

# FINANCIAL REVIEW



[www.thespiritgroup.com](http://www.thespiritgroup.com)

PASSIONATE ABOUT OUR PUBS



[www.punchtaverns.com](http://www.punchtaverns.com)

# Financial Review

- Results cover 52 weeks to 18 August 2007
- Results impacted by acquisitions, disposals and conversions
  - full contribution from Spirit Group, acquired 5 January 2006
  - 48 week contribution from Mill House Inns, acquired 14 September 2006
  - Matthew Clark JV formed on 17 April 2007
  - disposal of package of 869 pubs on 16 May 2007
- Completed £825m refinancing in July 2007



# Strong Earnings Growth

£m	<u>Leased</u>	<u>Managed</u>	<u>Share of JV</u>	<u>Group</u>	<u>growth</u>
<b>Revenue</b>	<b>845</b>	<b>860</b>	-	<b>1,705</b>	<b>10%</b>
<b>EBITDA</b>	<b>479</b>	<b>183</b>	<b>2</b>	<b>664</b>	<b>9%</b>
Depreciation, amortisation	(18)	(39)		(57)	
Interest				(328)	
Profit on asset sales				3	
<b>Profit before tax</b>				<b>282</b>	<b>13%</b>
Tax				(58)	
<b>Net Profit</b>				<b>224</b>	<b>15%</b>
<b>Basic EPS</b>				<b>84.4p</b>	<b>13%</b>

Excluding exceptional items



# Evolving Pub Estate

	<u>Leased</u>	<u>Managed</u>	<u>Total</u>
August 2006	7,846	1,410	9,256
Acquisitions	85	93	178
Lease conversions	563	(563)	
Disposals	(933)	(53)	(986)
August 2007	7,561	887	8,448
<i>net change</i>	<i>-4%</i>	<i>-37%</i>	<i>-9%</i>
Average estate size	7,873	1,191	9,064
<i>decrease on last year</i>	<i>-1%</i>		

- Lease conversions programme completed – 637 pubs transferred (including 74 last year)
- Disposals include the sale of 869 leased pubs to Admiral Taverns on 16 May 2007



Managed acquisitions includes 11 lease reversions

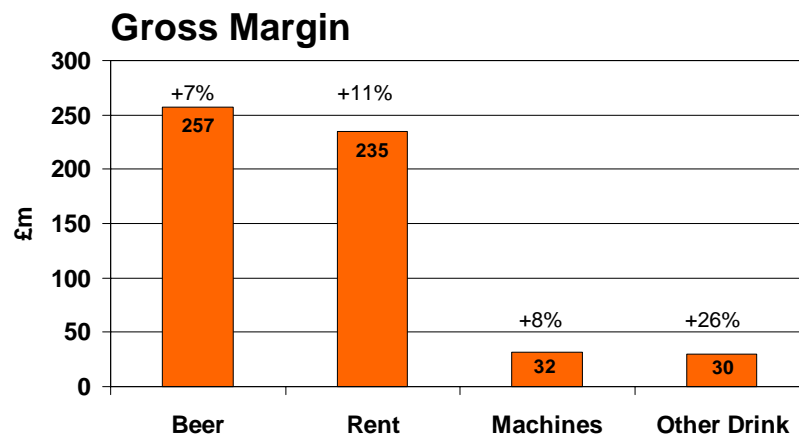


# Profit Growth in the Leased Estate

52 weeks to 18 August 2007

	<u>Total</u>	<u>growth</u>
Average number of pubs	7,873	-1%
£m		
Revenue:		
Beer	498	4%
Rent	236	11%
Machine income	32	8%
Other drinks	79	13%
Total revenue	845	7%
Gross margin	554	10%
Costs	(75)	-8%
EBITDA	479	10%

- Margin 57% (54% last year)
- 11% growth EBITDA per pub
- 2.7% like for like profit growth



Growth measured against last year excluding GRS Inns, sold June 2006

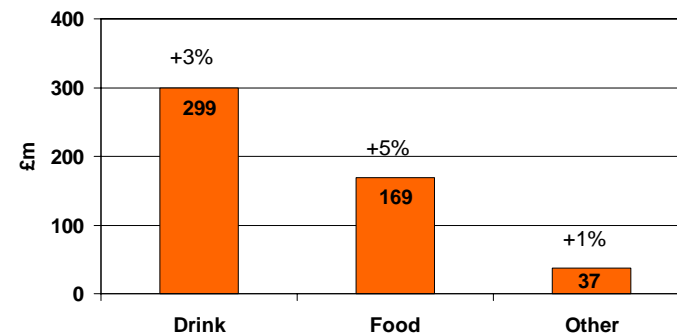


# Profit Growth in the Managed Estate

£m	Core managed estate	Like for like growth	Transition estate	Total
Ending No. of Pubs	836		51	887
Average No. of Pubs	830		361	1,191
Drink	394	2%	125	519
Food	261	6%	24	286
Other	37	1%	18	55
<b>Total revenue</b>	<b>693</b>	<b>4%</b>	<b>167</b>	<b>860</b>
<b>Gross margin</b>	<b>505</b>	<b>4%</b>	<b>126</b>	<b>631</b>
Pub costs	(279)	-5%	(80)	(359)
Rent payable	(36)	-3%	(9)	(45)
<b>Outlet EBITDA</b>	<b>191</b>	<b>1%</b>	<b>38</b>	<b>228</b>
Central overheads				(46)
<b>EBITDA</b>				<b>183</b>

- Like for like core estate growth:
  - Revenue growth +3.5%
  - Pub profit growth +1.4%
- Average Outlet EBITDA per pub in the closing estate is up 15% on last year
- £14m overhead reduction

## Gross Margin



Like for like growth relates to 755 outlets owned by Spirit for the whole of FY06 and FY07  
 Transition estate comprises pubs sold during the year and pubs which do not fit into the four core operating divisions



# Cash Generation and Investment

£m	<u>2007</u>	<u>2006</u>
EBITDA	664	606
Exceptional items	(42)	(8)
Working capital, provisions, etc	(71)	3
Pension top up contributions	(3)	(34)
<b>Operating Cashflow</b>	<b>548</b>	<b>567</b>
Interest	(329)	(301)
Dividends	(37)	(32)
Tax paid	(19)	(32)
<b>Cash generated for investment</b>	<b>163</b>	<b>202</b>
Investment - Leased	(117)	(100)
Investment - Managed	(85)	(41)
Acquisitions - individual pubs	(81)	(65)
Acquisitions - Mill House (07) / Spirit (06)	(21)	(206)
Acquisitions - Matthew Clark JV	(37)	-
Disposals	405	835
<b>Cash generated pre financing</b>	<b>227</b>	<b>625</b>

- One off costs and working capital outflows relating to the Spirit integration
- Interest cover 2.0x
- Low cash tax
- Significant investment
- Acquisitions net of acquired debt



# Strong Balance Sheet

£m	<u>2007</u>	<u>2006</u>	
Fixed assets	6,699	6,698	● 94% of estate freehold or long lease
Goodwill	556	538	
Working capital	(217)	(341)	● Stable long term debt structure
Non current liabilities, provisions	(400)	(406)	
Cash	268	562	● Net debt down to 7.4x EBITDA (2006 8.3x)
Debt	(5,169)	(5,624)	
Net assets	1,737	1,427	● Property backed options and REITs continue to be reviewed against objective of maximising long term shareholder value
<i>Net debt</i>	<i>4,901</i>	<i>5,062</i>	



# Secure Long Term Debt

	August 2007		August 2006	
	Nominal Value £m	Effective Interest Rate	Nominal Value £m	Effective Interest Rate
Securitised debt				
Punch A	2,100		1,760	
Punch B	1,249		1,249	
Avebury	-		106	
Spirit	1,250		1,250	
Total	<u>4,599</u>	6.6%	<u>4,365</u>	6.8%
Bank debt	43	5.6%	622	6.6%
Convertible bonds	275	6.3%	275	6.3%
Nominal Value	<u>4,917</u>	6.6%	<u>5,262</u>	6.7%
Finance lease obligations	21		27	
Fair value adjustment	231		335	
Gross Debt	<u>5,169</u>		<u>5,624</u>	

Effective interest rate calculated as interest expense over nominal value of debt



# Tax and Exceptional Items

• Expenditure on integration of acquisitions, conversion of pubs to leased and integrating support structures	(42)
• Net reduction in property provisions in Spirit	22
• One off charge on refinancing	(11)
• Credit on fair value of interest rate swaps	54
• Net tax credit following agreement of tax treatments	31
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	54
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- Taxation

- Effective tax charge 20% due to indexation of acquired asset base costs
- Cash tax of £19m; 7% (effective rate) continues to be low as we utilise brought forward losses
- 2008 tax charge forecast to be 20 - 23%; cash tax expected to be nil following agreement of prior year tax treatment



# Financial Review Summary

- 6<sup>th</sup> successive year of strong performance
- Transformation of Spirit acquisition completed
- No exposure to volatile credit markets
- Well placed to consider all opportunities

