

# PUNCH TAVERNS PLC

("Punch" or "the Group")

Preliminary Results for the 52 weeks to 22 August 2009

**Net debt reduced by over £1 billion; early action taken to address market conditions**

## **Financial Performance\***

- Results in line with expectations
- EBITDA of £514 million (2008: £623 million)
- Profit before tax of £160 million (2008: £262 million)
- Strong cash flow before financing of £479 million
- Disposals of £414 million comprised largely of non-core assets. Disposals are earnings accretive after retiring Group debt
- Basic earnings per share of 36.1p (2008: 69.9p)
- Net Asset Value per share of 260p, post impairments

## **Statutory Results (after exceptional items)\*\***

- Loss after exceptional items of £176 million following a net exceptional charge of £290 million. All of the exceptional charges were non-cash except for £8 million of reorganisation charges
- Exceptional items include a £663 million charge for pub impairments to appropriately value the estate

## **Management Actions and Priorities delivered in 2009**

- Strengthened operational management teams
- Stabilised operating performance
- Improved cash flow
- Reduced debt levels

## **Capital Structure**

- £375m gross capital raising
- Net debt reduced by £1,066 million (24%)
- Outstanding securitised debt has a 18 year average maturity and weighted average cost of 6.8%
- Debt repayments have helped maintain headroom against financial covenants
- Met the restricted payment condition within both the Punch A and Punch B securitisations during the financial year
- Continue to make good progress with the disposal programme and realising value from our assets held outside of the securitisation structures

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

***"Our swift action has reduced the company's net debt by over £1 billion during the year, as we've heeded the challenges facing the economy and the industry. We***

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\* before exceptional items

\*\* full analysis of exceptional items are shown in note 3 to the Financial Statements

*have strengthened our operational management team; raised equity from our shareholders; stabilised the operating performance and improved significantly our cash flow. We are now shaping the business to deliver a return to long-term sustainable growth and value.*

*The trading environment remains challenging and lacks visibility, hence we remain cautious despite the measures undertaken. We are nevertheless confident that the significant progress we are making positions us well for the longer-term opportunities in the sector"*

14 October 2009

**Enquiries;**

**Punch Taverns plc**

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Phil Dutton, *Finance Director*

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**Forward-looking statements**

This report contains 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](http://www.punchtaverns.com)**

**A live video webcast of the presentation will also be available on the investor section on the above website from 9.30am.**

## **PRELIMINARY RESULTS FOR THE 52 WEEKS TO 22 AUGUST 2009**

### **INDUSTRY OVERVIEW**

Over the last few years the pub industry has faced substantial new regulation, tax and duty increases as well as the effects of the recession. Despite this, we believe the pub is still one of the most important cultural components of social life in Britain. At Punch, we are committed to safeguarding the future of the great British pub, whether it is in the development of our 835 managed pubs or in the continued partnership with our 6,841 licensees in our leased pubs. We are also working closely with the rest of the industry to develop a common voice on key issues facing the pub sector.

In May 2009 the Business and Enterprise Committee Report into Pub Companies identified a number of key challenges for the industry which we had already recognised and have been quick to respond to. We have subsequently introduced a number of changes to the way that we operate, including the removal of the lessee machine share from the rent calculation, the removal of upward only rent reviews, the passing on of negative RPI rent reviews, the removal of restrictive covenants on the sale of pubs and the introduction of a price match commitment on our insurance premiums.

To further evolve our leased business model and build open and transparent relationships with our licensees, we have embarked on a major change programme Pathway to Partnership, which will see a cultural shift and a focus on ensuring joint profitability for Punch and our licensees.

We recognised the need for the industry to present a united front and played an active role in bringing key industry players together to participate in an industry wide mediation process. Whilst we do not believe that it is necessary for the sector to be investigated by the competition authorities again, we continue to cooperate with the Office of Fair Trading and await the outcome of their review.

Our 6,841 leased pubs employ c.50,000 people and our 835 managed pubs employ c.17,000 people, with each pub making a significant contribution to the community and the economy. We will continue to work with Government and industry to reduce the pressure on our pubs from increasing red tape and the continued increase in tax. We would urge the Government to take positive steps to protect this important element of our local economy when considering its approach to duty and industry legislation. The pub industry has been at the receiving end of punitive tax increases and burgeoning red tape for too long and it needs positive action from the Government and industry to improve its future.

### **BUSINESS OVERVIEW**

**Punch Taverns plc is the UK's leading pub operator of over 7,600 leased, tenanted and managed pubs.**

**The company has scale across the market, being number two by number of leased and tenanted pubs, as well as number two by number of managed pubs.**

#### **Management actions and priorities for 2009**

The full year results reflect the challenging market conditions being faced by the sector. The wider recessionary economic conditions have significantly reduced consumer confidence and impacted the level of disposable income available for leisure activities. We anticipate that demand levels are unlikely to improve in the near-term and given this difficult trading environment, management action has been focused on four key objectives:

1. **Strengthened operational management.** Both sides of the business now have experienced leaders in place, Mike Tye in Managed and Roger Whiteside in Leased. Additionally, the whole of the organisation has been refocused and streamlined to support the new leadership team.
2. **Stabilised operating performance.** Following the deterioration of trading towards the end of the 2008 financial year we have taken action across our business. Within the

leased estate, we have enhanced the level of support offered to licensees, while in the managed estate our value proposition has been strengthened and our Operational Excellence programme has been launched. As a result of these and other actions we have slowed margin decline in the managed estate and have stabilised the rate of decline in the tenanted estate. We believe these and other actions will enable us to reposition the business to return to delivering long term sustainable growth and value in due course.

3. **Improved cash flow** through a variety of "self-help" measures including a reduction in head office costs, a more focused capital expenditure programme and the acceleration of the disposal of underperforming or non-core assets.
4. **Reduced debt.** Increased cash flow combined with cash raised from the placing and open offer has been used to reduce net debt levels by £1,066 million. During the year, £708 million of debt has been repaid at a cost of £473 million.

### **Leased estate**

We have continued to evolve the leased business model as we focus on long term sustainable value creation for ourselves and our licensees. A key element of this is our commitment to develop more open and transparent relationships with our licensees. The business has embarked on a three phase strategic change programme called 'Pathway to Partnership', setting ourselves the ambitious goal of becoming the most trusted and best value pub partnership business in the UK.

Throughout the year focus has been upon stabilising business performance which has seen us arrest the rate of decline reported across the first quarter of the financial year. There has been no material change in like for like EBITDA for the balance of the year, being down by 11%. Our programme to dispose of non-core assets has further reduced EBITDA in the year by approximately £6 million (c.£29 million annualised), resulting in an EBITDA for the year of £412 million.

Trading performance has been impacted by a combination of weaker beer volumes and a softening in rents, coupled with the previously announced increase in the levels of licensee support, which has been maintained at an average of £1.6 million per month across the year, being more than double the level of support being provided in the previous year.

In this difficult economic environment, the support that Punch provides to its licensees through flexible lease agreements, training, sales driving activity, food development and financial support is more important than ever. The number of closed pubs within the Punch estate at the year end remains a relatively small number at c.4% of the estate.

In addition to support for specific pubs, proactive actions have been taken to support each one of our licensees. The full extent of wholesale price increases introduced by the breweries has not been passed onto our licensees, with the September 2008 uplift being absorbed entirely and the more recent round of increases being limited to 4%. We have also strengthened our relationships through a concerted focus on Business Relationship Managers (BRMs) spending more time in trade with their licensees providing consultancy business support, using our Flying Start programme.

In order to give better organisational support to those pubs experiencing most difficulty, we established a "Turnaround Division" which included c.1,250 pubs which are managed outside of our normal regional structure. This ensures a much closer level of support and attention from our operational teams through these very difficult trading conditions. In addition, core estate management are refocused on business development as our Business Relationship Managers now have fewer Tenancy At Will ("TAW") and closed units to manage.

During the year we successfully disposed of over a third of the original sites transferred to the Turnaround Division. As part of the continuous review of estate quality, a further 430 pubs have been identified and transferred to the Turnaround Division since the year end. The Turnaround Division now makes up c.19% of the total estate but contributes less than 6% of the operating profit and includes approximately two thirds of the total number of closed pubs and those pubs operating on TAW agreements.

## **Managed estate**

As with the leased estate, management actions have been focused on stabilising business performance. Underpinning these actions has been a strengthening of our value proposition and the rollout of our new Operational Excellence programme.

Emphasis has been moved towards trading the business more actively through heightened promotional activity which has been designed to grow sales and margin. Business performance has started to see a measure of improvement with like-for-like sales for the year being down by 1.5%, vs. down 2.3% in the first half year and down 0.6% in the second. Our programme to dispose of non-core assets has further reduced EBITDA in the year by approximately £3 million (c.£11 million annualised), resulting in an EBITDA for the year of £100 million.

In February, we launched our new Operational Excellence programme which represents the largest change programme ever undertaken within our managed business. The objective has been to simplify ways of working, streamline pub structures and have the right people in place doing the right things. Results are continually monitored through focused measures which are independently audited with clear action plans. It is early days for the programme but it is important in achieving an improved sales and operating cost performance.

Operating margins continue to be impacted by above inflation regulatory, food and energy cost increases together with promotional discounts to drive sales, with operating margins for the full year being down by 370 basis points. Inflationary cost pressures have begun to ease particularly in the area of energy costs where we are now benefiting from reduced prices compared with a year ago.

We have completed a site-by-site review of the managed estate including both concept and physical condition. This has developed a clear understanding of the capital expenditure prioritisation and also the disposal programme, driven by the future potential of each site. During the year, we have completed £42 million of capital investments including the introduction of new concepts coupled with all existing concepts being revised and improved.

In December 2008 a number of managed leasehold pubs reverted to the Group, the majority of which had previously been sold to the Orchid Group in 2006. In total, 52 pubs have reverted to the Group during the year, of which 37 have now resumed trading.

## **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 £2 million for 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 of c.£600 million 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**

The financial year comprised 52 weeks from 24 August 2008 to 22 August 2009, during which time we have generated profit before tax and exceptional items of £160 million (2008: £262 million). Basic earnings per share before exceptional items were 36.1p (2008: 69.9p).

A number of exceptional items were incurred in the period, resulting in a charge of £290 million. The principal items were £663 million of pub impairment charges, a £55 million charge for the mark-to-market of certain interest rate swaps, £246 million gain on the repurchase of securities, £29 million onerous lease provision, £8 million of reorganisation costs and £32 million loss on disposal, largely relating to the deemed disposal of goodwill. Of these charges only £8 million was an actual cash cost in the year. The tax effect of these items

together with finalising a number of current and prior year tax matters with HMRC gave rise to an exceptional tax credit (net of goodwill adjustments) of £252 million.

The carrying value of pub assets and investments at the year end was revised to £5,405 million, implying a Net Asset Value of 260p per share. The number shown in the accounts is based on historic (or deemed) cost but subject to an annual impairment review. Given the exceptional circumstances in the economy, we have recognised a pub impairment of £663 million before tax. The charge reflects the identification of further pubs considered unlikely to generate long-term sustainable growth which have been written down to their disposal value, together with the impairment on pubs where profitability has been significantly impacted by the current market conditions.

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

The effective pre-exceptional tax charge was 29% (2008: 29%). Cash tax in the year amounted to a repayment of £8 million (2008: £21 million repayment) following the finalisation of prior year tax matters with HMRC.

As previously announced in September last year, the Board considers it prudent to continue to retain cash and further strengthen the balance sheet. Consequently, dividends continue to be suspended.

### **Capital structure**

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

Since flotation, we have maintained a debt structure funded almost entirely by long term mortgage finance, secured on our sizeable freehold property portfolio. This remains the case today with £3.9 billion of long term debt secured on over 7,400 pub properties. The debt fully repays over terms extending to 26 years and is all effectively at fixed rates of interest.

As with all debt finance of this type, there are covenant and performance tests. We have three debt finance vehicles; Punch A, Punch B and Spirit, all of which maintained good covenant headroom against the key DSCR (Debt Service Cover Ratio) throughout the year. Additionally, the Punch A and Punch B securitisations met their Restricted Payment Condition (RPC) tests throughout the year resulting in cash being available for upstream from the securitisations. The cash held in the Spirit securitisation, following Spirit falling below the RPC test at the last year end, has been used to repay debt within the Spirit securitisation.

However, in the light of the challenging trading conditions we have continued to review our debt levels and looked at opportunities to increase cash flow and repay debt by taking action to reduce costs, refocus capital expenditure and realise value from the disposal of non-core assets.

During the year we completed a review and subsequent consultation process of our support functions in order to reduce cost and simplify our organisational structure. This completes a two year programme and annualised support costs are now running at c.£65 million compared to c.£95 million two years ago.

Capital expenditure in the current year has been scaled back, with £93 million of spend in the year (2008: £136 million). Our ongoing divestment programme has progressed extremely well. We have disposed of 800 pubs comprised largely from the non-core estate, realising proceeds of £414 million, at an average multiple of not less than 10 times EBITDA. These disposals were immediately earnings accretive after retiring Group debt. While we continue to look at further disposal opportunities, we will only do so where such actions are in the best interests of shareholders.

Our strong operational cash flow, together with our successful disposals programme, has enabled the balance sheet to be substantially strengthened. Since the beginning of the

financial year we have repaid £708 million of debt, £698 million of which was ahead of schedule, at a cost of £473 million. Our actions in repaying certain tranches of debt has helped maintain headroom in all of our financial covenants.

Additionally, on 3 July 2009 we announced that our placing and open offer had been successfully completed raising net funds of £354 million. These funds are being used to facilitate the repayment of the Group's Convertible Bonds (due December 2010).

As a result of these actions, net debt has been reduced by more than £1 billion, or 24%, since the beginning of the year. The nominal value of year end net debt amounted to £3.47 billion (2008: £4.53 billion) representing a multiple of 6.7 times (2008: 7.3 times) our reported pre-exceptional EBITDA.

Looking forward, we expect to continue to reduce the level of debt through retained cash generation and further non-core disposals, expected to be c.£200m in the 2010 year. While recent trading continues to be in line with our expectations, given the lack of visibility over future trading in a challenging market environment there could be circumstances where forecast revenues or cash flows are lower than expected. In the event that any shortfall cannot be covered by existing covenant headroom, then the Group would consider using funds provided by the capital raising to support securitisation performance.

### **Company advisors**

Following the recapitalisation of the Group in the year, culminating with the successful equity raising, the Board has taken the opportunity to consider the best combination of financial advisors and brokers to support the Group going forward. Bank of America Merrill Lynch and Goldman Sachs will act as joint Brokers and Financial Advisors with Numis Securities acting as Specialist Broker.

### **Current trading and outlook**

Trading since the year end has continued in line with management's expectations. The continuing challenging market in which we operate makes forecasting difficult and while we are confident of the longer-term prospects for the Group, we remain cautious over the near-term due to the lack of visibility on trading outlook.

## CONSOLIDATED INCOME STATEMENT

for the 52 weeks ended 22 August 2009

	52 weeks to 22 August 2009			53 weeks to 23 August 2008 <sup>2</sup>			
	Notes	Before exceptional items £m	Exceptional items (note 3) £m	Total £m	Before exceptional items £m	Exceptional items (note 3) £m	Total £m
<b>Revenue</b>		<b>1,441.0</b>	<b>-</b>	<b>1,441.0</b>	1,560.6	-	1,560.6
Operating costs before depreciation and amortisation	2	(928.9)	(37.4)	(966.3)	(940.3)	(16.7)	(957.0)
Share of post-tax profit from joint ventures		2.3	-	2.3	3.1	-	3.1
<b>EBITDA<sup>1</sup></b>	2	<b>514.4</b>	<b>(37.4)</b>	<b>477.0</b>	623.4	(16.7)	606.7
Depreciation, amortisation and impairment		(62.3)	(687.2)	(749.5)	(62.5)	(294.7)	(357.2)
<b>Operating profit / (loss)</b>	2	<b>452.1</b>	<b>(724.6)</b>	<b>(272.5)</b>	560.9	(311.4)	249.5
(Loss) / profit on sale of non-current assets		-	(32.3)	(32.3)	0.4	-	0.4
Finance income		10.4	246.0	256.4	18.9	-	18.9
Finance costs		(302.1)	-	(302.1)	(317.9)	-	(317.9)
Movement in fair value of interest rate swaps	3	-	(55.2)	(55.2)	-	(31.1)	(31.1)
<b>Profit / (loss) before taxation</b>		<b>160.4</b>	<b>(566.1)</b>	<b>(405.7)</b>	262.3	(342.5)	(80.2)
UK income tax (charge) / credit	5	(47.0)	276.3	229.3	(76.3)	91.8	15.5
<b>Profit / (loss) for the financial period attributable to equity shareholders</b>		<b>113.4</b>	<b>(289.8)</b>	<b>(176.4)</b>	186.0	(250.7)	(64.7)
<b>Earnings / (loss) per share</b>							
Basic (pence)	6	36.1		(56.1)	69.9		(24.3)
Diluted (pence)	6	36.1		(56.1)	69.4		(24.2)
<b>Dividend per share paid or proposed in respect of the period (pence)</b>	7			-			5.5
<b>Total dividend paid or proposed in respect of the period (£m)</b>	7			-			14.6

<sup>1</sup> 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.

<sup>2</sup> UK income tax (charge) / credit has been restated to better reflect the nature of tax items, as explained in note 3. This has had an impact on earnings per share, for which comparatives have been restated (note 6).

## CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the 52 weeks ended 22 August 2009

	52 weeks to 22 August 2009 £m	53 weeks to 23 August 2008 £m
<b>Income and expense recognised directly in equity:</b>		
Actuarial losses on defined benefit pension schemes	(72.6)	(20.1)
Losses on cash flow hedges	(91.7)	(64.0)
Transfers to the income statement on cash flow hedges	25.3	2.4
Tax (charge) / credit related to indexation on revalued properties	(1.6)	8.4
Tax on items taken directly to equity	38.9	33.1
Net loss recognised directly in equity	(101.7)	(40.2)
Loss attributable to shareholders	(176.4)	(64.7)
<b>Total recognised losses for the period attributable to equity shareholders</b>	<b>(278.1)</b>	<b>(104.9)</b>

## CONSOLIDATED BALANCE SHEET

at 22 August 2009

	Notes	22 August 2009 £m	23 August 2008 <sup>1</sup> £m
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment		5,124.3	6,274.7
Operating leases		68.0	124.2
Goodwill		504.1	556.2
Other intangible assets		6.6	7.1
Retirement benefit assets		-	11.3
Deferred tax assets		144.5	99.6
Investments in joint ventures		43.5	41.2
Derivative financial instruments		2.7	1.4
		<b>5,893.7</b>	<b>7,115.7</b>
<b>Current assets</b>			
Inventories		7.5	8.5
Trade and other receivables		83.8	82.8
Current income tax assets		8.2	-
Derivative financial instruments		-	1.8
Cash deposits used as security for loan notes		-	14.4
Cash and cash equivalents		678.6	321.2
		<b>778.1</b>	<b>428.7</b>
Non-current assets classified as held for sale		169.6	20.1
		<b>6,841.4</b>	<b>7,564.5</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		(316.7)	(351.4)
Short term borrowings		(50.2)	(62.7)
Derivative financial instruments		(67.7)	(7.3)
Current income tax liabilities		-	(5.0)
Provisions		(22.3)	(13.4)
		<b>(456.9)</b>	<b>(439.8)</b>
<b>Non-current liabilities</b>			
Borrowings		(4,022.7)	(4,681.7)
Convertible bonds		(193.5)	(264.8)
Derivative financial instruments		(231.0)	(175.6)
Deferred tax liabilities		(165.7)	(366.6)
Retirement benefit liabilities		(59.5)	(6.2)
Provisions		(41.7)	(35.2)
Other liabilities		(1.7)	(1.7)
		<b>(4,715.8)</b>	<b>(5,531.8)</b>
		<b>(5,172.7)</b>	<b>(5,971.6)</b>
<b>Net assets</b>			
		<b>1,668.7</b>	<b>1,592.9</b>
<b>Shareholders' equity</b>			
Called up share capital		0.3	0.1
Share premium		455.0	455.0
Equity component of convertible bonds		21.0	30.0
Hedge reserve		(105.2)	(57.4)
Share-based payment reserve		8.8	8.7
Retained earnings		1,288.8	1,156.5
<b>Total shareholders' equity</b>	<b>8</b>	<b>1,668.7</b>	<b>1,592.9</b>

<sup>1</sup>Derivative financial instruments at 23 August 2008 have been restated to reflect the repayment profile. There has been no impact on net assets.

## CONSOLIDATED CASH FLOW STATEMENT

for the 52 weeks ended 22 August 2009

	Notes	52 weeks to 22 August 2009 £m	53 weeks to 23 August 2008 £m
<b>Cash flows from operating activities</b>			
Operating (loss) / profit		(272.5)	249.5
Depreciation and amortisation		62.3	62.5
Impairment and goodwill adjustment		687.2	294.7
Share-based payment expense recognised in profit		0.1	2.4
Decrease / (increase) in inventories		1.0	(0.6)
Decrease in trade and other receivables		0.3	19.2
Decrease in trade and other payables		(27.1)	(11.9)
Difference between pension contributions paid and amounts recognised in the income statement		(3.4)	(13.4)
Increase / (decrease) in provisions and other liabilities		13.7	(12.9)
Share of post-tax profit from joint venture		(2.3)	(3.1)
<b>Cash generated from operations</b>		<b>459.3</b>	<b>586.4</b>
Income tax received		7.6	21.4
<b>Net cash from operating activities</b>		<b>466.9</b>	<b>607.8</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment			
- acquisitions		-	(24.4)
- investments		(91.1)	(133.1)
Proceeds from sale of property, plant and equipment		397.1	30.2
Proceeds from sale of operating leases		1.7	0.8
Proceeds from sale of other non-current assets		15.3	0.7
Purchase of other intangible assets		(2.0)	(3.4)
Proceeds from sale of other investments		-	3.5
Interest received		5.9	13.6
<b>Net cash generated from / (used in) investing activities</b>		<b>326.9</b>	<b>(112.1)</b>
<b>Cash flows from financing activities</b>			
Net proceeds from issue of ordinary share capital		353.8	0.3
Repayment of convertible bonds		(65.5)	-
Net proceeds on redemption of derivative financial instruments		-	0.6
Repayment of borrowings		(412.0)	(74.9)
Repayment of derivative financial instruments		(3.7)	-
Interest paid		(314.4)	(322.4)
Interest received on bonds held not yet cancelled		0.4	-
Repayments of obligations under finance leases		(2.3)	(3.0)
Interest element of finance lease rental payments		(1.2)	(1.3)
Costs of terminating financing arrangements		(5.9)	-
Decrease in cash deposits used as security for loan notes		14.4	0.3
Dividends paid	7	-	(41.8)
<b>Net cash used in financing activities</b>		<b>(436.4)</b>	<b>(442.2)</b>
<b>Net increase in cash and cash equivalents</b>		<b>357.4</b>	<b>53.5</b>
Cash and cash equivalents at beginning of period		321.2	267.7
<b>Cash and cash equivalents at end of period</b>		<b>678.6</b>	<b>321.2</b>

## 1. BASIS OF PREPARATION

The audited consolidated financial statements of Punch Taverns plc for the 52 weeks ended 22 August 2009 have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. These preliminary financial statements have been prepared on a consistent basis using the accounting policies set out in the Punch Taverns plc Annual Report and Financial Statements for the 53 weeks ended 23 August 2008. The following new standards, interpretations and amendments are effective for the Group for the financial year beginning 24 August 2008:

- Amendments to IAS 39 and IFRS 7: reclassification of financial assets
- Update to amendments to IAS 39 and IFRS 7: reclassification of financial assets
- IFRIC 12 'Service Concession Arrangements'
- IFRIC 13 'Customer Loyalty Programmes'
- IFRIC 14 'IAS 19 – Defined Benefit Asset and Minimum Funding Requirements'
- IAS 27R 'Consolidated and Separate Financial Statements'

These have had no material impact on the results or the financial position of the Group for the 52 weeks ended 22 August 2009.

The preliminary statement of results was approved by the Board on 13 October 2009. The preliminary statement is derived from but does not represent the full Group statutory financial statements of Punch Taverns plc and its subsidiaries which will be delivered to the Registrar of Companies in due course. The financial information for the 53 weeks ended 23 August 2008 has been extracted from the Annual Report and Financial Statements 2008, as filed with the Registrar of Companies. Certain figures have been restated following the change in classification of the UK income tax (charge) / credit since the prior year end as disclosed in note 3.

The auditors, Ernst & Young LLP, have given an unqualified report in respect of the full Group financial statements for the year ended 22 August 2009 and the 53 weeks ended 23 August 2008. The unqualified audit reports do not contain a statement under section 498(2) or (3) of the Companies Act 2006 or under section 237 (2) or (3) of the Companies Act 1985 respectively.

## 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 23 August 2008 and 22 August 2009, 21 pubs with a fair value of £24.4m have transferred from the managed to the leased estate.

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

	52 weeks to 22 August 2009			Total £m
	Leased £m	Managed £m	Unallocated £m	
Drink revenue	521.3	379.6	-	900.9
Food revenue	-	257.9	-	257.9
Rental income	223.0	-	-	223.0
Other revenue	25.2	34.0	-	59.2
Revenue	769.5	671.5	-	1,441.0
Operating costs <sup>1</sup>	(357.7)	(571.2)	-	(928.9)
Share of post-tax profit from joint ventures	-	-	2.3	2.3
EBITDA <sup>1</sup>	411.8	100.3	2.3	514.4
Depreciation and amortisation	(21.5)	(40.8)	-	(62.3)
Operating profit before exceptional items	390.3	59.5	2.3	452.1
Exceptional items	(493.5)	(231.1)	-	(724.6)
Operating (loss) / profit	(103.2)	(171.6)	2.3	(272.5)
Loss on sale of non-current assets	(20.4)	(11.9)	-	(32.3)
Segment result	(123.6)	(183.5)	2.3	(304.8)
Net finance costs	-	-	(45.7)	(45.7)
Movement in fair value of interest rate swaps	-	-	(55.2)	(55.2)
UK income tax credit	-	-	229.3	229.3
(Loss) / profit attributable to equity shareholders	(123.6)	(183.5)	130.7	(176.4)

<sup>1</sup> Pre exceptional items.

	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 <sup>1</sup>	(367.8)	(572.5)	-	(940.3)
Share of post-tax profit from joint ventures	-	-	3.1	3.1
EBITDA <sup>1</sup>	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
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)

<sup>1</sup> 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 22 August 2009 £m	53 weeks to 23 August 2008 £m
<b>Operating</b>		
Redundancy and other related one-off costs	(8.5)	(14.0)
Movement on property liabilities <sup>1</sup>	(28.9)	(2.7)
Impairment losses (note 4)	(663.1)	(294.7)
Adjustment to goodwill in respect of deferred tax <sup>2</sup>	(24.1)	-
	<b>(724.6)</b>	<b>(311.4)</b>
<b>Loss on sale of non-current assets<sup>3</sup></b>	<b>(32.3)</b>	-
<b>Finance income</b>		
Loan note redemptions <sup>4</sup>	<b>246.0</b>	-
<b>Movement in fair value of interest rate swaps<sup>5</sup></b>	<b>(55.2)</b>	<b>(31.1)</b>
<b>Total exceptional items before tax</b>	<b>(566.1)</b>	<b>(342.5)</b>
<b>Tax</b>		
Tax impact of exceptional items	<b>111.6</b>	48.7
Recognition of previously uncrystallised deferred tax assets <sup>6</sup>	<b>119.8</b>	-
Tax impact of indexation <sup>7</sup>	<b>(6.2)</b>	27.5
Adjustments to tax in respect of prior periods <sup>8</sup>	<b>27.0</b>	15.6
Recognition of deferred tax assets not previously recognised on acquisition <sup>2</sup>	<b>24.1</b>	-
	<b>276.3</b>	91.8
<b>Total exceptional items after tax</b>	<b>(289.8)</b>	<b>(250.7)</b>

<sup>1</sup> Represents provision for rent payments following the reversion of onerous leases to the Group.

<sup>2</sup> Represents tax losses which had previously not been recognised on the acquisition of the Spirit group in January 2006, which have subsequently been recognised in the year. This has resulted in a reduction in goodwill and an increase in deferred tax assets of £24.1m.

<sup>3</sup> Includes £28.0m write down of goodwill, of which £17.9m related to the leased estate and £10.1m related to the managed estate, representing the apportioned value of goodwill allocated to those pubs disposed of during the year.

<sup>4</sup> Represents profit on the purchase of securitised debt and convertible bonds together with the write off of related deferred issue costs and swaps on redemption of those loan notes. Following redemption of loan notes, £6.0m of the hedge reserve relating to the associated swaps was recycled through the income statement.

<sup>5</sup> 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 floating rate borrowings, they do not meet the definition of an effective hedge due to either the relative size of the mark to market difference of the swap at the date of acquisition or inception, or changes in expected future maturity profiles. At 22 August 2009 interest rate swaps held to hedge the Punch Taverns Finance B Limited Class A8 notes were deemed to be ineffective due to the intention to purchase and cancel a portion of these notes ahead of their expected legal maturity. As a result, a charge of £19.3m was recycled through the income statement.

<sup>6</sup> Represents the recognition of deferred tax assets that relate to capital losses arising on a group restructuring.

<sup>7</sup> Represents tax impact of RPI for the full year on the indexation allowance applied to the tax based cost of properties. In the prior period, there has been a change in classification of £27.5m from ongoing taxation to exceptional taxation, as the volatility in RPI has had a distortive effect on underlying earnings. Comparatives have been restated.

<sup>8</sup> Represents the impact of finalising past tax matters together with changes to base cost information in relation to property assets.

#### 4. IMPAIRMENT LOSSES

During the 52 weeks to 22 August 2009 the Group recognised impairment losses of £483.4m (August 2008: £154.8m) in the leased estate and £179.7m (August 2008: £139.9m) in the managed estate.

The impairment recognised within the leased estate was primarily due to the identification of further pubs within the estate considered unlikely to generate long-term sustainable growth following the change in the consumer environment impacting the long-term trading expectations for these pubs. These pubs are likely to be sold or converted for alternative use within the next few years and have been written down 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 impairment has been recognised for pubs where their expected future cash flows have fallen to a level such that their value-in-use is below carrying value.

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 environment impacting the trading for these pubs. 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 have fallen to a level such that their value-in-use is below carrying value.

Included within the above are reversals on impairment losses of £50.1m for the leased estate and £46.2m for the managed estate. The impairment reversals were primarily due to the identification of pubs where expected future cash flows have risen to a level such that value-in-use is now above carrying value.

There is no impairment to goodwill in the period.

#### 5. TAXATION

The effective rate of tax is different to the full rate of corporation tax. The differences are explained below:

	52 weeks to 22 August 2009 £m	53 weeks to 23 August 2008 £m
Loss on ordinary activities before tax	(405.7)	(80.2)
Tax at current UK tax rate of 28% (August 2008: 29.21%)	(113.6)	(23.4)
<b>Effects of:</b>		
Net effect of expenses not deductible for tax purposes and non-taxable income (ongoing items)	2.0	(0.3)
Losses arising not yet recognised as assets (ongoing items)	0.1	4.1
Adjustments to tax in respect of prior periods (ongoing items)	-	(4.1)
Deferred tax debit / (credit) on indexation of properties (exceptional items)	6.2	(27.5)
Adjustments to tax in respect of prior periods (exceptional items)	(32.9)	(15.6)
Current period exceptional (credits) / debits (exceptional items)	(91.1)	51.3
<b>Total tax income reported in the income statement</b>	<b>(229.3)</b>	<b>(15.5)</b>

Details of the exceptional tax credits and debits are included in note 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 is not dilutive on both basic earnings and adjusted earnings at 22 August 2009 and 23 August 2008.

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

	52 weeks to 22 August 2009		53 weeks to 23 August 2008 <sup>1</sup>	
	Earnings £m	Per share amount pence	Earnings £m	Per share amount pence
Basic loss per share	(176.4)	(56.1)	(64.7)	(24.3)
Diluted loss per share	(176.4)	(56.1)	(64.7)	(24.2)
<b>Supplementary earnings per share figures:</b>				
Basic earnings per share before exceptional items	113.4	36.1	186.0	69.9
Diluted earnings per share before exceptional items	113.4	36.1	186.0	69.4

<sup>1</sup> Comparatives have been restated in line with changes to exceptional taxation (note 3).

The impact of dilutive ordinary shares is to increase weighted average shares by nil (August 2008: 1.6 million) for employee share options and nil (August 2008: nil) for convertible bonds.

	52 weeks to 22 August 2009 No. (m)	53 weeks to 23 August 2008 No. (m)
Basic weighted average number of shares	314.3	266.3
Discretionary Share Plan and SAYE scheme	-	1.4
Long Term Incentive Plan	-	-
Deferred Bonus Shares	-	0.2
Diluted weighted average number of shares	314.3	267.9

## 7. DIVIDENDS

	52 weeks to 22 August 2009 £m	53 weeks to 23 August 2008 £m
<b>Declared and paid during the year:</b>		
Final dividend for 2008 for the 53 weeks ended 23 August 2008 of £nil (2007: 10.2p)	-	27.2
Interim dividend for the 52 weeks ended 22 August 2009 of £nil (2008: 5.5p)	-	14.6
	-	41.8

The Directors will not be proposing the payment of a final dividend.

## 8. ANALYSIS OF CHANGES IN SHAREHOLDERS' EQUITY

Group	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
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
Total recognised income and expense for the period	-	-	(47.8)	(230.3)	(278.1)
Issue of share capital <sup>1</sup>	0.2	-	-	353.6	353.8
Exercise of share options	-	-	-	-	-
Transfer equity component of convertible bond	-	-	(9.0)	9.0	-
Share-based payments	-	-	0.1	-	0.1
<b>At 22 August 2009</b>	<b>0.3</b>	<b>455.0</b>	<b>(75.4)</b>	<b>1,288.8</b>	<b>1,668.7</b>

<sup>1</sup> The Firm Placing and the Placing and Open Offer were structured such that it is expected to have the effect of creating distributable reserves equal to the net proceeds less the par value of the new ordinary shares issued by the Company.

## 9. NET DEBT

### (a) Analysis of net debt

	22 August 2009 £m	23 August 2008 £m
Secured loan notes	(3,941.9)	(4,567.0)
Convertible bonds <sup>1</sup>	(201.7)	(284.9)
Gross debt	(4,143.6)	(4,851.9)
Cash and cash equivalents	678.6	321.2
<b>Nominal value of net debt</b>	<b>(3,465.0)</b>	<b>(4,530.7)</b>
Capitalised debt issue costs	18.4	25.9
Fair value adjustments on acquisition of secured loan notes	(129.6)	(164.6)
Fair value of interest rate swaps	(296.0)	(179.7)
Balance sheet adjustments to convertible bonds <sup>2</sup>	6.8	15.2
Finance lease obligations	(18.4)	(19.4)
<b>Net debt</b>	<b>(3,883.8)</b>	<b>(4,853.3)</b>
<b>Balance sheet:</b>		
Borrowings	(4,072.9)	(4,744.4)
Convertible bonds	(193.5)	(264.8)
Derivative financial instruments	(296.0)	(179.7)
Cash deposits used as security for loan notes	-	14.4
Cash and cash equivalents	678.6	321.2
<b>Net debt</b>	<b>(3,883.8)</b>	<b>(4,853.3)</b>

<sup>1</sup> Represents nominal value of convertible bonds of £192.1m plus subsequent accretion of liability to redemption value on maturity.

<sup>2</sup> Represents equity component of convertible bonds less subsequent accretion of liability to redemption value on maturity for this equity component.

**(b) Analysis of changes in net debt**

	At 18 August 2007 £m	Cash flow £m	Non-cash movements £m	At 23 August 2008 £m	Cash flow £m	Non-cash movements £m	At 22 August 2009 £m
<b>Current assets</b>							
Cash at bank and in hand	267.7	53.5	-	321.2	357.4	-	<b>678.6</b>
Cash deposits	14.7	(0.3)	-	14.4	(14.4)	-	-
Cash and cash deposits	282.4	53.2	-	335.6	343.0	-	<b>678.6</b>
<b>Debt</b>							
Borrowings	(4,818.6)	77.6	11.0	(4,730.0)	399.9	257.2	<b>(4,072.9)</b>
Guaranteed loan notes	(14.7)	0.3	-	(14.4)	14.4	-	-
Derivative financial instruments	(96.9)	(0.6)	(82.2)	(179.7)	3.7	(120.0)	<b>(296.0)</b>
Debt component of convertible bonds	(253.1)	-	(11.7)	(264.8)	65.5	5.8	<b>(193.5)</b>
	(5,183.3)	77.3	(82.9)	(5,188.9)	483.5	143.0	<b>(4,562.4)</b>
<b>Net debt per balance sheet</b>	(4,900.9)	130.5	(82.9)	(4,853.3)	826.5	143.0	<b>(3,883.8)</b>

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 were used as security for loan notes which were repaid in full in the period.

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.

**10. POST BALANCE SHEET EVENTS**

Subsequent to the year end the Group has repurchased £292.9m of the nominal value of outstanding debt:

£148.0m of convertible bonds  
£144.9m of securitised debt