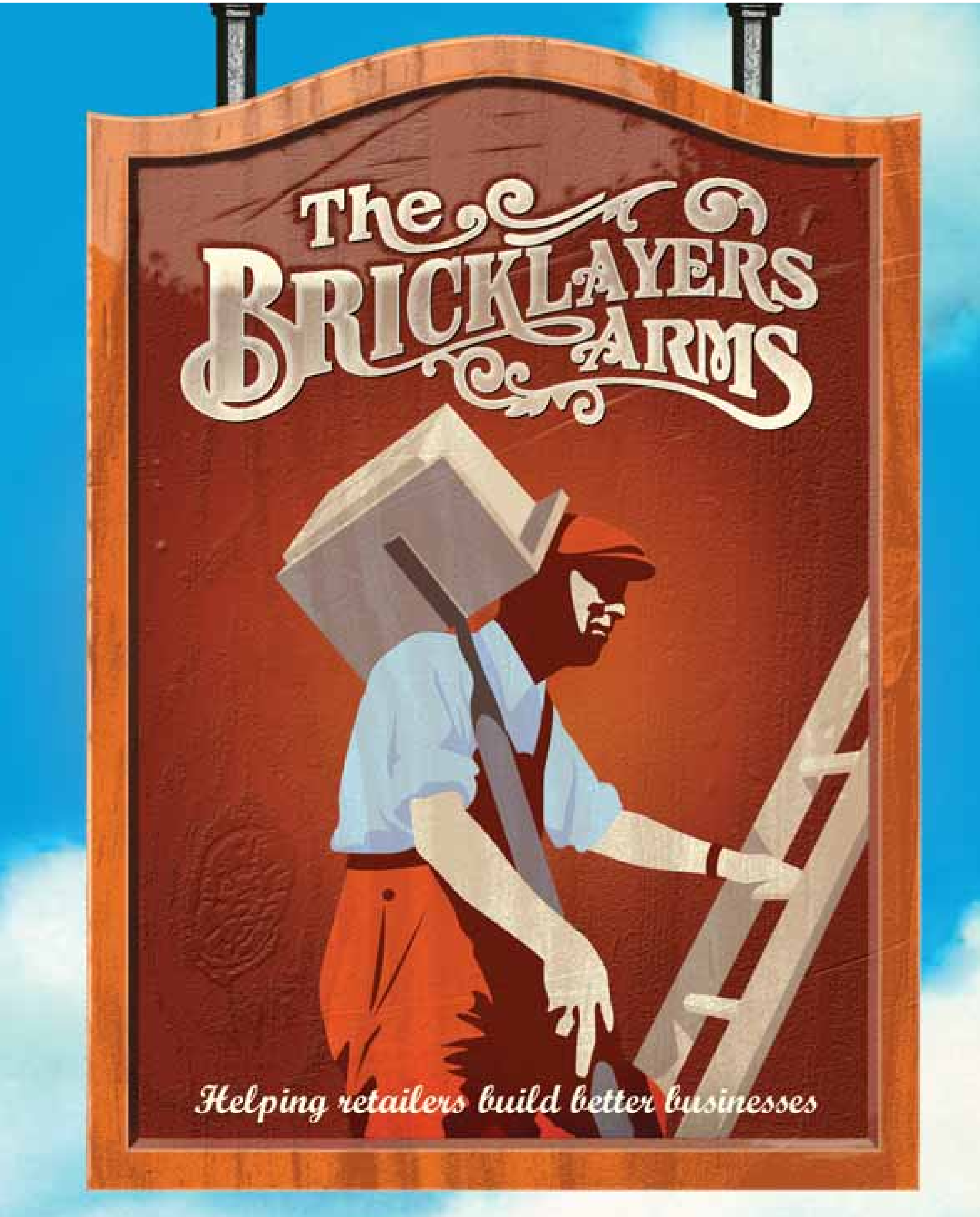
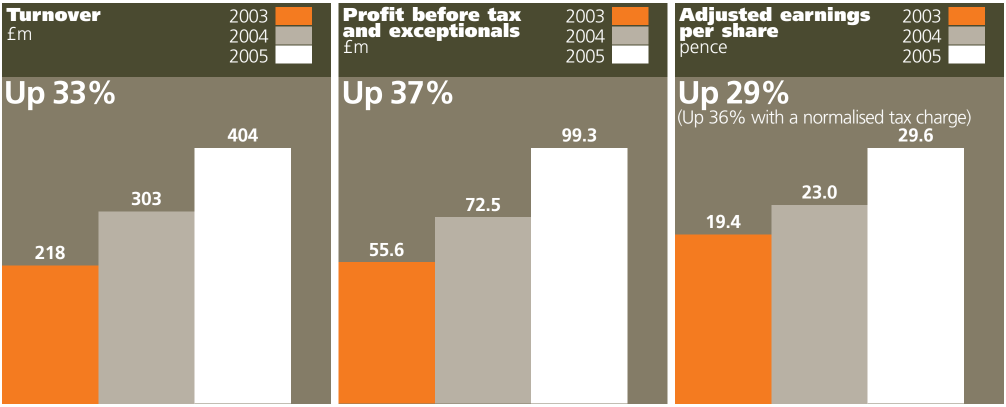
Punch Taverns plc
Interim Report and Accounts
5 March 2005



Punch is a leading pub company working in partnership with its retailers to help them to build better businesses

Financial highlights



- Group turnover up 33% to £404 million (2004: £303 million)
- Profit before tax, amortisation and exceptionals up 39% to £103 million (2004: £74 million)
- Profit before tax and exceptionals up 37% to £99 million (2004: £73 million)
- Adjusted earnings per share up 29% to 29.6p (2004: 23.0p) – up 36% with a 30% normalised tax charge
- Interim dividend increased by 28% to 3.7p (2004: 2.9p)
- Continued organic growth in sales and profit – like for like turnover up 3.4%
- Both the Pubmaster and InnSpired estates trading well
- Continued investment in estate: £26 million on 397 developments
- Satisfactory start to trading in the initial weeks of the second half

Chief Executive's report

Giles Thorley
Chief Executive

Overview

This has been another successful period for Punch Taverns. We have continued to build and refine our estate, which now numbers 7,800 pubs, and to work with our retailers to enhance their businesses to mutual advantage.

This has delivered another excellent set of results, with turnover rising by 33% to £404m and profit before tax and exceptional items increasing by 37% to £99m. Despite a rising tax charge, adjusted earnings per share rose by 29% to 29.6p. These results have been driven from both organic business growth and the earnings enhancing acquisitions of Pubmaster and InnSpired.

Our strategy focuses on the recruitment of quality retailers and helping them to build better businesses, by supporting those that need it, and by providing an opportunity for entrepreneurs to flourish. At the same time we have grown our estate through selective acquisitions, most notably in this period the acquisition of InnSpired Group, from which we were able to retain the best pubs inexpensively whilst disposing successfully of the remainder.

We continue to see many opportunities to acquire quality pubs and to invest profitably in our estate, and this is the primary use of cash generated by the business. Nevertheless our growing scale gives us capacity to increase our interim dividend by 28% to 3.7p per ordinary share. The interim dividend will be payable on 1 July 2005 to shareholders on the register on 10 June 2005.

Organic growth

Like for like turnover in the original Punch estate increased by 3.4% in the first half, driven primarily by increasing beer sales income and rent, and leading to a 2.4% like for like increase in pub contribution. All of our income streams continue to make steady progress.

It is too soon since acquisition to calculate full like for like results for Pubmaster and InnSpired. However, on an informal basis using management accounts pre-acquisition, in the first half average turnover increased by 3.1% in the Pubmaster estate, and by 2.1% in the InnSpired estate. Average margins improved in both estates.

We work in partnership with our retailers, as demonstrated by our approach to licensing, where we have launched a comprehensive support package to help the retailer apply for the optimum licensing arrangements. We are managing the application process and subsidising the cost, enabling retailers to spread payments over three years. This reduces our risk, optimises the opportunity, and helps retailers through a difficult process.

We have trained more retailers than ever before. In the first half we have trained 940 retailers across 7,146 training days on core courses covering induction, marketing and investment. We have successfully piloted a Retail Experience programme for our retailers, emphasising retailing skills and customer service, and are now rolling this out across the estate.

Chief Executive's report continued

We have undertaken 397 pub development schemes in the first half, investing £26m, and achieving an ROI of 25%. Some £9m of our investment was in the Pubmaster estate, where there is now a strong pipeline of future investment.

There are excellent opportunities to invest throughout the estate, but especially in the newly acquired pubs from Pubmaster and InnSpired.

Acquisitions and disposals

Results for the half year include a full 28 week contribution from the Pubmaster estate (14 weeks last year) and 25 weeks from the 471 pubs acquired from InnSpired in September 2004. Both acquisitions were funded entirely from internally generated cash and from debt.

InnSpired was acquired on 10 September 2004 for £335m including debt. It was a privately owned and well managed group, with 1,064 pubs of mixed quality located primarily in the south of England. 51 pubs were sold on immediately in a pre-arranged deal, and 3 others were subsequently acquired. We repaid the long term InnSpired debt in November, and in January completed the disposal of 545 of the lower quality pubs and integrated the remaining 471 pubs, cherry picked for their quality, into the Punch infrastructure. These pubs earned £10.8m EBITDA in the half year and will enable further synergy benefits of approximately £2m per annum to be achieved over time.

In addition to InnSpired, we have invested £40m in acquiring 72 individual pubs in the first half, and raised £22m by selling 74 pubs. We have a skilled team of specialists looking to buy, sell and enhance our quality estate, and we see good opportunities to extend our property portfolio.

Finance

Exceptional costs of £10.8m were incurred in the period, primarily relating to the InnSpired acquisition and the removal of the debt structure. The provisional goodwill arising from the acquisition was £12.3m, which under UK GAAP will be amortised over 20 years, and led to an amortisation charge in the period of £0.3m. The overall taxation charge was 23%, post exceptional items.

Our business continues to generate cash, with over 47% of our turnover being available to invest or to service our capital structure. Our debt has increased to fund acquisitions, but profit growth means interest cover continues to rise and is now 2.1x. The majority of our debt is securitised at fixed rates and slowly amortising over periods of up to 28 years, with no refinancing risk. We are currently reviewing options to refinance the remainder of our debt, some £190m mostly arising from the InnSpired acquisition, onto a similar long term basis.

Rose & Crown

Following a joint investment between Punch and the retailer, the Rose & Crown is now trading as a mid market local.

In common with all other listed companies, we are preparing for the introduction of IFRS. This will affect our reported results from next financial year with the first results announcement on this basis due in April 2006. We are working with our auditors to determine the likely impact on the Punch reported results, but at the present time we anticipate only minor impact on earnings. There will be no impact on cash flows in the business or on our debt covenants. Further information will be provided when our results for the year to 20 August 2005 are restated onto an IFRS basis, expected in early 2006.

Industry watch

The industry continues to endure a significant degree of new regulation, but the pub is a longstanding feature of British life and always evolves very successfully. Our business model remains extremely resilient.

Licensing reform is now underway and we have adopted a very active role in helping our retailers take advantage of the increasing flexibility that will become available.

Whilst the licensing process is certainly burdensome, we believe that the changes will bring benefits for ourselves and our retailers in the medium term. The majority of our retailers are seeking modest but important extensions to opening hours, to be able to meet their customer needs more closely.

Similarly, we have taken a pro-active approach to smoking reform, encouraging our retailers to provide non-smoking facilities where practical, and to eliminate smoking at the bar. We believe these steps will help attract new customers whilst simultaneously preparing the way for more severe regulation that may arise in the future.

Outlook

We are enjoying record numbers of applications to Punch to become a pub retailer and we continue to witness the tremendous success of many of our entrepreneurial retailers in developing their businesses.

Whilst there are some recent suggestions that consumer demand has cooled, Punch has a model which has proven its resilience over many years and we are confident of a satisfactory outcome for the year.

Giles Thorley
Chief Executive

Group profit & loss account
for the 28 weeks ended 5 March 2005

	28 weeks ended 5 March 2005		
	Total £m	Non-recurring exceptional items (note 4) £m	Before exceptional items £m
Turnover			
Ongoing	382.8	–	382.8
Acquisitions[1]	20.8	–	20.8
Group turnover	403.6	–	403.6
Cost of sales	(153.1)	–	(153.1)
Gross profit	250.5	–	250.5
Administrative expenses	(50.8)	(2.9)	(47.9)
Operating profit (note 3)			
Ongoing	190.2	(2.2)	192.4
Acquisitions[1]	9.5	(0.7)	10.2
Group operating profit	199.7	(2.9)	202.6
Profit/(loss) on sale of tangible fixed assets	0.2	–	0.2
Profit before interest and taxation	199.9	(2.9)	202.8
Interest receivable	11.4	5.0	6.4
Interest payable	(122.8)	(12.9)	(109.9)
Profit on ordinary activities before taxation	88.5	(10.8)	99.3
Tax on profit on ordinary activities (note 5)	(20.7)	4.4	(25.1)
Profit for the period	67.8	(6.4)	74.2
Ordinary dividend	(9.4)	–	(9.4)
Retained profit for the period	58.4	(6.4)	64.8
Earnings per share (note 6)			
Basic (pence)	27.1		
Diluted (pence)	26.4		
Adjusted (pence)			29.6

[1] Relates to the acquisition of InnSpired Group Ltd, ultimate parent of the InnSpired trading companies. The profit and loss account in the current period includes 25 weeks of results relating to the acquired InnSpired companies.

28 weeks ended 6 March 2004			52 weeks ended 21 August 2004		
Total £m	Non-recurring exceptional items (note 4) £m	Before exceptional items £m	Total £m	Non-recurring exceptional items (note 4) £m	Before exceptional items £m
303.2	–	303.2	637.6	–	637.6
–	–	–	–	–	–
303.2	–	303.2	637.6	–	637.6
(114.1)	–	(114.1)	(240.9)	–	(240.9)
189.1	–	189.1	396.7	–	396.7
(38.0)	(2.4)	(35.6)	(81.7)	(8.2)	(73.5)
151.1	(2.4)	153.5	315.0	(8.2)	323.2
–	–	–	–	–	–
151.1	(2.4)	153.5	315.0	(8.2)	323.2
(10.9)	(11.5)	0.6	(12.0)	(12.0)	–
140.2	(13.9)	154.1	303.0	(20.2)	323.2
6.2	1.8	4.4	9.9	1.8	8.1
(90.7)	(4.7)	(86.0)	(179.6)	(4.7)	(174.9)
55.7	(16.8)	72.5	133.3	(23.1)	156.4
(13.1)	2.4	(15.5)	(30.8)	4.1	(34.9)
42.6	(14.4)	57.0	102.5	(19.0)	121.5
(7.2)	–	(7.2)	(22.5)	–	(22.5)
35.4	(14.4)	49.8	80.0	(19.0)	99.0
17.2			41.2		
16.8			40.3		
		23.0			48.8

Group statement of total recognised gains and losses
for the 28 weeks ended 5 March 2005

	28 weeks ended 5 March 2005 £m	28 weeks ended 6 March 2004 £m	52 weeks ended 21 August 2004 £m
Profit for the financial period	**67.8**	42.6	102.5
Unrealised surplus on revaluation of tangible fixed assets	**–**	–	84.7
Total recognised gains for the period	**67.8**	42.6	187.2

Reconciliation of movements in shareholders' funds

	28 weeks ended 5 March 2005 £m	28 weeks ended 6 March 2004 £m	52 weeks ended 21 August 2004 £m
At beginning of period	**799.6**	631.3	631.3
Total recognised gains	**67.8**	42.6	187.2
Exercise of share options	**5.5**	3.2	3.2
Share based payments	**0.5**	–	0.4
Ordinary dividends	**(9.4)**	(7.2)	(22.5)
At end of period	**864.0**	669.9	799.6

Group balance sheet
at 5 March 2005

	5 March 2005 £m	6 March 2004 £m	21 August 2004 £m
Fixed assets			
Goodwill	**140.7**	133.2	132.8
Negative goodwill	**(27.3)**	(28.9)	(28.2)
	113.4	104.3	104.6
Tangible fixed assets	**3,811.2**	3,459.1	3,569.0
	3,924.6	3,563.4	3,673.6
Current assets			
Debtors due within one year	**78.4**	82.0	74.4
Debtors due after more than one year	**9.7**	11.7	10.8
Cash at bank and in hand[1]	**174.6**	211.6	238.3
	262.7	305.3	323.5
Creditors: amounts falling due within one year	**(478.3)**	(328.5)	(335.0)
Net current liabilities	**(215.6)**	(23.2)	(11.5)
Total assets less current liabilities	**3,709.0**	3,540.2	3,662.1
Creditors: amounts falling due after more than one year	**(2,730.3)**	(2,786.6)	(2,759.2)
Provisions for liabilities and charges	**(114.7)**	(83.7)	(103.3)
Net assets	**864.0**	669.9	799.6
Capital and reserves			
Called up share capital	**0.1**	0.1	0.1
Share premium	**372.2**	366.7	366.7
Revaluation reserve	**184.7**	101.6	186.0
Profit and loss account	**307.0**	201.5	246.8
Equity shareholders' funds	**864.0**	669.9	799.6

[1] Cash at bank and in hand includes £31.6m (March 2004: £73.7m; August 2004: £73.0m) of deposits used as security for guaranteed loan notes.

Group cash flow statement
for the 28 weeks ended 5 March 2005

	Notes	**28 weeks ended 5 March 2005 £m**	28 weeks ended 6 March 2004 £m	52 weeks ended 21 August 2004 £m
Net cash inflow from operating activities	8(a)	**181.9**	148.0	327.5
Returns on investment and servicing of finance				
Interest paid		**(109.7)**	(84.3)	(181.5)
Interest received		**5.9**	5.3	8.5
Cost of terminating financing arrangements[1]		**(25.1)**	(10.4)	(10.4)
Deferred issue costs paid		**(1.2)**	(14.6)	(14.9)
Dividends paid to preference shareholders of acquired subsidiary		**–**	(6.6)	(6.6)
		(130.1)	(110.6)	(204.9)
Taxation paid		**(7.8)**	(1.9)	(4.4)
Capital expenditure and financial investment				
Payments to acquire tangible fixed assets[2]		**(69.7)**	(59.2)	(99.4)
Receipts from sales of tangible fixed assets		**22.4**	63.6	75.6
		(47.3)	4.4	(23.8)
Acquisitions and disposals				
Payments to acquire subsidiary undertakings		**(37.0)**	(219.3)	(223.0)
Net cash acquired on acquisition of subsidiary undertaking		**28.4**	39.9	39.9
Receipts from disposal of assets held for resale		**175.5**	–	–
		166.9	(179.4)	(183.1)
Equity dividends paid		**(15.3)**	(10.9)	(18.1)
Net cash inflow/(outflow) before financing	8(c)	**148.3**	(150.4)	(106.8)
Financing				
Issue of Ordinary share capital		**5.5**	3.2	3.2
Loans raised		**418.4**	1,012.6	1,017.3
Loans repaid		**(635.9)**	(832.5)	(854.1)
Decrease in cash deposits[3]		**41.4**	0.5	1.2
		(170.6)	183.8	167.6
(Decrease)/increase in cash	8(b)	**(22.3)**	33.4	60.8

[1] Costs of terminating financing arrangements includes £8.4m treated as exceptional within interest payable (note 4) with the remaining £16.7m being reflected in the fair value of assets acquired at the date of acquisition (see note 9).

[2] Payments to acquire tangible fixed assets includes payments of £39.7m on acquisition of new pubs (March 2004: £27.0m; August 2004: £48.7m).

[3] The increase in cash deposits relates to the settlement of guaranteed loan notes of the same amount, the repayment of which is included in loans repaid. Cash deposits of £31.6m (March 2004: £73.7m; August 2004: £73.0m) have been reclassified as within Financing, previously they were classified as cash. The amounts for the 28 weeks ended 6 March 2004 have been restated to include a cash inflow relating to cash deposits of £0.5m.

Group cash flow statement
for the 28 weeks ended 5 March 2005
continued

Cash flows for the 28 weeks ended 5 March 2005
Net cash inflow from operating activities includes outflows of £2.9m in respect of redundancy, costs to integrate acquisition of subsidiary 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 £8.4m treated as exceptional within interest payable (note 4). 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 9) with the discount effect of £4.7m being included as exceptional within interest receivable (note 4).

Cash flows in respect of the 28 weeks ended 6 March 2004
Net cash inflow from operating activities includes outflows of £2.4m in respect of 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 4) in the period together with £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 £52.4m of net proceeds relating to disposals treated as exceptional in the period (note 4).

Cash flows in respect of the 52 weeks ended 21 August 2004
Net cash inflow from operating activities includes outflows of £8.2m in respect of 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 4) 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 4).

Notes to the accounts
for the 28 weeks ended 5 March 2005

1. Accounting policies

Basis of preparation
The interim financial information is unaudited but has been reviewed by the auditors.

The interim financial information has been prepared in accordance with the Group's accounting policies as set out in the financial statements for the 52 weeks ended 21 August 2004. The valuation of fixed assets has been brought forward from those included in the statutory accounts for the period ended 21 August 2004 without amendment.

The interim report, which was approved by the Board of Directors on 27 April 2005, does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.

The figures for the period ended 21 August 2004 are extracted from the audited accounts for that period which have been delivered to the Registrar of Companies and on which the auditors gave an unqualified opinion and did not make any statement under sections 237 (2) or (3) of the Companies Act 1985.

2. Segmental information

Turnover, operating profit and assets and liabilities relate to the primary activity of leasing public houses to independent publicans and the wholesale supply of beer products to lessees.

A small number of pubs are directly managed by GRS Inns Ltd, a wholly owned subsidiary, but do not have a material impact on the turnover, operating profit or assets of the group.

3. Operating profit

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

	28 weeks ended 5 March 2005			28 weeks ended 6 March 2004	52 weeks ended 21 August 2004
	Ongoing £m	**Acquisitions[1] £m**	**Total £m**	Total £m	Total £m
Turnover	**382.8**	**20.8**	**403.6**	303.2	637.6
Cost of sales	**(144.6)**	**(8.5)**	**(153.1)**	(114.1)	(240.9)
Gross profit	**238.2**	**12.3**	**250.5**	189.1	396.7
Administrative expenses:					
Amortisation of goodwill	**(3.2)**	**(0.3)**	**(3.5)**	(1.9)	(4.8)
Depreciation	**(6.7)**	**(0.3)**	**(7.0)**	(4.9)	(11.4)
Exceptional items (note 4)	**(2.2)**	**(0.7)**	**(2.9)**	(2.4)	(8.2)
Other	**(35.9)**	**(1.5)**	**(37.4)**	(28.8)	(57.3)
Total administrative expenses	**(48.0)**	**(2.8)**	**(50.8)**	(38.0)	(81.7)
Operating profit	**190.2**	**9.5**	**199.7**	151.1	315.0

[1] Relates to the acquisition of InnSpired Group Ltd, ultimate parent of the InnSpired trading companies. The profit and loss account in the current period includes 25 weeks of results relating to the acquired InnSpired companies.

Comparative periods relate to ongoing activities.

4. Exceptional items

Included in continuing operations are the following exceptional items:

	28 weeks ended 5 March 2005 £m	28 weeks ended 6 March 2004 £m	52 weeks ended 21 August 2004 £m
Exceptional administrative expenses			
Redundancy, costs to integrate acquisition of subsidiary and other related one-off costs	**(2.9)**	(2.4)	(8.2)
Loss on disposal of tangible fixed assets[1]	**–**	(11.5)	(12.0)
Interest receivable			
Interest receivable on deposits to fund repayment of old floating rate notes[2]	**–**	1.8	1.8
Effect of discounting assets[3]	**4.7**	–	–
Other[4]	**0.3**	–	–
	5.0	1.8	1.8
Interest payable and similar charges			
Secured Loan interest[5]	**(1.3)**	(2.3)	(2.3)
Bank loan interest[6]	**(3.2)**	–	–
Cost of terminating financing arrangements[7]	**(8.4)**	(2.4)	(2.4)
	(12.9)	(4.7)	(4.7)
Total Exceptional Items	**(10.8)**	(16.8)	(23.1)
Tax impact of exceptional items	**4.4**	2.4	4.1
Exceptional items included in retained profit	**(6.4)**	(14.4)	(19.0)

In the current period the Group profit and loss account includes a non-operating exceptional item of £0.2m relating to profit on disposal of tangible fixed assets. These disposals are a recurring feature of the Group's business and results and are therefore excluded from the above table. In the 28 weeks ended 6 March 2004, profit of £0.6m included in the £10.9m net loss on disposal of tangible fixed assets related to such disposals. In the 52 weeks ended 21 August 2004 no net profit or loss was made on such disposals.

[1] The profit and loss account for the periods ended 21 August 2004 and 6 March 2004 includes £12.0m and £11.5m 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 in order to comply with competition guidelines. No profit or loss was made on these disposals.

[2] During the comparative periods £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 of an acceptance of tender offer before the refinancing. The exceptional interest receivable in the comparative periods 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 pubs InnSpired pubs acquired on 10 September 2004 to reflect the fair value of assets acquired (note 9).

[4] Funds were held in an escrow account to fund the cost of acquisition of InnSpired Group Ltd. 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 date of acquisition to their subsequent redemption on 21 October 2004. The exceptional secured loan note interest charge represents the portion of the loans relating to the 545 of the total 1,064 pubs acquired that were subsequently disposed of on 28 January 2005. In the comparative periods the exceptional secured loan note interest represents interest payable on the floating rate notes not subject to acceptance of tender offer from date of debt restructure to final redemption that would not otherwise have been paid had the loans been repaid at date of debt restructure.

Notes to the accounts
for the 28 weeks ended 5 March 2005
continued

4. Exceptional items continued

[6] A bank facility was drawn down to fund the acquisition of InnSpired Group Ltd. 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 and break costs incurred to cancel swap arrangements associated with these loans. In comparative periods this 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.

5. Taxation

The effective taxation charge applied in these interim results of 23.4% reflects the estimated tax rate for the 52 weeks ending 20 August 2005. The effective rate of taxation for the comparative period was 23.5%.

6. Earnings per Ordinary share

(a) Basic earnings per share
Basic earnings per share of 27.1 pence (March 2004: 17.2 pence; August 2004: 41.2 pence) has been calculated using total profit of £67.8m (March 2004: £42.6m; August 2004: £102.5m), and weighted average number of equity shares in issue during the period of 250,538,050 (March 2004: 248,349,124; August 2004: 249,082,407).

(b) Diluted earnings per share
Diluted earnings per share 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 26.4 pence (March 2004: 16.8 pence; August 2004: 40.3 pence) has been calculated using basic earnings of £67.8m (March 2004: £42.6m; 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:

	28 weeks ended 5 March 2005 No	28 weeks ended 6 March 2004 No	52 weeks ended 21 August 2004 No
Basic weighted average number of Ordinary shares	**250,538,050**	248,349,124	249,082,407
Dilutive effect from share options	**5,859,790**	5,034,969	5,206,056
Dilutive weighted average number of Ordinary shares	**256,397,840**	253,384,093	254,288,463

(c) Adjusted earnings per share
Adjusted earnings per share of 29.6 pence (March 2004: 23.0 pence; August 2004: 48.8 pence) is based on basic profits adjusted to exclude non-recurring exceptional items and is calculated as follows:

	28 weeks ended 5 March 2005 £m	28 weeks ended 6 March 2004 £m	52 weeks ended 21 August 2004 £m
Profit for the period	**67.8**	42.6	102.5
Non-recurring exceptional items (note 4)	**6.4**	14.4	19.0
Adjusted earnings	**74.2**	57.0	121.5

The weighted average number of shares used is the same as that used to calculate basic earning per share.

7. Dividends

An interim dividend of 3.7 pence per Ordinary Share is proposed (March 2004: 2.9 pence; August 2004: 6.1 pence) which will be payable on 1 July 2005 to Shareholders on the register of members on 10 June 2005.

8. Notes to the cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	28 weeks ended 5 March 2005 £m	28 weeks ended 6 March 2004 £m	52 weeks ended 21 August 2004 £m
Operating profit	**199.7**	151.1	315.0
Depreciation	**7.0**	4.9	11.4
Amortisation of goodwill/negative goodwill	**3.5**	1.9	4.8
Decrease/(increase) in debtors	**1.5**	(1.1)	0.8
Decrease in creditors and provisions	**(29.8)**	(8.8)	(4.5)
Net cash inflow from operating activities	**181.9**	148.0	327.5

(b) Analysis of changes in net debt

	At 21 August 2004 £m	On acquisitions £m	Cash flow £m	Non cash movements £m	**At 5 March 2005 £m**
Cash	165.3	–	(22.3)	–	**143.0**
Cash deposits	73.0	–	(41.4)	–	**31.6**
Bank and other loans	(2,873.4)	(337.1)	218.7	0.2	**(2,991.6)**
	(2,635.1)	(337.1)	155.0	0.2	**(2,817.0)**

The cash deposits are used as security for guaranteed loan notes.

Non-cash movements relate to amortisation of deferred issue costs and premium on loan notes.

(c) Cash flows relating to acquisition

The following table summarises the cash flows relating to continuing operations and acquisitions during the current period:

	Continuing Operations £m	**Acquisitions[1] £m**	**Total £m**
Net cash inflow/(outflow) from operating activities	184.8	(2.9)	181.9
Returns on investment and servicing of finance	(100.7)	(29.4)	(130.1)
Taxation paid	(7.7)	(0.1)	(7.8)
Capital expenditure and financial investment	(45.8)	(1.5)	(47.3)
Acquisitions and disposals	(8.6)	175.5	166.9
Equity dividends paid	(15.3)	–	(15.3)
Net cash inflow before financing	6.7	141.6	148.3

Of total loans repaid during the period of £635.9m, £337.1m relates to repayments of loans that were acquired through the InnSpired Group Ltd acquisition.

[1] Relates to the acquisition of InnSpired Group Ltd, ultimate parent of the InnSpired trading companies. Cash flows in the current period include 25 weeks of results relating to the acquired InnSpired companies.

Notes to the accounts
for the 28 weeks ended 5 March 2005
continued

9. Acquisitions during the period

Acquisition of subsidiaries: InnSpired Group Ltd
On 10 September 2004 the Group acquired the entire share capital of InnSpired Group Ltd which operates a leased/tenanted estate. At the date of acquisition the estate consisted of 1,064 pubs.

The acquisition is summarised as follows:

		Fair value adjustments			
	Book value £m	Revaluations £m	Assets held for resale £m	Other £m	Fair value £m
Intangible fixed assets	30.0	(30.0)	–	–	–
Tangible fixed assets	330.4	41.9	(169.4)	–	202.9
Assets held for resale	–	–	170.8	–	170.8
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	(22.1)	–	(4.1)	26.1
Provisional goodwill arising on acquisition					12.3
Total cash consideration					38.4

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 are valued at discounted sales proceeds

Other
- provision for onerous 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

Independent review report to Punch Taverns plc

We have been instructed by the company to review the financial information for the twenty-eight weeks ended 5 March 2005 which comprises Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds, Group Balance Sheet and Group Cash Flow Statement and the related notes 1 to 9. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by the law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the twenty-eight weeks ended 5 March 2005.

Ernst & Young LLP
Birmingham

27 April 2005

Company information

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Financial calendar

Interim dividend	1 July 2005
Year end	20 August 2005
Preliminary results Announcement	November 2005
Final dividend	January 2006

Directors of the Company

Peter Cawdron
Non-Executive Director

Phil Cox
Non-Executive Chairman

Adrian Fawcett
Chief Operating Officer

Ian Fraser
Non-Executive Director
Appointed 22 September 2004

Martin Glenn
Non-Executive Director
Appointed 22 September 2004

Mike Foster
Non-Executive Director

Robert McDonald
Finance Director

Jonathan Paveley
Commercial Director
Appointed 22 September 2004

Randl Shure
Non-Executive Director

Fritz Ternofsky
Non-Executive Director

Giles Thorley
Chief Executive

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