumental in managing the business through significant change programmes during their extensive tenures with the Group and wishes them every success in their future careers.

INDUSTRY ISSUES

The Marketplace

The British pub provides millions of responsible adults with an excellent venue to enjoy their leisure time with exceptional choice of food, drink and entertainment in a safe controlled environment. We are therefore concerned that aggressive off-trade pricing, and misguided government policies affecting the pub trade may have a detrimental effect on the pub industry in the long-term.

Media coverage is often targeted at minority groups, such as under age and binge drinkers in town centres, much of which is fuelled by the availability of cheap alcohol in the off-trade market. This exaggerated and negative portrayal of the industry should not drive Government policies, to the detriment of the great British pub, where drinking is controlled in a regulated, licensed environment. Policies should be targeted at the cause of excessive alcohol consumption, disorderly behaviour and alcohol abuse, addressing the specific groups at risk, not society as a whole. In this regard, we fully support the efforts of the Drinkaware Trust and strongly believe that their targeted focus on the main causes of alcohol related social disorder through education and support is the best way to tackle the issues.

Completely Smoke Free

We have now experienced a full year of trade under the smoking ban in England and Wales. As in Scotland, the majority of our licensees have coped well with the changes, successfully adapting and responding to changing consumer demands. The focus was on attracting new customers, not just keeping customers who smoked and we have seen non-smokers and families returning to our pubs.

We invested over £10m across the estate to ensure that our pubs and licensees were well prepared for the ban, being the best in their market place, with the appropriate skills and facilities to minimise the inevitable impact of such a significant piece of legislation.

Since the smoking ban, food has become increasingly important to the success of our pubs and we have responded in our leased business with a dedicated catering development team delivering individual and specific support to our licensees which ensure they have a profitable food offer which is competitive in the current market place.

Business and Enterprise Committee (BEC) inquiry

In June 2008 the Department for Business, Enterprise & Regulatory Reform announced its intention to review the way in which pub companies have acted on the recommendations of the 2004 Trade and Industry Select Committee (TISC) into how licensees are treated.

We have been totally transparent in our feedback to the TISC Report and are proud that we have fulfilled the commitments that we outlined. The review will give us the opportunity to demonstrate how Punch has positively acted on the recommendations of the original committee report and will reinforce our commitment to safeguard the future of the great British pub.

It is disappointing that this has come at a time when we are putting significant focus and effort into supporting our licensees. We feel that this will be a distraction for the industry and we would have preferred to focus more on the positive role that the pub plays in our society.

Current Trading and Outlook

Trading conditions into September and October have, as expected, remained extremely challenging. The deteriorating economic outlook for the UK consumer makes forecasting difficult; consequently we remain cautious over trading prospects for the coming financial year.

Since the year end, sales comparatives in the managed business have continued broadly in line with that experienced for the 2008 financial year. Operating margins continue to be impacted by a growing proportion of sales coming from food and through regulatory, food and energy cost increases.

In the leased business, the level of decline in drinks volumes has continued in line with that experienced for the second half of the 2008 financial year. Whilst we continue to see good levels of activity in the leased business, the impact of increased levels of licensee support through rent concessions and non-standard discounts will further impact results.

Given the current difficult trading environment, we consider it prudent to base management actions on the assumption that there will be no improvement in runrate levels of performance in the near-term. Despite the difficult trading conditions we have exited the year with significant headroom in the key financial covenant tests.

The steps that we have already taken with regards to cash management and the effective structuring of our balance sheet has allowed us to repurchase 24% of the Convertible Bond

ahead of schedule, and leaves us in a strong position to ensure future cash flows are available to the Group, to increase the certainty of repayment of the remainder of the Convertible Bond in December 2010.

Although not immune to the weakening UK consumer environment, Punch does benefit from an extremely high quality, well diversified estate leaving it in a strong position to meet the current market challenges. Our infrastructure enables us to operate our pubs using the optimal business model, be it leased or managed. We remain optimistic about the longer-term prospects given the enhanced quality of the estate, positive demographic indicators, favourable longer-term disposable income and spending trends and the expected reduction in the total number of licensed premises across the industry.

Consolidated income statement for the 53 weeks ended 23 August 2008

	53 weeks to 23 August 2008			52 weeks to 18 August 2007			
	Notes	Before exceptional items £m	Exceptional items (note 3) £m	Total £m	Before exceptional items £m	Exceptional items (note 3) £m	Total £m
Revenue	2	1,560.6	–	1,560.6	1,704.9	–	1,704.9
Operating costs before depreciation and amortisation		(940.3)	(16.7)	(957.0)	(1,042.9)	(20.3)	(1,063.2)
Share of post-tax profit from joint ventures		3.1	–	3.1	1.6	–	1.6
EBITDA¹	2	623.4	(16.7)	606.7	663.6	(20.3)	643.3
Depreciation, amortisation and impairment		(62.5)	(294.7)	(357.2)	(56.5)	–	(56.5)
Operating profit	2	560.9	(311.4)	249.5	607.1	(20.3)	586.8
Profit on sale of non-current assets		0.4	–	0.4	3.0	–	3.0
Finance income		18.9	–	18.9	20.2	–	20.2
Finance costs		(317.9)	–	(317.9)	(348.6)	(10.9)	(359.5)
Movement in fair value of interest rate swaps	3	–	(31.1)	(31.1)	–	54.2	54.2
Profit / (loss) before taxation		262.3	(342.5)	(80.2)	281.7	23.0	304.7
UK income tax (charge) / credit	5	(48.8)	64.3	15.5	(57.7)	31.4	(26.3)
Profit / (loss) for the financial period attributable to equity shareholders		213.5	(278.2)	(64.7)	224.0	54.4	278.4
Earnings / (loss) per share	6						
Basic (pence)		80.2		(24.3)	84.4		104.9
Diluted (pence)		79.5		(24.2)	82.6		101.2
Dividend per share paid or proposed in respect of the period (pence)	7			5.5			15.3
Total dividend paid or proposed in respect of the period (£m)	7			14.6			40.7

¹ EBITDA represents earnings before depreciation, amortisation and impairment, 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 53 weeks ended 23 August 2008

	53 weeks to 23 August 2008 £m	52 weeks to 18 August 2007 £m
Income and expense recognised directly in equity:		
Actuarial (losses) / gains on defined benefit pension schemes	(20.1)	26.1
(Losses) / gains on cash flow hedges	(64.0)	34.0
Transfers from / (to) the income statement on cash flow hedges	2.4	(1.9)
Tax on equity component of convertible bonds	–	9.0
Tax credit related to indexation on revalued properties	8.4	15.3
Tax on items taken directly to equity	33.1	(17.5)
Net (loss) / gain recognised directly in equity	(40.2)	65.0
(Loss) / profit attributable to shareholders	(64.7)	278.4
Total recognised (losses) / income for the period attributable to equity shareholders	(104.9)	343.4

Consolidated balance sheet at 23 August 2008

	Notes	23 August 2008 £m	18 August 2007 £m
Assets			
Non-current assets			
Property, plant and equipment		6,274.7	6,495.5
Operating leases		124.2	151.5
Goodwill		556.2	556.2
Other intangible assets		7.1	5.8
Retirement benefit assets		11.3	10.4
Deferred tax assets		99.6	123.7
Investments in joint ventures		41.2	38.1
Other investments		–	3.5
Derivative financial instruments		1.4	16.1
		7,115.7	7,400.8
Current assets			
Inventories		8.5	7.9
Trade and other receivables		82.8	101.8
Current income tax receivables		–	37.5
Cash deposits used as security for loan notes		14.4	14.7
Cash and cash equivalents		321.2	267.7
		426.9	429.6
Non-current assets classified as held for sale		20.1	8.2
Total assets		7,562.7	7,838.6
Liabilities			
Current liabilities			
Trade and other payables		(351.4)	(364.5)
Short term borrowings		(62.7)	(62.2)
Current income tax liabilities		(5.0)	–
Provisions		(13.4)	(18.1)
		(432.5)	(444.8)
Non-current liabilities			
Borrowings		(4,681.7)	(4,771.1)
Convertible bonds		(264.8)	(253.1)
Derivative financial instruments		(181.1)	(113.0)
Deferred tax liabilities		(366.6)	(467.7)
Retirement benefit obligations		(6.2)	(3.7)
Provisions		(35.2)	(41.7)
Other liabilities		(1.7)	(6.6)
		(5,537.3)	(5,656.9)
Total liabilities		(5,969.8)	(6,101.7)
Net assets		1,592.9	1,736.9
Shareholders' equity			
Called up share capital		0.1	0.1
Share premium		455.0	454.7
Equity component of convertible bonds		30.0	30.0
Hedge reserve		(57.4)	(15.2)
Share-based payment reserve		8.7	6.3
Retained earnings		1,156.5	1,261.0
Total shareholders' equity	8	1,592.9	1,736.9

Consolidated cash flow statement for the 53 weeks ended 23 August 2008

Notes	53 weeks to 23 August 2008 £m	52 weeks to 18 August 2007 £m
Cash flows from operating activities		
	249.5	586.8
Operating profit		
	62.5	56.5
Depreciation and amortisation		
	294.7	-
Impairment		
	2.4	2.0
Share-based payment expense recognised in profit		
	(0.6)	4.5
(Increase) / decrease in inventories		
	19.2	11.0
Decrease in trade and other receivables		
	(11.9)	(76.0)
Decrease in trade and other payables		
	(13.4)	(2.7)
Difference between pension contributions paid and amounts recognised in the income statement		
	(12.9)	(32.6)
Decrease in provisions and other liabilities		
	(3.1)	(1.6)
Share of post-tax profit from joint ventures		
	586.4	547.9
Cash generated from operations		
	21.4	(18.6)
Income tax received / (paid)		
	607.8	529.3
Net cash from operating activities		
Cash flows from investing activities		
	-	(21.1)
Acquisition of subsidiary, net of cash acquired		
	(24.4)	(81.0)
Purchase of property, plant and equipment		
– acquisitions		
	(133.1)	(202.1)
– investments		
	30.2	369.9
Proceeds from sale of property, plant and equipment		
	0.8	1.9
Proceeds from sale of operating leases		
	0.7	32.8
Proceeds from sale of other non-current assets		
	(3.4)	-
Purchase of other intangible assets		
	-	(36.5)
Investment in joint venture		
	3.5	-
Proceeds from sale of other investments		
	(125.7)	63.9
Net cash (used in) / generated from investing activities		
Cash flows from financing activities		
	0.3	2.3
Net proceeds from issue of ordinary share capital		
	-	1,255.0
Proceeds from issue of new loans and borrowings		
	-	(6.7)
Issue costs paid		
	0.6	5.8
Net proceeds on redemption of derivative financial instruments		
	(74.9)	(1,745.9)
Repayment of borrowings		
	(322.4)	(347.5)
Interest paid		
	13.6	19.6
Interest received		
	(3.0)	(6.9)
Repayments of obligations under finance leases		
	(1.3)	(1.6)
Interest element of finance lease rental payments		
	-	(25.7)
Costs of terminating financing arrangements ¹		
	0.3	1.1
Decrease in cash deposits used as security for loan notes		
	(41.8)	(37.4)
Dividends paid	7	
	(428.6)	(887.9)
Net cash used in financing activities		
	53.5	(294.7)
Net increase / (decrease) in cash and cash equivalents		
	267.7	562.4
Cash and cash equivalents at beginning of period		
	321.2	267.7
Cash and cash equivalents at end of period		

¹ In the prior 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.

1 Basis of preparation

The figures for the 53 weeks ended 23 August 2008 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 Group has adopted IFRS 7 'Financial Instruments: Disclosures' for the first time during the current period. There is no impact from the adoption of this standard on the reported numbers in this financial information.

The financial information for the 52 weeks ended 18 August 2007 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 s235 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 2007 and 23 August 2008, 20 pubs with a fair value of £14.1m have transferred from the managed to the leased estate.

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

	53 weeks to 23 August 2008			
	Leased £m	Managed £m	Unallocated £m	Total £m
Drink revenue	574.3	395.4	–	969.7
Food revenue	-	268.5	–	268.5
Rental income	252.3	–	–	252.3
Other revenue	31.3	38.8	–	70.1
Revenue	857.9	702.7	–	1,560.6
Operating costs ¹	(367.8)	(572.5)	–	(940.3)
Share of post-tax profit from joint ventures	–	–	3.1	3.1
EBITDA ¹	490.1	130.2	3.1	623.4
Depreciation and amortisation	(20.7)	(41.8)	–	(62.5)
Operating profit before exceptional items	469.4	88.4	3.1	560.9
Exceptional items	(154.8)	(139.9)	(16.7)	(311.4)
Operating profit / (loss)	314.6	(51.5)	(13.6)	249.5
(Loss) / profit on sale of non-current assets	(3.0)	3.4	–	0.4
Segment result	311.6	(48.1)	(13.6)	249.9
Profit on disposal of subsidiaries and joint ventures	–	–	–	–
Net finance costs	–	–	(299.0)	(299.0)
Movement in fair value of interest rate swaps	–	–	(31.1)	(31.1)
UK income tax credit	–	–	15.5	15.5
Profit / (loss) attributable to equity shareholders	311.6	(48.1)	(328.2)	(64.7)

¹ Pre exceptional items.

52 weeks to 18 August 2007

	Leased £m	Managed £m	Unallocated £m	Total £m
Drink revenue	577.3	519.4	–	1,096.7
Food revenue	-	285.5	–	285.5
Rental income	235.7	-	–	235.7
Other revenue	32.1	54.9	–	87.0
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 non-current assets	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 charge	–	–	(26.3)	(26.3)
Profit attributable to equity shareholders	457.1	130.8	(309.5)	278.4

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:

	53 weeks to 23 August 2008 £m	52 weeks to 18 August 2007 £m
Operating		
Redundancy, costs to integrate acquisition of subsidiary and other related one-off costs	(14.0)	(41.8)
Movement on property liabilities ¹	(2.7)	21.5
Impairment losses ²	(294.7)	–
	(311.4)	(20.3)
Finance costs		
Cost of terminating financing arrangements ³	–	(10.9)
	(31.1)	54.2
Movement in fair value of interest rate swaps⁴	(31.1)	54.2
Total exceptional items before tax	(342.5)	23.0
Tax		
Tax impact of exceptional items	48.7	11.7
Adjustments to tax in respect of prior periods ⁵	15.6	1.7
Release of tax provision ⁶	–	2.5
Tax credit in respect of change in tax rate ⁷	–	15.5
	64.3	31.4
Total exceptional items after tax	(278.2)	54.4

¹ In the current period this represents provision for rent payments following the reversion of four onerous leases to the Group. In the comparative period this represents the movement in property liabilities in respect of which the relevant statutory limitation period had 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 losses on impairment of property, plant and equipment and operating leases (see note 4).

³ 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.

⁴ 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, and are categorised as financial liabilities at fair value through profit or loss.

⁵ 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.

⁶ In the comparative period this represents the release of a provision following the finalisation of past tax matters.

⁷ In the comparative period a tax credit was recognised in the period following the enactment of legislation in July 2007 which lowered the standard rate of corporation tax in the UK from 30% to 28% with effect from 1 April 2008.

4 Impairment losses

During the 53 weeks to 23 August 2008 the Group recognised impairment losses of £139.9m (August 2007: £nil) in the managed estate and £154.8m (August 2007: £nil) in the leased estate.

The impairment recognised within the managed estate was primarily due to the reduction in profits experienced in the current financial period, being brought about by the change in the consumer market following the first full year of the smoking ban introduced in England and Wales, together with a weakened UK consumer environment. The reduction in profits has subsequently impacted the value-in-use calculation. The impairment has been recognised on pubs where their expected future cash flows has fallen to a level such that their value-in-use is below carrying value.

The impairment recognised within the leased estate was primarily due to the identification of 491 pubs considered unlikely to generate long-term sustainable growth following the change in the consumer environment following the first full year of the smoking ban in England and Wales. These pubs are likely to be sold or converted for alternative use within the next few years and have been written down by £120m to their fair value less costs to sell, being management's best estimate of market value following consideration of past experience and the current market environment. A further £35m of impairment has been recognised for pubs where their expected future cash flows has fallen to a level such that their value-in-use is below carrying value.

There is no impairment to goodwill in the period.

5 Taxation

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

	53 weeks to 23 August 2008 £m	52 weeks to 18 August 2007 £m
(Loss) / profit on ordinary activities before tax	(80.2)	304.7
Tax at current UK tax rate of 29.21% (August 2007: 30%)	(23.4)	91.4
Effects of:		
Adjustments to tax in respect of prior periods	(4.1)	–
Net effect of expenses not deductible for tax purposes and non-taxable income	(0.3)	(2.1)
Short term timing differences	4.1	–
Deferred tax credit on indexation of properties	(27.5)	(24.7)
Exceptional tax debits / (credits)	35.7	(38.3)
Total tax (income) / expense reported in the income statement	(15.5)	26.3

6 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 23 August 2008 is not dilutive on diluted earnings per share but is dilutive on diluted earnings per share before exceptional items (18 August 2007: dilutive).

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

	53 weeks to 23 August 2008		52 weeks to 18 August 2007	
	Earnings £m	Per share amount pence	Earnings £m	Per share amount pence
Basic (loss) / earnings per share	(64.7)	(24.3)	278.4	104.9
Effect of dilutive options	–	0.1	–	(1.2)
Effect of dilutive convertible bonds	–	–	17.0	(2.5)
Diluted (loss) / earnings per share	(64.7)	(24.2)	295.4	101.2
Supplementary earnings per share figures:				
Basic (loss) / earnings per share	(64.7)	(24.3)	278.4	104.9
Effect of:				
Exceptional items	278.2	104.5	(54.4)	(20.5)
Basic earnings per share before exceptional items	213.5	80.2	224.0	84.4
Diluted (loss) / earnings per share	(64.7)	(24.2)	295.4	101.2
Effect of:				
Exceptional items	278.2	103.9	(54.4)	(18.6)
Dilutive convertible bonds	18.1	(0.2)	–	–
Diluted earnings per share before exceptional items	231.6	79.5	241.0	82.6

The impact of dilutive ordinary shares is to increase weighted average shares by 1.6 million (August 2007: 3.1 million) for employee share options and 23.6 million (August 2007: 23.3 million) for convertible bonds.

	53 weeks to 23 August 2008 No. (000)	52 weeks to 18 August 2007 No. (000)
Basic weighted average number of shares	266,253	265,351
Discretionary Share Plan and SAYE scheme	1,433	2,157
Long Term Incentive Plan	47	881
Deferred Bonus Shares	160	105
Potential dilutive impact of convertible bonds	23,585	23,341
Diluted weighted average number of shares	291,478	291,835

7 Dividends

	53 weeks to 23 August 2008 £m	52 weeks to 18 August 2007 £m
Declared and paid during the year:		
Final dividend for 2007 for the 52 weeks ended 18 August 2007 of 10.2p (2006: 9.0p)	27.2	23.9
Interim dividend for the 53 weeks ended 23 August 2008 of 5.5p (2007: 5.1p)	14.6	13.5
	41.8	37.4

An interim dividend of 5.5 pence per share was paid to shareholders on 27 June 2008. As announced on 3 September 2008, the Directors will not be proposing the payment of a final dividend.

8 Analysis of changes in shareholders' equity

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
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
Total recognised income and expense for the period	–	–	(42.2)	(62.7)	(104.9)
Exercise of share options	–	0.3	–	–	0.3
Share-based payments	–	–	2.4	–	2.4
Equity dividends	–	–	–	(41.8)	(41.8)
At 23 August 2008	0.1	455.0	(18.7)	1,156.5	1,592.9

9 Changes in net debt

	At 19 August 2006 £m	Acquisitions £m	Cash flow £m	Non-cash movements £m	At 18 August 2007 £m	Cash flow £m	Non-cash movements £m	At 23 August 2008 £m
Current assets								
Cash at bank and in hand	562.4	4.8	(299.5)	–	267.7	53.5	–	321.2
Cash deposits	15.8	–	(1.1)	–	14.7	(0.3)	–	14.4
Cash and cash deposits	578.2	4.8	(300.6)	–	282.4	53.2	–	335.6
Debt								
Borrowings	(5,197.8)	(132.4)	491.0	20.6	(4,818.6)	77.6	11.0	(4,730.0)
Guaranteed loan notes	(15.8)	(12.4)	13.5	–	(14.7)	0.3	–	(14.4)
Derivative financial instruments	(184.0)	(0.1)	(5.8)	93.0	(96.9)	(0.6)	(82.2)	(179.7)
Debt component of convertible bonds	(242.5)	–	–	(10.6)	(253.1)	–	(11.7)	(264.8)
	(5,640.1)	(144.9)	498.7	103.0	(5,183.3)	77.3	(82.9)	(5,188.9)
Net debt per balance sheet	(5,061.9)	(140.1)	198.1	103.0	(4,900.9)	130.5	(82.9)	(4,853.3)

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.

Non-cash movements relate to amortisation of deferred issue costs and premium on loan notes and convertible bonds, the equity component of convertible bonds and fair value movement in derivative financial instruments.