



**Punch Taverns plc
Interim Report and Financial Statements
4 March 2006**

Helping retailers build better businesses

PUNCH IS A PROACTIVE AND FORWARD THINKING PUB COMPANY WITH MORE THAN 9,500 PUBS ACROSS THE UK.

OUR AIM IS TO WORK WITH OUR RETAILERS TO HELP THEM BUILD BETTER BUSINESSES.

Highlights

- Group turnover up 53% to £619m (2005: £404m)
- EBITDA up 26% to £269m (2005: £214m)
- Profit before tax and exceptional items up 13% to £116m (2005: £103m)
- EPS up 10% to 35.1p (2005: 31.9p)
- Interim dividend increased by 19% to 4.4p (2005: 3.7p)
- Acquisition of Spirit comprising 1,830 of the highest quality managed pubs
- Punch leased estate (7,748 pubs at 4 March 2006) has performed well within a more challenging market
 - Like for like turnover growth +1%
 - EBITDA growth of 8% to £232m
 - 54 pubs acquired, 533 sold
 - Investment continued with £37m spent on 408 pubs
- Spirit managed estate (1,808 pubs at 4 March 2006) acquired and operating successfully
 - 8 weeks profit contribution in the period
 - EBITDA of £37m
 - Same store sales growth +3.2%
 - Transfer to lease: 459 pubs now announced from likely total of 740
 - Disposal of further 380 managed pubs now planned



“THIS IS ANOTHER EXCELLENT RESULT DEMONSTRATING THE BENEFIT OF OUR ACQUISITION STRATEGY COMBINED WITH STRONG OPERATIONAL PERFORMANCE.”

Giles Thorley, Chief Executive

Overview

This has been another successful period of growth for Punch Taverns. Our leasing business has been enhanced by the integration of Avebury, acquired in August 2005, and by the sale of some lower quality pubs. In January 2006, we completed the acquisition of Spirit, adding over 1,800 directly managed pubs to our estate, increasing our flexibility and future growth prospects considerably.

Once again we have delivered a solid set of results for our half year, being a 28 week period to 4 March 2006. Accounting on an IFRS basis (against restated comparatives) before exceptional items we have generated EBITDA of £269m, an increase of 26%, whilst PBT of £116m represents growth of 13% in the period. Earnings per share increased by 10% to 35.1p. In view of this continued growth we intend to make an interim dividend payment of 4.4p per ordinary share, an increase of 19% on last year.

We are very pleased with our acquisition of Spirit. We have identified for some time an attractive opportunity to acquire smaller managed pubs for conversion to our leased estate. Spirit provides this together with an established infrastructure that can safely manage the conversion process and can be utilised for any further similar acquisitions. Our strategy remains to add value to our pubs by recruiting and supporting the best retailers to deliver customer service and good returns, and to use the

surplus cash generated to invest in our wider pub estate. This strategy works equally well with leased and with managed pubs, such that the two models are complementary when run in tandem.

The Spirit estate is of the highest quality, the management team, the staff and the services are excellent, and the business continues to perform well. We are ahead of schedule on the lease conversion programme, and now expect to convert around 740 of the managed pubs to lease by August 2007, about six months earlier than first announced. Since acquisition we have sold 29 Spirit pubs and now expect to sell a further 380 over the next six months, following a detailed review of the estate. This will leave a very high quality, robust estate of around 680 managed pubs, which we intend to consolidate into a valuable trading asset.

Leased estate

The Punch leased estate numbered 7,748 pubs at 4 March 2006, following 54 acquisitions and 533 disposals during the course of the 28 weeks. On average, the estate was 4% larger than in the same period last year, representing mainly the addition of 409 pubs acquired from Avebury in August 2005.

The business has performed well in a competitive market, generating EBITDA of £232m in the first half, a growth of 8% on last year.

In the like for like estate, turnover growth was 1.0% and pub profit growth was 2.1%. The more recently acquired estates of InnSpired and Avebury are fully integrated and have also contributed well, as expected.

We have continued to follow our proven operational strategy in the leased estate which, in the 28 weeks to 4 March 2006, saw us:

- Recruit 628 new retailers from 3,448 applicants
- Provide 5,872 training days for our retailers
- Invest £37m in 408 pub developments
- Work together with our retailers to relicense the whole estate, almost entirely on more flexible terms than before

Success in our own eyes is one thing, however we are particularly pleased with the number of awards and plaudits received for our pubs and for Punch from the industry during the year, which included:

- National Innkeeper Training awards for the Plungington Tavern (Licensee Trainer of the Year), and Punch (Innovation in Training, and Best Area Manager Development)
- The Publican newspaper Catering Pub of the Year award for The Punch Tavern, and Newcomer of the Year award for the Three Compasses, which was also recognised as Best Community Pub by the Morning Advertiser
- The Publican newspaper Pub Company of the Year award for Punch Taverns, for the second time in three years
- Association of Licensed Multiple Retailers (ALMR) award of Business Development Manager of the Year for our BRM Dave Daniel

Managed estate

We completed the acquisition of Spirit on 5 January 2006, such that Spirit provided 8 weeks profit contribution in the period to 4 March 2006. The acquisition process was completed smoothly, and the business has continued to operate successfully and in line with our expectations.

On acquisition, Spirit comprised 1,830 pubs, each one directly managed by the company. These are high quality pubs, with average outlet EBITDA of

£186k pa making them roughly three times the size of the average Punch leased pub. The estate has operated under a large number of trading formats, but to the consumer is only lightly branded, with a small number of recognised brands such as Chef & Brewer, John Barras, and Old Orleans. The pubs are distributed throughout the UK, include the very best of the former S&N Retail estate, and are supported by an experienced and well managed infrastructure in Burton upon Trent, nearby to the head office of Punch.

The performance of the managed estate has been strong. EBITDA of £37m was generated in the first 8 weeks of ownership (at the flattest trading time of the year). In the first 16 weeks of acquisition, to 29 April 2006, same store like for like sales growth was 3.2% across the estate, or 1.3% on an uninvested basis.

In line with our stated strategy on acquisition, we intend to transfer a significant number of Spirit managed pubs to our leased estate to be run by entrepreneurial independent retailers. So far, we have marketed 212 pubs for transfer, and have recently announced a second tranche of 247 from a probable total of 740. Interest levels have been high, and our first lettings are imminent.

We continue to sell individual managed pubs that have greater alternative use value – 22 were sold by 4 March 2006, with a further seven since then. Following the outcome of our estate review, we now anticipate selling a further 380 pubs in the next six months, mostly in package sales, some individually. Pubs have been selected for disposal after careful review, on the basis of their current and prospective trade, and their fit with the remaining estate.

The remaining 680 pubs constitute a top quality estate which is streamlined and less complex to operate through three divisions of Value Food, Premium Food, and Quality Locals. Premium Food will include the Chef & Brewer brand. The estate is 68% freehold or long lease, with an average outlet EBITDA of £231k pa and a strong growth profile.

Our intention is to establish the retained pubs as the highest quality managed house estate,

run as a separate business within Punch, and managed by an experienced team drawn mostly from the Spirit management team. Whilst driving towards this simultaneously with the lease conversion programme, we are successfully building valuable quality assets in both our leased and managed divisions.

Industry issues

In common with other operators we have found trading conditions in the past 12 months to be slightly tougher than in recent years, but our business model is extremely resilient and the majority of our pubs continue to trade well.

Licensing changes have now bedded in and pubs are gradually becoming accustomed to the longer more flexible opening hours agreed in November 2005.

It is still too early to assess the full impact of the smoking ban introduced in Scotland in March 2006 but early indications suggest little overall change so far. We are well advanced with our preparations for a full ban in England and Wales, which we anticipate in Summer 2007.

Financial

We are, for the first time, reporting these results under IFRS. A detailed statement of our revised accounting policies, differences from UK GAAP, and the impact on recently reported results is available on our website.

The acquisition of Spirit, with a headline price of £2,679m, resulted in provisional goodwill of £248m, primarily represented by potential deferred tax and mark to market differences on retained loans and swaps.

The acquisition was funded through the retention of a long term debenture (£1.25bn), a short term loan (£1.25bn), a convertible bond issue (£275m) and the issue of £75m new equity. The funding increased our net debt to £5,524m, effectively at fixed rates, with interest cover in the period of 2.0x EBITDA. Given our substantial fixed asset base and steady cash generation, we are comfortable with this level of financial gearing but we will reduce the short term element of funding over time through cash generation and disposal proceeds. This reduction has already

commenced, with only £1.17bn of the short term facility in use at 4 March 2006.

Non recurring cost of £8.0m was reported in the first half, including £4.4m of rate variability on underlying Spirit swaps which cannot be hedge accounted. The non recurring expenditure of £3.6m primarily related to Spirit and relicensing, and more will be incurred in the second half as the lease conversion programme accelerates. In addition, we benefited from an exceptional tax credit of £15m.

The effective tax charge of 22% reflects the estimated tax rate for the 52 weeks to 19 August 2006, and is similar to the first half last year.

Overall PBT before exceptional items was £116m which gave rise to basic EPS of 35.1p on the enlarged share register, a growth of 10%. Diluted EPS of 34.5p increased by 11% in the year.

Summary and outlook

The past six months have been a period of steady progress for the underlying estate whilst we have successfully moved the Group into a new dimension with the acquisition of Spirit. With this acquisition we have significantly improved the quality of our estate and gained the capacity and skills to develop our business further.

While the trading environment presents some ongoing challenges, our strategy of acquisition, divestment and investment continues to improve the quality of the pubs in our estate. Moreover our management team has the strength and range of skills to continue to move the business forward.

The second half has started well and continued the steady pattern of the first half. We look forward to an active programme for the remainder of the year and a satisfactory outcome with enhanced prospects for continued future growth.



Giles Thorley
Chief Executive

4 Consolidated income statement

for the 28 weeks ended 4 March 2006

	28 weeks to 4 March 2006		
	Total £m	Non- recurring and exceptional items (note 3) £m	Before non- recurring and exceptional items £m
Revenue			
Continuing operations	430.4	–	430.4
Acquisitions ¹	188.5	–	188.5
Group revenue	618.9	–	618.9
Cost of sales	(302.6)	–	(302.6)
Gross profit	316.3	–	316.3
Administrative expenses before depreciation and amortisation	(51.1)	(3.5)	(47.6)
EBITDA²			
Continuing operations	229.7	(1.9)	231.6
Acquisitions ¹	35.5	(1.6)	37.1
Group EBITDA	265.2	(3.5)	268.7
Depreciation	(12.0)	–	(12.0)
Amortisation	(3.1)	–	(3.1)
Operating profit			
Continuing operations	221.8	(1.9)	223.7
Acquisitions ¹	28.3	(1.6)	29.9
Group operating profit	250.1	(3.5)	253.6
Profit on sale of property, plant and equipment	0.4	–	0.4
Finance income	9.0	–	9.0
Finance costs	(146.7)	(0.1)	(146.6)
Movement in fair value of interest rate swaps	(4.4)	(4.4)	–
Share of post-tax loss from joint ventures	(0.1)	–	(0.1)
Profit before taxation	108.3	(8.0)	116.3
Income tax credit/(expense) (note 4)	(8.5)	17.4	(25.9)
Profit for the financial period			
attributable to equity shareholders	99.8	9.4	90.4
Earnings per share (note 5)			
Basic (pence)	38.8		35.1
Diluted (pence)	38.1		34.5
Dividend per share paid and/or proposed			
in respect of the period (pence)	4.4		
Total dividend paid and/or proposed			
in respect of the period (£m)	11.6		

¹ Relates to the acquisition of Spirit Group Holdings Limited, ultimate parent of the Spirit trading companies. The income statement in the current period includes 8 weeks of results relating to the acquired Spirit companies.

² EBITDA represents earnings before finance income, finance costs, tax, depreciation, amortisation, profit on sale of property, plant and equipment and share of post-tax loss from joint ventures.

³ As restated for the effect of the transition to International Financial Reporting Standards ("IFRS") – see note 1.

28 weeks to 5 March 2005 ³			52 weeks to 20 August 2005 ³		
Total £m	Non- recurring and exceptional items (note 3) £m	Before non- recurring and exceptional items £m	Total £m	Non- recurring and exceptional items (note 3) £m	Before non- recurring and exceptional items £m
416.4	12.8	403.6	782.9	12.8	770.1
–	–	–	–	–	–
416.4	12.8	403.6	782.9	12.8	770.1
(158.6)	(5.5)	(153.1)	(294.9)	(5.5)	(289.4)
257.8	7.3	250.5	488.0	7.3	480.7
(42.3)	(5.5)	(36.8)	(77.3)	(10.1)	(67.2)
215.5	1.8	213.7	410.7	(2.8)	413.5
–	–	–	–	–	–
215.5	1.8	213.7	410.7	(2.8)	413.5
(6.5)	–	(6.5)	(11.8)	–	(11.8)
(0.9)	–	(0.9)	(1.7)	–	(1.7)
208.1	1.8	206.3	397.2	(2.8)	400.0
–	–	–	–	–	–
208.1	1.8	206.3	397.2	(2.8)	400.0
0.2	–	0.2	–	–	–
6.7	0.3	6.4	11.1	0.3	10.8
(123.2)	(12.9)	(110.3)	(217.8)	(13.8)	(204.0)
–	–	–	–	–	–
–	–	–	–	–	–
91.8	(10.8)	102.6	190.5	(16.3)	206.8
(29.2)	(6.4)	(22.8)	(44.2)	(4.6)	(39.6)
62.6	(17.2)	79.8	146.3	(20.9)	167.2
25.0		31.9	58.1		66.4
24.4		31.1	56.9		65.1
3.7			11.3		
9.4			29.4		

6 Consolidated statement of recognised income and expense

for the 28 weeks ended 4 March 2006

	28 weeks to 4 March 2006 £m	28 weeks to 5 March 2005 £m	52 weeks to 20 August 2005 £m
Actuarial gains on defined benefit pension schemes	15.0	–	1.5
Losses on cash flow hedges	(11.4)	–	–
Tax credit related to indexation on revalued properties	2.0	2.3	2.4
Tax on items taken directly to equity	(1.1)	–	(0.5)
Net gain recognised directly in equity	4.5	2.3	3.4
Profit attributable to shareholders	99.8	62.6	146.3
Total recognised income for the period attributable to equity shareholders	104.3	64.9	149.7
Effects of changes in accounting policy attributable to equity shareholders:			
Net loss on recognition of derivative financial instruments at fair value on first-time application of IAS 39	(68.6)	–	–
	(68.6)	–	–

at 4 March 2006

	4 March 2006 £m	5 March 2005 £m	20 August 2005 £m
Assets			
Non-current assets			
Property, plant and equipment	6,982.7	4,004.3	4,292.8
Investment property	0.9	1.0	1.0
Goodwill	516.8	255.8	268.8
Intangible assets	229.6	23.0	27.5
Receivables	6.1	9.7	11.7
Deferred tax asset	157.5	32.2	37.9
Investments in joint ventures	5.3	–	–
	7,898.9	4,326.0	4,639.7
Current assets			
Inventories	16.7	–	–
Trade and other receivables	130.3	78.4	78.5
Cash deposits used as security for loan notes	31.8	31.6	202.8
Cash and cash equivalents	448.1	143.0	245.7
	626.9	253.0	527.0
Non-current assets classified as held for sale	8.1	7.2	6.4
Total assets	8,533.9	4,586.2	5,173.1
Liabilities			
Current liabilities			
Trade and other payables	(395.7)	(161.3)	(206.3)
Obligations under finance leases	(6.4)	(1.1)	(1.1)
Interest-bearing loans and borrowings	(638.4)	(273.0)	(247.5)
Current income tax liabilities	(19.0)	(34.7)	(38.3)
Provisions	(7.2)	(9.3)	(7.0)
	(1,066.7)	(479.4)	(500.2)
Non-current liabilities			
Obligations under finance leases	(22.7)	(9.0)	(9.3)
Interest-bearing loans and borrowings	(5,127.7)	(2,718.5)	(3,203.3)
Convertible bond	(237.9)	–	–
Derivative financial instruments	(278.0)	–	–
Deferred tax liabilities	(400.6)	(286.0)	(293.0)
Retirement benefit obligations	(76.2)	(9.7)	(7.6)
Provisions	(80.9)	(25.8)	(25.7)
Other liabilities	(6.8)	(11.8)	(11.3)
	(6,230.8)	(3,060.8)	(3,550.2)
Total liabilities	(7,297.5)	(3,540.2)	(4,050.4)
Net assets	1,236.4	1,046.0	1,122.7
Shareholders' equity			
Called up share capital	0.1	0.1	0.1
Share premium	448.4	372.2	373.0
Equity component of convertible bonds	21.0	–	–
Hedge reserve	(70.5)	–	–
Other reserves	3.5	0.5	1.9
Retained earnings	833.9	673.2	747.7
Total shareholders' equity	1,236.4	1,046.0	1,122.7

8 Consolidated cash flow statement

for the 28 weeks ended 4 March 2006

	28 weeks to 4 March 2006 £m	28 weeks to 5 March 2005 £m	52 weeks to 20 August 2005 £m
Cash flows from operating activities			
Operating profit	250.1	208.1	397.2
Depreciation	12.0	6.5	11.8
Amortisation of intangibles	3.1	0.9	1.7
Increase in inventories	(0.8)	–	–
Decrease in trade and other receivables	24.2	1.5	0.6
Decrease in trade and other payables	(94.8)	(25.3)	(0.2)
Difference between pension contributions paid and amounts recognised in the income statement	(0.4)	(0.3)	–
Decrease in provisions and other liabilities	(8.1)	(4.2)	(9.0)
Cash generated from operations	185.3	187.2	402.1
Income tax paid	(21.1)	(7.8)	(13.5)
Net cash from operating activities	164.2	179.4	388.6
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	(205.3)	(8.6)	(69.2)
Purchase of property, plant and equipment	(93.0)	(69.2)	(139.1)
Proceeds from sale of property, plant and equipment	215.5	22.4	29.0
Proceeds from sale of assets held for resale	2.2	170.8	170.6
Purchase of intangible assets	(0.5)	(0.5)	(0.8)
Net cash used in investing activities	(81.1)	114.9	(9.5)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital	75.4	5.5	6.3
Proceeds from issue of new loans and borrowings	1,201.1	418.4	1,063.9
Deferred issue costs paid	(20.9)	(1.2)	(11.0)
Proceeds from issue of convertible bonds	275.0	–	–
Costs of issuing convertible bonds	(9.3)	–	–
Net proceeds from issue of derivative financial instruments	50.0	–	–
Repayment of borrowings	(1,368.2)	(635.9)	(974.3)
Interest paid	(127.7)	(109.7)	(211.5)
Interest received	9.7	5.9	9.0
Repayments of obligations under finance leases	(1.2)	(0.2)	(0.4)
Interest element of finance lease rental payments	(0.6)	(0.4)	(0.7)
Costs of terminating financing arrangements ¹	(115.0)	(25.1)	(25.5)
Decrease/(increase) in cash deposits used as security for loan notes	171.0	41.4	(129.8)
Dividends paid	(20.0)	(15.3)	(24.7)
Net cash used in financing activities	119.3	(316.6)	(298.7)
Net increase/(decrease) in cash and cash equivalents	202.4	(22.3)	80.4
Cash and cash equivalents at beginning of period	245.7	165.3	165.3
Cash and cash equivalents at end of period	448.1	143.0	245.7
Cash and cash equivalents consist of:			
Cash and cash equivalents	448.1	143.0	245.7
Bank overdrafts	–	–	–

Cash and cash equivalents comprises cash at bank and in hand.

¹ In the current period costs of terminating financing arrangements include outflows of £114.6m on the redemption of swaps following the repayment of £525.0m of bank loans on the acquisition of the Spirit group. These costs have been reflected in the fair value of assets acquired at the date of acquisition (note 8).

for the 28 weeks ended 4 March 2006

1. Accounting policies

Basis of preparation

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

The Group has previously prepared its financial statements under UK Generally Accepted Accounting Principles ("UK GAAP"). Following a directive issued by the European Parliament, the Group is required to prepare its consolidated financial statements for the year to 19 August 2006 in accordance with International Financial Reporting Standards ("IFRS").

Accordingly, the interim financial information has been prepared using IFRS accounting policies consistent with those which management expects to apply in the Group's first IFRS Annual Report and Financial Statements for the year ending 19 August 2006. These policies are set out on the Group's website (www.punchtaverns.com) in a document which restates the consolidated financial information at 22 August 2004 (the opening balance sheet under IFRS) and for the 52 weeks to 20 August 2005, in accordance with IFRS. As permitted, the Group has not applied IAS 34 "Interim Reporting" in preparing the Interim Results. In addition, the Group has taken the exemption within IFRS 1 "First Time Adoption of IFRS" to apply IAS 32 "Financial Instruments: Presentation and Disclosure" and IAS 39 "Financial Instruments: Recognition and Measurement" prospectively only and not to retrospectively restate prior period comparatives upon adoption. These have been applied from 21 August 2005 and the impact is disclosed in note 9. IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations are subject to ongoing review and possible amendment of interpretive guidance and are therefore still subject to change. As a result it is possible that the information presented here may be subject to change before its inclusion in the 2006 annual financial statements, which will be the Group's first set of financial statements prepared in accordance with IFRS.

The interim report, which was approved by the Board of Directors on 22 May 2006, does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.

The figures for the period ended 20 August 2005 have been derived from the UK GAAP statutory accounts, which have been filed with 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, as restated for the transition to IFRS.

2. Segmental analysis

The Group operates in two business segments; a leased estate and a managed estate. The managed estate segment consists of the Spirit group of companies which was acquired on 5 January 2006 and separate disclosure of the turnover and operating profit of this segment is provided on the face of the income statement.

3. Non-recurring and exceptional items

In order to provide a trend measure of underlying performance, profit is adjusted to exclude items which management consider will distort comparability, either due to their significant non-recurring nature or as a result of specific accounting treatments.

3. Non-recurring and exceptional items *continued*

Included in the income statement are the following non-recurring and exceptional items:

	28 weeks to 4 March 2006 £m	28 weeks to 5 March 2005 £m	52 weeks to 20 August 2005 £m
Operating			
Profits generated from pubs identified for disposal ¹	–	4.7	4.7
Redundancy, costs to integrate acquisition of subsidiary and other related one-off costs	(3.5)	(2.9)	(7.5)
	(3.5)	1.8	(2.8)
Finance income			
Other ²	–	0.3	0.3
	–	0.3	0.3
Finance costs			
Secured loan interest ³	(0.1)	(1.3)	(1.3)
Bank loan interest ⁴	–	(3.2)	(3.2)
Cost of terminating financing arrangements ⁵	–	(8.4)	(9.3)
	(0.1)	(12.9)	(13.8)
Movement in fair value of interest rate swaps⁶	(4.4)	–	–
	(4.4)	–	–
Total non-recurring and exceptional items before tax	(8.0)	(10.8)	(16.3)
Tax			
Tax impact of exceptional items	2.4	4.4	6.2
Tax charge on terminating financing arrangements ⁷	–	(10.8)	(10.8)
Release of tax provision ⁸	15.0	–	–
	17.4	(6.4)	(4.6)
Total non-recurring and exceptional items after tax	9.4	(17.2)	(20.9)

¹ Profits generated from pubs identified for disposal arise from the 545 pubs which were identified for disposal on acquisition of InnSpired Group Limited on 10 September 2004 which were disposed of on 28 January 2005.

² Funds were held in an escrow account to fund the cost of acquisition of InnSpired Group Limited. The exceptional interest receivable 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.

³ In the current period interest represents break costs incurred on the early redemption of bank loans which were repaid following the acquisition of the Spirit group. In the comparative 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 loan relating to the 545 of the total 1,064 pubs acquired that were subsequently disposed of on 28 January 2005.

⁴ A bank facility was drawn down to fund the acquisition of InnSpired Group Limited. 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.

⁵ In comparative periods the cost of terminating financing arrangements represents premiums paid to redeem secured loan notes acquired through the acquisition of InnSpired Group Limited, break costs incurred to cancel swap arrangements associated with these loans and premiums incurred to redeem secured floating rate notes as part of the debt restructure on 1 August 2005.

⁶ Represents the movement in the fair value of interest rate swaps which do not qualify for hedge accounting.

⁷ The creation of deferred tax assets on the fair value of swaps and loans acquired on the acquisition of InnSpired Group Limited was reversed on the termination of these financing arrangements, resulting in a non-recurring tax charge of £10.8m in the prior period.

⁸ During the period the tax treatment of an onerous contract has been clarified and the associated tax provision has been released resulting in an exceptional tax credit of £15m.

4. Taxation

The effective taxation charge applied in these interim results of 22.3% reflects the estimated tax rate for the 52 weeks ending 19 August 2006. The effective rate of taxation for the comparative period was 22.2%.

The total tax charge of £8.5m (March 2005: £29.2m; August 2005: £44.2m) includes a tax credit of £17.4m (March 2005: charge of £6.4m; August 2005: charge of £4.6m) on non-recurring exceptional items.

5. Earnings per ordinary share

	28 weeks to 4 March 2006			28 weeks to 5 March 2005		
	Earnings £m	Weighted average number of shares m	Per share amount p	Earnings £m	Weighted average number of shares m	Per share amount p
Continuing operations						
Basic earnings per share	99.8	257.3	38.8	62.6	250.5	25.0
Effect of dilutive options	–	4.6	(0.7)	–	5.9	(0.6)
Diluted earnings per share	99.8	261.9	38.1	62.6	256.4	24.4
Supplementary earnings per share figures:						
Basic earnings per share	99.8	257.3	38.8	62.6	250.5	25.0
Effect of:						
Non-recurring exceptional items	(9.4)	–	(3.7)	17.2	–	6.9
Basic earnings per share before non-recurring exceptional items	90.4	257.3	35.1	79.8	250.5	31.9
Diluted earnings per share	99.8	261.9	38.1	62.6	256.4	24.4
Effect of:						
Non-recurring exceptional items	(9.4)	–	(3.6)	17.2	–	6.7
Diluted earnings per share before non-recurring exceptional items	90.4	261.9	34.5	79.8	256.4	31.1

6. Notes to the cash flow statement

(a) Analysis of changes in net debt

	At 20 August 2005 £m	Aquisitions £m	Cash flow £m	Non cash movements £m	At 4 March 2006 £m
Current assets					
Cash at bank and in hand	245.7	–	202.4	–	448.1
Cash deposits	202.8	–	(171.0)	–	31.8
Cash and cash deposits	448.5	–	31.4	–	479.9
Debt					
Bank loans	(1.4)	(850.0)	(300.8)	(2.0)	(1,154.2)
Secured loans	(3,418.7)	(1,360.9)	195.7	3.8	(4,580.1)
Guaranteed loan notes	(30.7)	–	(1.1)	–	(31.8)
Vendor loan notes	–	(294.2)	294.2	–	–
Debt component of convertible bonds	–	–	(265.7)	27.8	(237.9)
	(3,450.8)	(2,505.1)	(77.7)	29.6	(6,004.0)
Net debt per balance sheet	(3,002.3)	(2,505.1)	(46.3)	29.6	(5,524.1)

6. Notes to the cash flow statement *continued*

Cash deposits held at 4 March 2006 are used as security for guaranteed loan notes. Cash deposits at 20 August 2005 include £30.7m used as security for guaranteed loan notes and £172.1m of funds deposited on escrow to fund the redemption of old Punch Taverns Finance B Limited floating rate debt, not subject to tender offer, on 30 September 2005, together with interest accruing from refinancing on 1 August 2005 to redemption.

Non-cash movements relate to amortisation of deferred issue costs and premium on loan notes and convertible bonds and the equity component of convertible bonds.

(b) Cash flows relating to acquisition

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

	Continuing operations	Acquisitions ¹	Total
	£m	£m	£m
Cash flows from operating activities	177.8	7.5	185.3
Taxation paid	(21.1)	–	(21.1)
Cash flows from investing activities	(124.4)	43.3	(81.1)
Cash flows from financing activities	1,388.6	(1,269.3)	119.3

Of total loans repaid during the period of £1,368.2m, £1,144.1m relates to repayments of bank loans that were acquired through the acquisition of Spirit Group Holdings Limited.

¹ Relates to the acquisition of Spirit Group Holdings Limited, ultimate parent of the Spirit trading companies. Cash flows in the current period include 8 weeks of results relating to the acquired Spirit companies.

7. Reconciliation of movements in equity

	28 weeks ended 4 March 2006 £m	28 weeks ended 5 March 2005 £m	52 weeks ended 20 August 2005 £m
At beginning of period	1,122.7	990.4	990.4
IAS 32 and IAS 39 adjustments (note 9)	(68.6)	–	–
	1,054.1	990.4	990.4
Total recognised income and expense for the period	104.3	64.9	149.7
Issue of share capital	74.1	–	–
Exercise of share options	1.3	5.5	6.3
Share-based payments	1.6	0.5	1.0
Equity dividends	(20.0)	(15.3)	(24.7)
Equity component of convertible bonds	30.0	–	–
Tax on equity component of convertible bonds	(9.0)	–	–
Total equity at end of period	1,236.4	1,046.0	1,122.7

During the current period, on 8 December 2005 8,721,000 ordinary shares were issued for net proceeds of £74.1m and on 14 December 2005 £275.0m of convertible bonds, due 2010, were issued at par. The convertible bonds bear interest at 5.00% per annum and are convertible, at the option of the holder, into ordinary shares at an exchange price of £11.782 per ordinary share.

8. Acquisitions during the period

Acquisition of subsidiaries: Spirit Group Holdings Limited

On 5 January 2006 the Group acquired the entire share capital of Spirit Group Holdings Limited which operated a managed estate of 1,830 pubs at the date of acquisition.

The acquisition is summarised as follows:

	Provisional fair value £m
Intangible fixed assets	204.8
Property, plant and equipment	2,829.7
Investments in joint ventures	5.1
Inventories	15.9
Taxation	
– current	0.6
– deferred	(3.1)
Receivables	81.7
Cash and cash equivalents	234.1
Payables and provisions	(445.8)
Loans and swaps	(2,731.6)
Net assets acquired	191.4
Provisional goodwill arising on acquisition	248.0
Total consideration	439.4
Consideration satisfied by:	
Cash	439.4
	439.4

Due to the proximity of the acquisition to the interim date, the fair value adjustments contain some provisional amounts. Provisional goodwill of £248.0m includes £102.3m of deferred tax creditor which gives the opportunity to roll over taxable gains on the acquisition of properties and £222.9m of mark to market differences on retained loans and derivative financial instruments.

9. First time adoption of IAS 32 and IAS 39

The Group has adopted IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement” with effect from 21 August 2005. The Group has taken the exemption available in IFRS 1 “First-time Adoption of International Financial Reporting Standards” not to restate comparatives for both IAS 32 and IAS 39.

The principal impact of IAS 32 and IAS 39 on the Group’s financial statements relates to the recognition of derivative financial instruments at fair value. All derivatives are held on the balance sheet at fair value; the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss.

9. First time adoption of IAS 32 and IAS 39 continued

Changes in fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

The adjustments to the opening balance sheet as at 21 August 2005 are as follows:

	Opening balance sheet under IFRS £m	Effect of IAS 32 and IAS 39 £m	Restated opening position at 21 August 2005 £m
Non-current assets			
Receivables	11.7	(8.8)	2.9
Deferred tax asset	37.9	29.4	67.3
Current assets			
Trade and other receivables	78.5	(2.0)	76.5
Current liabilities			
Trade and other payables	(206.3)	2.9	(203.4)
Non-current liabilities			
Derivative financial instruments	–	(101.4)	(101.4)
Other liabilities	(11.3)	11.3	–
Impact on net assets		(68.6)	

10. Dividends

An interim dividend of 4.4p per share (March 2005: 3.7 pence, August 2005: 7.6 pence) was declared by the directors on 22 May 2006 and will be payable on 30 June 2006 to shareholders on the register of members on 9 June 2006. These financial statements do not reflect this dividend payable.

Introduction

We have been instructed by the company to review the financial information for the 28 weeks ended 4 March 2006 which comprises Consolidated income statement, Consolidated statement of recognised income and expense, Consolidated balance sheet, Consolidated cash flow statement and the related notes 1 to 10. 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.

As disclosed in note 1, the next annual financial statements of the Group will be prepared in accordance with those IFRS adopted for use by the European Union.

The accounting policies are consistent with those that the directors intend to use in the next financial statements. There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRS adopted for use by the European Union.

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 International Standards on Auditing (UK and Ireland) 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 28 weeks ended 4 March 2006.

Ernst & Young LLP

Birmingham
22 May 2006

Registered office

Jubilee House
Second Avenue
Burton upon Trent
DE14 2WF
+44 (0) 1283 501600

Advisers

Auditors

Ernst & Young LLP
One Colmore Square
Birmingham
B4 6HQ
+44 (0) 121 535 2000

Solicitors

Slaughter and May
One Bunhill Row
London
EC1Y 8YY
+44 (0) 20 7600 1200

Nominated adviser & broker

Merrill Lynch International
Merrill Lynch Financial Centre
2 King Edward Street
London
EC1A 1HQ
+44 (0) 20 7996 9777

Joint broker

Citigroup
Citigroup Centre
Canada Square
London
E14 5LB
+44 (0) 20 7986 4000

Principal bankers

Barclays Bank plc
15 Colmore Row
Birmingham
B3 2EP
+44 (0) 121 480 5562

Registrar

Computershare Investor Services plc
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH
+44 (0870) 702 0000

Directors of the Company

Peter Cawdron

Non-executive Director

Phil Cox

Chairman

Adrian Fawcett

Chief Operating Officer

Ian Fraser

Non-executive Director

Martin Glenn

Non-executive Director

Mike Foster

Non-executive Director

Robert McDonald

Finance Director

Jonathan Paveley

Commercial Director

Randi Shure

Non-executive Director

Fritz Ternofsky

Non-executive Director

Giles Thorley

Chief Executive

Financial calendar

Interim dividend	30 June 2006
Year end	19 August 2006
Preliminary results announcement	November 2006
Final dividend	January 2007

Company number

3752645

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Punch Taverns plc
Jubilee House
Second Avenue
Burton upon Trent
Staffordshire
DE14 2WF

www.punchtaverns.com
Tel: +44 (0) 1283 501600
Fax: +44 (0) 1283 501601