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# Punch Taverns plc

## Proposed Acquisition of Spirit Group

**Punch Taverns plc, the operator of over 8,200 pubs throughout the UK, today announces the proposed acquisition of Spirit Group, bringing the Group total to over 9,500**

### Highlights

- Acquisition values Spirit Group ("Spirit") in aggregate at approximately £2,679 million, (including the assumption of approximately £1,250 million of debt)
- Spirit is one of the UK's leading managed pub companies with an estate of 1,832 predominantly community pubs located across Great Britain
- The Directors believe that:
  - Within the Spirit estate there are a large number of pubs, which would be better run on Punch's successful leased and tenanted model
  - The acquisition is in line with Punch's strategy to further increase the overall quality of its estate
  - This represents an investment in one of the finest pub portfolios in the UK, with further opportunities to enhance value
- Acquisition will increase direct access to areas of retail growth such as food, wines and soft drinks and provide potential for further buying benefits
- Acquisition funded by:
  - £1,250 million debt facilities
  - £1,250 million of assumed Spirit debenture
  - £275 million of convertible bonds
  - Up to £75 million of new ordinary shares
- Significant earnings enhancement in the current financial year (pre exceptional items)
- Generation of returns in excess of Punch's weighted average cost of capital in the first full year of ownership
- Intention is to convert c.750 pubs to a leased/tenanted format within two years and initially sell 82 other pubs for alternative use. A detailed performance review will be undertaken to assess the best method of realising value from the rest of the portfolio
- Sale of 203 pubs from the Punch estate to Admiral Taverns for £40 million also announced today (see separate announcement)

The Acquisition is conditional upon the approval of Punch Shareholders. A Circular providing further details of the Acquisition and convening an Extraordinary General Meeting will be posted to Shareholders shortly.

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

*"This is an exceptional deal for Punch. The proposed acquisition of Spirit will further increase the scale and quality of our estate. The acquisition also provides shareholders with a strongly enhanced earnings profile, returns in excess of cost of capital and excellent growth potential."*

1 December 2005

**Punch will be hosting a presentation for analysts today at 10.00am at the offices of College Hill, 4<sup>th</sup> Floor, 78 Cannon Street, London EC4N 6HH. Please call Jamie Ramsay at College Hill on 020 7457 2048 for further details.**

**There will be a dial-in facility to access the analyst meeting. Participants should dial 020 7784 1014 and request the Punch Taverns conference call.**

**ENQUIRIES:**

**Punch Taverns plc**

**Today: 020 7457 2020  
Thereafter: 020 7868 8903**

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*Morgan Stanley & Co. Limited ("Morgan Stanley") is acting exclusively for Punch Taverns plc in relation to the Acquisition and for no-one else, and will not be responsible to any other person for providing the protections afforded to clients of Morgan Stanley nor for providing advice in connection with the Acquisition.*

*Certain statements made in this announcement are forward-looking statements. Such statements are based on current expectations, and by their nature, are subject to a number of risks and uncertainties that could cause actual results and performance to differ materially from any expected future results or performance expressed or implied by the forward-looking statement. The information does not assume any responsibility or obligation to update publicly or revise any of the forward-looking statements contained herein.*

*These materials are not an offer of securities for sale in the United States. Securities may not be offered or sold into the United States absent registration under the U.S. Securities Act of 1933 or an exemption therefrom.*

This summary should be read in conjunction with the full text of the attached press release.

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**Part I**

**Punch Taverns plc**

**Proposed acquisition of Spirit Group**

**Overview**

**Introduction**

The Board of Punch announces that Punch Taverns (Redwood Bidco) Limited (a wholly owned subsidiary of Punch) and Punch have entered into an agreement relating to the purchase of the entire issued ordinary share capital of Spirit Group ("Spirit"). The Acquisition values Spirit in aggregate at approximately £2,679 million (including the assumption of approximately £1,250 million of debt). Spirit is one of the UK's leading managed pub companies with an estate of 1,832 pubs located across Great Britain.

In view of its size, the Acquisition is conditional upon the approval of Punch Shareholders. A Circular convening the Extraordinary General Meeting will be posted to Shareholders shortly.

**Reasons for the Acquisition**

The Directors believe that it is in the interests of Shareholders as a whole to consider acquisition opportunities which enhance the business and may generate additional value. Having identified the Acquisition as a key strategic opportunity, and having conducted a thorough due diligence process, the Directors believe that the combination of Punch and Spirit, together with associated disposals and the conversion of certain pubs to lease agreements, will increase the quality of the Punch estate and enhance returns to shareholders.

Punch intends to convert around 750 (40 per cent.) of the acquired pubs to a leased/tenanted format over the first two years, and to sell 82 other acquired pubs, which have higher alternative use property value. Punch will undertake a detailed performance review of the remaining acquired pubs to assess the best method of realising value. During this review, the pubs will continue under direct management and the infrastructure will be retained. This will also ensure that the performance of the pubs being converted to a leased/tenanted format is maintained during the conversion period.

In this way, it is expected that the Acquisition:

- will further increase the overall quality of the Punch estate;
- offers the potential for significant earnings enhancement;
- will further increase Punch's diversity of estate and attractiveness to high quality retailers;
- will maximise the trading potential of each lease conversion site by attracting independent retailers who, through their individualism coupled with motivational arm's length agreement, will enhance the customer focus and offering of these local community pubs.

## **Information on Spirit**

Spirit owns and operates one of the finest managed pub estates in the United Kingdom comprising a total of 1,832 pubs (as at 19 October 2005). Spirit was formed as a result of the demerger of the managed pub business of Punch Group Limited and its subsidiaries on 3 March 2002. Spirit has since grown through a number of acquisitions, most importantly the acquisition of the Scottish & Newcastle retail business from Scottish & Newcastle plc in November 2003.

Of the 1,832 Spirit pubs to be acquired by Punch, 1,316 pubs are freehold or long-leasehold properties, and 516 pubs short leaseholds. In the financial year ended 21 August 2004, Spirit generated group turnover of £1,319 million, gross profit of £314 million and operating profit of £196 million.

The Spirit Group has raised £1,250 million by way of a debenture under a securitisation structure. The debenture is secured by way of fixed and floating charges over 1,066 pubs in the Spirit Group. The terms of the securitisation include various covenants upon the Spirit Group commensurate with this type of financing. There are no current plans to repay the debenture and it is intended that the debenture will remain in place following Completion.

## **Consideration for the Acquisition**

The consideration is being financed from new facilities totalling £1,250 million arranged by Citigroup,, Morgan Stanley and The Royal Bank of Scotland PLC, an issue by Jerseyco of £275 million convertible bonds and a placing of new ordinary shares ranking *pari passu* with existing shares raising up to £75 million both arranged by Citigroup and Morgan Stanley. The issue of the convertible bonds and the placing of new ordinary shares are not conditional upon the completion of the Acquisition.

## **Financial Effects of the Acquisition**

The Directors of Punch expect the Acquisition will be earnings enhancing in the current financial year. Once the programme for converting pubs from managed houses to a leased and tenanted format is successfully completed, the Directors are of the view that the improvement in the overall quality of the Punch estate will offer the potential for further growth of the Punch business.

Specifically, the Directors expect the return on investment to exceed the Punch Group's weighted average cost of capital in the first full year of ownership.

As part of the Acquisition, Punch will acquire aggregated gross assets of £3,502 million of which £3,154 million relate to fixed assets and £347 million to current assets including £227 million of cash at bank and in hand. The acquisitions will also include total aggregated liabilities of £2,864 million and therefore net assets of £638 million.

A fair value exercise will be conducted by Punch at the next year-end reporting date on the assets acquired and goodwill will be calculated.

## **Current Trading and Prospects of Punch, Spirit and the Enlarged Punch Group**

### ***Punch***

Trading at Punch to the date of this announcement has been satisfactory and in line with the Directors' expectations since the publication of the preliminary unaudited results for the 52 weeks ended 20 August 2005 and the Directors are positive about the underlying financial and trading prospects of Punch for the current financial year.

### ***Spirit***

In the fourth quarter ended 20 August 2005, like for like sales for the Spirit Group were 3.9 per cent. higher compared to the same period in the prior year, adjusted for disposals.

### ***The Enlarged Punch Group***

The Directors believe that, following completion of the Acquisition, the Enlarged Punch Group is well placed to take advantage of opportunities arising from the increase in the size of its estate. The Directors have confidence in the financial and trading prospects of the Enlarged Punch Group for the current financial year.

## Part II

### Proposed Acquisition of Spirit Group

#### Further Information

##### Background on Punch

Punch is a leading pub company specialising in leased and tenanted pubs. As at August 2005, the Punch estate comprised 8,227 pubs located across Great Britain, all operated by independent retailers under a lease or tenancy agreement from Punch.

The Company has pursued a focused strategy of developing the operation of leased and tenanted pubs on the principles of stability and organic growth. The Company achieves this through ownership of a high quality estate of mainly freehold pubs, let to independent retailers, and generating four main income streams:

- rent;
- profit from the sale of beer;
- profit from the sale of other goods and services; and
- profit share from gaming machines.

Profit improvement has been achieved through a combination of organic growth and selective acquisitions of individual pubs and pub estates from other companies, using cash and financial leverage generated by the core estate. This has resulted in the expansion of the Punch estate by approximately 82 per cent. over the past three years. An efficient capital structure, using securitised debt which provides stable fixed rate finance, complements the business model and is designed to enhance shareholder value.

##### A History of Successful Acquisitions

Punch has a successful history of corporate acquisitions and their integration into the core estate. The Company's recent acquisition history includes:

- Pubmistress Limited in December 2003 which, after related disposals, increased Punch's estate by 2,859 pubs to a total at that time of over 7,400 pubs;
- InnSpired Group Limited, in September 2004, which after subsequent disposals in January 2005, added 471 pubs to the estate; and
- Avebury Holdings Limited, in August 2005, which after disposals, added 368 pubs to the estate.

Each of these major acquisitions has, in the view of the Directors:

- enhanced Punch's prospects for organic growth through improving its ability to manage the overall estate particularly through synergy benefits derived from scale and expertise;
- generated returns in excess of Punch's weighted average cost of capital; and
- enhanced the earnings per share attributable to Shareholders.

## Opportunities for Further Growth

Focus on leased and tenanted pubs continues to provide excellent opportunities for organic growth and the pubs converted from direct management will benefit from the individuality conferred by independent retailers with the support of services and investment from Punch. This strategy has been successful in driving organic profit growth in recent years.

In addition, as not all of the pubs being acquired are best suited to the leased/tenanted model in its current format, some pubs will be retained under direct management. These pubs offer significant future opportunity, realisation of which will be considered fully in the detailed performance review. In the meantime, through the operation of a mixed estate, Punch will gain access to greater growth opportunities than is currently the case. These include:

- the ability to convert pubs from managed to leased/tenanted, depending on economic circumstances, to maximise value;
- greater attractiveness to suppliers and the opportunity for purchasing synergies;
- greater direct access to areas of retail growth such as food, wines and soft drinks;
- greater attractiveness to pub retailers, company management and employees, through the greater diversity of operation; and
- improved understanding and proximity to the consumer and the ability to extend consumer knowledge across the wider estate.

## Further Information on Spirit

Spirit owns and operates one of the largest managed pub estates in the United Kingdom comprising a total of 1,832 pubs (as at 19 October 2005). Spirit was formed as a result of the demerger of the managed pub business of Punch Group Limited and its subsidiaries on 3 March 2002. Spirit has since grown through a number of acquisitions, most importantly the acquisition of the Scottish & Newcastle retail business from Scottish & Newcastle plc in November 2003.

The geographic profile of the Spirit estate is as follows:

Region	Percentage Split of Spirit Estate (%)
South East	26
North West	17
London	14
Midlands	15
North, Yorks and Humber	14
Scotland	6
South West and Wales	6
East Anglia	2
Total	100

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Other than as set out below, there has been no significant change in the trading or financial position of the Spirit Group since 21 August 2004:

#### ***Sale/leaseback***

- On 14 October 2004, the Spirit Group completed the sale of Spirit Intermediate Star Limited and its subsidiary, Spirit Wisley Limited, which owned the reversionary titles to a portfolio of 65 licensed properties. The net proceeds of £168.6 million were used to reduce debt and the properties continued to be operated by the Spirit under 30 year leases;

#### ***Refinancing***

- On 25 November 2004, the Spirit Group completed an intra-group reorganisation and £2.2 billion refinancing. New financing arrangements were entered into comprising (i) the issue by Spirit Issuer plc of £1.25 billion Floating and Fixed/Floating Secured Debenture Bonds, secured against a portfolio of 1,080 freehold and long leasehold pubs in the Spirit Group estate and (ii) bank loans of £875 million (subsequently increased to £1.0 billion on 23 December 2004) secured against a portfolio of 951 freehold, long and short leasehold pubs. The balance outstanding on the pre-existing bank debt was repaid on 25 November 2004 and the Floating Rate Secured Notes issued in April 2002 and August 2003 pursuant to the Spirit Funding securitisation were called on 26 November 2004 and redeemed at par on 29 December 2004;

#### ***Non-core pub disposals***

- On 7 December 2004, the Spirit Group sold the shares of a non-core portfolio of 364 pubs by way of a sale of New Pubco (TC) Limited and its subsidiary company, New Pubco (MC) Limited, to Hackremco (No 2165) Limited, a company formed by a consortium of investors including Robert Tchenguiz, for £345 million including the repayment of intercompany loans. The proceeds of the transaction together with further available cash were used to make a partial redemption of the unsecured guaranteed loan notes 2013 issued by Spirit Intermediate Holdings Limited in November 2003 together with payments in respect of the group employee investment scheme and the zero cost and at cost options; and
- On 18 September 2005, the Spirit Group sold the "Night and Day" portfolio of High Street bars and nightclubs comprising the trade and certain assets and liabilities of 178 licensed properties (and the shares in New Pubco (SLB) Limited, which held leases in respect of certain of the properties) to TCH Holdings Limited and TCG Acquisitions Limited, a company formed by a consortium of investors including Alchemy Partners, for £174.8 million. The net proceeds of the transaction was used to partially repay debt and transaction costs, the balance remaining being held to the credit of a disposal collateral account.

#### **Post Acquisition Plan**

Spirit operates pubs under the managed house model, whereby the company employs all of the staff, including a manager, and is responsible for all of the operating expenses and retains all of the income of the pub. Punch plans to convert, in the first two years, approximately 750 of the Spirit pubs into the leased and tenanted model (as operated for the existing Punch estate), whereby pubs are run and managed by an independent retailer who does not own the premises but who operates the pub under a lease or a tenancy agreement.

In order to provide full focus and accountability of the managed house operation, the management of this business will be kept separate from Punch's leased and tenanted activities. Shortly after acquisition, Punch will appoint a Director responsible for the Managed Business. This role will form part of the Executive Management Committee of the group and report to the CEO and the Group Board. The managed business will retain autonomy over operational property, human resources and sales and marketing activity. This mirrors the structure within the existing leased/tenanted business. However, all of these functions will be co-ordinated with the assistance of the senior management of Punch to maximise the buying benefits available to the wider group and to ensure positive collaboration where necessary.

Spirit has gone through a period of considerable change over the last few years. Despite this, the business is performing well and Punch believes the Group will be able to call upon a high quality core management team currently operating the Spirit business. The proximity of the Punch and Spirit head offices, both based in Burton upon Trent, will assist in the task of overseeing transition and utilisation of staff and resources.

The leased/tenanted division of Punch will continue to be run as before, with only very minor disruption as pubs are converted from managed and others are sold. In particular, operational management will continue to focus on the current estate.

For those outlets that are to be converted onto a leased/tenanted format the key issue is to provide continuity of support during the conversion period. This will be provided by the managed house division. The letting process will be handled by a separate team of specialists from within the leased division. This team will be able to capitalise on the talent bank of existing applicants for sites, together with their extensive knowledge of good operators for this type of property.

Punch has extensive experience of managing acquisitions and of integrating pubs into the leased/tenanted estate, the most recent examples being the acquisitions of Avebury, InnSpired and Pubmaster. Prior to that, in 2002, Punch was a sister company of Spirit within the Punch Group, and the Punch management team have direct experience of converting pubs from the managed estate to leased pubs, and in some cases of working directly with mixed estates of managed and leased/tenanted pubs.

### **Principal Terms of the Acquisition**

Punch and the Buyer have entered into an Acquisition Agreement with shareholders who hold more than 67 per cent. of the shares of Target. Following completion of the Acquisition Agreement, the "drag-along" provision contained in the articles of association of the Target will be used to enable the Buyer compulsorily to acquire the remaining shares of Target. The Buyer will also procure that Spirit redeems all of the current shareholder loan notes. The aggregate consideration payable in cash in respect of all of the Target's shares is expected to be £422.5 million, of which £25 million will be placed in an escrow account for a short period to enable Punch to satisfy itself as to certain matters.

As is customary in the case of purchases of businesses from financial sellers, the Buyer has only received very limited warranties in connection with the Acquisition. The obligations of the Buyer are guaranteed by Punch.

The Acquisition is conditional upon the approval of the Shareholders at an Extraordinary General Meeting. The Buyer has agreed to pay Spirit the sum of £19.5 million (inclusive of VAT, except to the extent such VAT is recoverable) in the event that the Shareholders do not approve the Acquisition by 31 January 2006.

## **The On-Sale**

In view of its size, the Acquisition qualifies for investigation by the Office of Fair Trading ("OFT") as a relevant merger situation under the Enterprise Act 2002.

In order to address possible competition concerns, Punch plans to sell approximately 190 pubs from the existing Punch estate to one or more third party buyers before or shortly after Completion of the Acquisition. Punch may give certain warranties to such buyers under the terms of the On-Sale which are customary for a transaction of this nature.

Punch is confident that on this basis, the Acquisition will be cleared by the OFT without a reference to the Competition Commission. The OFT may however require Punch to undertake to divest a limited number of additional pubs from the Punch estate and/or the Spirit estate within six months of Completion as a condition to clearing the Acquisition without a reference to the Competition Commission. The Acquisition is not conditional upon completion of the On-Sale nor upon regulatory clearance.

Punch intends to use the proceeds of the On-Sale for repayment of bank borrowing obtained to fund the Acquisition and/or further investment in the business.

## **Other**

A Circular providing further detail of the Acquisition and convening an Extraordinary General Meeting will be posted to Shareholders shortly. It is anticipated that Completion will take place at the end of December 2005.

The Directors will be seeking approval from the Shareholders for the borrowings under the Facility Agreement and the Convertible to exceed the borrowing limit contained in Article 101 of the Company's articles of association. The Directors believe that this increase in borrowing will not result in the Punch Group incurring excessive indebtedness.

Punch is being advised on the Acquisition by Morgan Stanley. Morgan Stanley is also acting as broker on the Acquisition.

**ENQUIRIES:**

**Punch Taverns plc**

Giles Thorley, Chief Executive  
Robert McDonald, Finance Director

**Today: 020 7457 2020**  
**Thereafter: 020 7868 8903**

**Financial Adviser to Punch**

**Morgan Stanley**

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Henry Stewart

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**College Hill**

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Matthew Smallwood

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*Morgan Stanley is acting for Punch in connection with the Acquisition, the Placing and the placement of the Bonds and no one else and will not be responsible to anyone other than Punch for providing the protections afforded to clients of Morgan Stanley nor for providing advice in relation to the matters referred to herein.*

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*This announcement is directed only at persons who (i) are outside the United Kingdom or (ii) have professional experience in matters relating to investments or to whom this announcement may otherwise be directed without contravention of section 21 of the Financial Services and Markets Act 2000 (all such persons together being referred to as "Relevant Persons"). This announcement is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this announcement relates is available only to Relevant Persons and will be engaged only with Relevant Persons.*

*This announcement and any offer if made subsequently is only addressed to and directed at persons in member states of the European Economic Area ("EEA") who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC) ("Qualified Investors"). Any person in the EEA who initially acquires any securities in the expected offering or to whom any offer of securities is made will be deemed to have acknowledged and agreed that they are such a Qualified Investor.*

*This announcement may be an advertisement for the purposes of the Prospective Directive (2003/71/EC) and does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, any of the securities. It is intended that copies of the prospectus to be issued in connection with the issue of the Bonds, when approved and published, will be available at the registered offices of Punch. The price and value of securities may go up as well as down. Persons needing advice should contact a professional adviser.*

*In the case of any securities being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the securities acquired by it in such offering have not been acquired on a non-discretionary basis on behalf of, nor have they have been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of securities to the public other than their offer or resale in a relevant member state to Qualified Investors or in circumstances in which the prior consent of the Managers has been obtained to each such proposed offer or resale.*

*The Company and the Managers and their respective affiliates, will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement.*

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*The distribution of this announcement and the offering or sale of the securities in certain jurisdictions may be restricted by law. No action has been taken by Punch or the Managers or any of their respective affiliates that would permit an offering of the securities or possession or distribution of this announcement or any other offering or publicity material relating to such Placing Shares in any jurisdiction where action for that purpose is required. Persons into whose possession this announcement comes are required by Punch and the Managers to inform themselves about and to observe any such restrictions.*

## **Appendix I**

### **Summary of the terms and conditions of the Acquisition Agreement and Facility Agreement**

#### **Acquisition Agreement**

The Acquisition Agreement is between the Buyer, the Target, Punch and shareholders who in aggregate hold more than 67 per cent. of the shares of Target. The principal sellers are funds managed by Texas Pacific Group and Blackstone Group. The obligations of the Buyer are guaranteed by Punch. Completion is conditional upon the approval of the Shareholders at the Extraordinary General Meeting. In the event that Shareholders do not approve the Acquisition by 31 January 2006, the Buyer has agreed to pay Spirit the sum of £19.5 million (inclusive of VAT, except to the extent such VAT is recoverable). The aggregate consideration payable in cash in respect of all of the Target shares (including those shares which will be compulsorily acquired by the Buyer pursuant to the "drag along" provisions contained in the articles of association of Target) is expected at Completion to be £422.5 million, of which £25 million will be placed in an escrow account for a period of eight weeks to enable Punch to satisfy itself as to certain matters. If Spirit disposes of certain pubs before Completion and the disposal price, net of tax and costs of disposal, exceeds a specified base figure, the excess will be paid to the Target shareholders as additional consideration. The Buyer is obliged to procure that, at Completion, Spirit redeems all of the current Spirit shareholder loan notes (which will at Completion have a redemption value of approximately £293.2 million). The Buyer will also procure that, at Completion, all outstanding options over Spirit shares will be satisfied in cash, the aggregate amount of which is expected to be approximately £33.8 million will procure that the Target pays an aggregate of approximately £16.9 million to certain of its advisers in respect of the costs of the transaction.

#### **Facility Agreement**

The Facility Agreement was entered into between, amongst others, the Company and Citigroup, Morgan Stanley and The Royal Bank of Scotland PLC under which the borrowers obtained a bridge facility of £1,200 million and a revolving credit facility of £50 million (together the "Facility") from a group of lenders to finance the Acquisition. The revolving credit facility may also be used for general corporate purposes. The Facility is secured and contains customary representations, warranties and covenants in favour of the lenders. Interest payable under the Facility is LIBOR plus two per cent, with scheduled amortisation of £600 million at the end of year one and £400 million at the end of year two.

## **Appendix II**

### **Risk Factors**

This Appendix II addresses the existing and future material risks to the business of the Enlarged Punch Group. The risks below are not the only ones that the Enlarged Punch Group will face. Some risks are not yet known and some that are not currently deemed material could later turn out to be material. All of these risks could materially affect the Enlarged Punch Group, its turnover, operating profits, earnings, net assets, liquidity and capital resources. In such a case, the market price of the Ordinary Shares may decline and investors may lose all or part of their investment.

Shareholders should consider carefully all the information in this announcement, including, in particular, the risks described below.

#### **Conversion and integration of the acquired pubs and realisation of the benefits of the Acquisition**

The Acquisition involves the conversion and integration of a significant number of pubs that have previously been operated under the managed house model. There is a risk that the Enlarged Punch Group will encounter difficulties in converting and integrating these pubs effectively. Although detailed plans for achieving the operating benefits of the Acquisition are being prepared, these cannot be implemented until Completion and there are execution risks associated with these plans.

The conversion and integration process may also take up a substantial amount of managerial resources which in turn may adversely impact the performance of the Enlarged Punch Group's business.

#### **Exposure to economic downturn in the UK**

The Enlarged Punch Group is exposed to the risks of an economic downturn in the UK. A downturn in the UK economy could result in lower consumer expenditure which in turn could result in lower revenues and net income for the Enlarged Punch Group.

#### **Varying consumer perceptions and public attitudes**

In the UK, consumption of alcoholic beverages has become the subject of considerable social and political attention in recent years due to increasing public concern over alcohol-related social problems including drink driving, underage drinking and adverse health consequences associated with the misuse of alcohol.

The Government in January 2005 published for consultation a report entitled "Drinking Responsibility" setting out further proposals building on the new powers that will exist pursuant to licensing reforms. New measures aimed at those who abuse the licensing laws include 24-hour bans for premises that repeatedly sell to underage drinkers, fixed penalty notices and banning orders for individual drinkers who behave in an anti-social manner and measures (for designated areas) aimed at recovering costs of policing, hospital treatment and street cleaning. Premises deemed to be contributing to anti-social drinking problems would be identified, given a period of time to tackle the problem, failing which they would be charged a contribution of the associated costs. Currently, a bill giving effect to this proposal is before Parliament which, if enacted in its current form, could have an adverse effect on the Enlarged Punch Group's cost base and profits.

#### **Changing consumer tastes and requirements**

Changes in consumer tastes in both food and drink and demographic trends over time may affect the appeal of the Enlarged Punch Group's pubs to consumers.

### **Seasonality and weather**

Attendance levels, and hence turnover, at the Enlarged Punch Group's pubs may be adversely affected by persistent rain or other inclement weather, especially during the summer months or over the Christmas period (which are peak trading times). Additionally, hot weather may have an adverse impact on food sales.

### **Operating costs**

The Enlarged Punch Group's pubs utilise a range of labour and services which are essential to their operation such as staff, utilities, rates and maintenance. These costs can amount to a significant proportion of a pub's turnover and there may be only a limited ability to mitigate significant increases caused by market or regulatory factors. Significant future costs in items such as rates or utilities could therefore have a major impact on the Enlarged Punch Group's financial performance.

### **Declining sales of beer in pubs and increased competition**

A significant portion of the Enlarged Punch Group's turnover is derived from the sale of beer. In recent years, sales of all beer (by volume) in pubs in the UK have decreased, principally as a result of pub customers showing increased demand for non-beer products such as wine and other alcoholic beverages, and increased expenditure on food along with a decline in the number/proportion of male pub visitors. Growing health and drink-driving concerns, as well as the ability to purchase canned or bottled beer at lower prices in many competitors such as off-licences and supermarkets, have also contributed to the downward trend in beer sales at pubs.

### **Ability to attract and retain high quality tenants**

The Enlarged Punch Group's financial performance will be dependent on the ability to identify and retain high quality tenants. If the Enlarged Punch Group is unsuccessful in convincing both existing and prospective tenants that the overall combination of its properties, services and contractual terms are more favourable than those of its competitors, this may adversely impact the Enlarged Punch Group financial performance.

### **Competition for high quality managers**

All of the Enlarged Punch Group's managed pubs will be operated by Enlarged Punch Group employees as managers. The Enlarged Punch Group will compete with other managed pub companies to attract high quality managers and some of these companies may have greater financial and other resources than the Enlarged Punch Group. If the Enlarged Punch Group is unsuccessful in convincing both existing and prospective employees that the overall combination of its properties, services and employment terms is more favourable than that of its competitors, existing managers may choose not to remain employed by the Enlarged Punch group and prospective employees may choose to work for other companies.

### **Late or non-payment of rental and/or other payments**

There is a general risk that rental and other payments owed to the Enlarged Punch Group (including for example for the supply of beer and other products to the tenants and for receipts from AWP machines) will not be paid on the due date or will not be paid at all. A sufficient aggregation of such late or non-payments would affect the profitability and financial performance of the Enlarged Punch Group.

### **Debt, liquidity and revenue risks**

The Enlarged Punch Group's debt structure carries a number of restrictive covenants. Financial covenants establish minimum net worth and debt service levels within the securitised elements of the business and restrict payments to Shareholders such as dividends if specified debt service levels are not satisfied. Non-financial covenants include restrictions on the disposal of mortgaged properties and related matters, the disposal of assets other than mortgaged properties, the acquisition and substitution of permitted businesses, capital expenditure, estate management transactions and further positive and negative covenants. Breach of these covenants by the relevant securitised elements of the

Enlarged Punch Group would constitute "loan events of default", which could result in the Enlarged Punch Group's borrowings becoming immediately repayable.

If there were a significant deterioration in the Enlarged Punch Group's trading activities or cash generation, the Enlarged Punch Group would have to service its debt in priority to its equity and there is a risk that it would not be able to make dividend payments.

### **Defined benefit pension schemes**

The Spirit Group operates various defined benefit pension schemes: The Spirit Group Pension Scheme (the "SGPS"), the Spirit Group Retail Pension Plan (the "SGRPP") and the Spirit Group Retail Retirement Savings Plan (the "SGRRSP") (a defined contribution pension scheme which has a defined benefit underpin) (collectively, the "Pension Schemes").

The primary liability for funding the Pension Schemes rests with the participating employer companies. By virtue of the Pensions Act 2004, there will be risks for the whole of the Punch Group arising from the operation of the Pension Schemes.

In summary, the main risk factors are:

- (a) The Pensions Act 2004 will allow the Pensions Regulator to impose a scheme funding target and employer contribution rate if those matters cannot be agreed between the scheme trustees and the employers. This is currently scheduled to come into force from December 2005.
- (b) The trustees of each Pension Scheme have the power to wind up the relevant scheme in certain circumstances. The Pensions Regulator also has a statutory power to order a pension scheme to be wound up. As a result of recent changes in legislation, winding-up the Pension Schemes would result in a statutory obligation on the various participating employers to fund the schemes by reference to a "buy-out basis". Approximate funding calculations identify that, if the Pension Schemes were to wind up as at the date of the calculations (being 31 May 2005 in the case of both the SGPS the SGRPP), aggregate contributions on this basis would have been required of around £77 million in the case of the SGPS and £125 million in the case of the SGRPP (although these figures should be taken only as a guide as no quotations have been obtained from insurance companies). Since it is not intended to wind up the pension schemes, a more normal amount of deficit would be on an FRS 17 basis and this was £26 million and £37 million for SGPS and SGRPP respectively as at 20 August 2005.
- (c) The Pensions Act 2004 gives new powers to the Pensions Regulator to require funding or funding guarantees for defined benefit pension schemes from any company in the same group as the participating employers (which may include companies in the Pine Group). This applies regardless of whether the companies sought to be made liable have any employees in the pension schemes concerned.
- (d) The trustees of each Pension Scheme have control over the investment of the relevant scheme's assets and could (having taken appropriate investment advice and consulted with the employers) alter the investment profile of the Pension Schemes. For example, they could exchange equity investments for bonds, which would typically increase the employer funding obligations in relation to the Pension Schemes because of the lower rate of return expected from lower risk bonds.

Please note that there are other defined benefit pension schemes operated in the Punch Group, being the Pubmaster Pension Scheme and the InnSpired Group Pension Scheme. As such, the powers of the Regulator described in (c) above could be used to impose liability for these pension schemes on companies within the Group. As at 20 August 2005, under the UK accounting standard Financial Reporting Standard 17 (FRS17), the Pubmaster Pension Scheme had net liabilities of £2.2 million and the InnSpired Group Pension Scheme had net liabilities of £3.1 million.

### **Risks associated with fiscal-related matters**

The Enlarged Punch Group's activities will be affected by a number of fiscal-related matters. These matters include duty on alcoholic beverages, property rates, value added tax, other business taxes and the availability of duty harmonisation to travellers between European Union countries.

Changes in legislation which affect all or any of these matters may adversely affect the financial performance of the Enlarged Punch Group.

### **Leasehold interests in pubs**

The interest held in 1,157 pubs in the Enlarged Punch Group is comprised either wholly or partly under a leasehold title.

Where the interest held in a pub is comprised either wholly or partly under a leasehold title and that pub is damaged or destroyed such that the business cannot be operated from that pub until rebuilding or repair work is undertaken, there is a risk that the landlord may have a right to break the lease where the property cannot be rebuilt within a certain period. There is also a risk, for both freehold and leasehold pubs, that the property cannot be rebuilt within a certain specified period and that an operational tenant will cease to operate its business either because it is not viable to wait for rebuilding or repair, because it wishes to continue to operate from an alternative site and it then chooses not to return or because it loses its licence to operate. Such damage or destruction could deprive the Enlarged Punch Group of capital value in the relevant leasehold pub and/or ongoing income from the relevant operational tenant.

46 leases are missing, and so it has not been possible to identify whether any of the risk factors described in the preceding paragraphs apply to those pubs.

In relation to 6 of the leasehold pubs the contractual term of the relevant lease has expired. In relation to a further 310 leases the term will expire prior to the end of 2030, and in relation to 323 leases the term will expire prior to the end of 2040. There can be no guarantee that the Enlarged Punch Group will be successful in negotiating a new lease of each such pub or, if it is successful, as to what terms will then apply. The capital value of each such pub will reflect the risk of renewal, but the termination of any lease without renewal will deprive the Enlarged Punch Group of any ongoing income from the relevant pub.

### **Complaints or litigation from customers, tenants and/or third parties**

The Enlarged Punch Group could be the subject of complaints or litigation from individuals or groups of pub customers and/or tenants and/or class actions alleging illness or injury (e.g. passive smoking or alcohol abuse) or raising other health or operational concerns, and from other third parties in nuisance and negligence. It may also incur additional liabilities as a freehold property owner (including environmental liability). If the Enlarged Punch Group were to be found liable in respect of any complaint or litigation, this could adversely affect the Enlarged Punch Group's results of operations, and also adversely affect Group's reputation or that of its brands.

### **Regulation**

#### *(a) General*

The pub industry in the UK is highly regulated at both national and local levels and pub operations require licences, permits and approvals. Delays and failures to obtain required licences or permits could negatively affect the operations of the Enlarged Punch Group. They could also adversely affect results of operations, particularly through higher costs.

These laws and regulations impose a significant administrative burden on each pub of the Enlarged Punch Group and additional or more stringent requirements could be imposed in the future.

Some examples of the regulatory changes which may affect the Enlarged Punch Group include:

- additional EU or UK employment legislation, in particular, (i) the level of the National Minimum Wage, which is under annual review by the Law Pay Commission and (ii) the maximum number of hours an employee may be permitted to work and the extent to which they may voluntarily opt out;
- competition, consumer protection and environmental law changes which could adversely affect the Enlarged Group's operations; and
- implementation of the Disability Discrimination Act 1995, which may require changes to certain of the Enlarged Punch Group's properties

*(b) Licensing*

The Licensing Act 2003 is currently being introduced, and the new licensing regime has come into effect from effect from 24 November 2005. Responsibility for the administration of licensing will from this date rest with local authorities, rather than magistrates. Pub operators wishing to change the hours of opening of their premises must apply to the local authority for permission, submitting an operating plan. Local residents, the police and other relevant agencies may object to the application on certain defined grounds, following which the local authority must hold a hearing and reach a determination.

There is a risk that some applications may not succeed and therefore changes to existing hours will not be permitted. This may mean that the Enlarged Punch Group might not be able to take advantage of longer trading hours in certain of its premises and, as a result, lose customers to competitor businesses which may have successfully obtained longer opening hours. During the transitional period between the two licensing regimes, the Enlarged Punch Group will also incur one off additional costs related to the licence applications and associated legal and property fees. Fees for licence applications are determined by the Government and were increased in January 2005 from the levels previously expected. If the fee levels were increased further, this would increase the costs that will be incurred by the Enlarged Punch Group.

*(c) Gambling Regulation*

A new regime, the Gambling Act 2005, will come into full effect from 1 September 2007 when the current gaming legislation will be repealed. This regime will include changes to the operation of AWP machines in pubs. There is a risk that the legislation may not effectively safeguard pubs and tenpin bowls in retaining their existing rights in relation to the number of AWPs they are licensed for. However, the Government has confirmed that it is its intention that pubs and tenpin bowls will retain their existing rights. These new gaming laws could nevertheless reduce the Enlarged Group's income from AWPs and reduce the number of customers using the Enlarged Group's outlets.

*(d) Smoking Legislation*

The Government introduced the Health Improvement Bill in Parliament on 27 October 2005. Under the Health Improvement Bill, the Government intends to introduce an outright ban on smoking in restaurants and pubs serving food (other than snacks such as crisps). However, pubs and bars not serving food will not be subject to the outright ban and owners/tenants of non food serving pubs will be able to choose whether to permit smoking on their premises. These new smoking laws could discourage customers from going to pubs and restaurants and may therefore have an adverse effect on trading in the Enlarged Punch Group's estate. Subject to debate in Parliament, the proposals under the Health Improvement Bill could be implemented by 2007.

There is currently a Public Places Charter on smoking in public places, such as restaurants and pubs, which has been agreed between the Department of Health and leading hospitality industry groups. This Charter, although not law, is supported by the Government which asked the licensed leisure industry to ensure that 50 per cent. of licensed premises were compliant with it by December 2002, and that 35 per cent. of those have either no smoking areas or adequate mechanical ventilation.

*(e) Drink Driving Legislation*

The Government has carried out a consultation exercise concerning the legal blood alcohol limit for drivers. If the Government reduces the permitted legal blood alcohol limit, it could discourage customers from driving to pubs and restaurants. This change could in particular adversely affect trading in the Enlarged Punch Group's rural and suburban pubs and thereby financial performance.

*(f) EU Noise Directive*

The EU Physical Agents Directive 2001 is currently under discussion in the retail industry relating to the regulation of noise in the workplace. The Government will introduce regulations in response to the directive within the next three years. These regulations may discourage certain customers from patronizing those pubs whose current attraction is music or a less quiet environment. This could lead to a reduction in sales at some pubs and reduce the income received by the Enlarged Punch Group.

**Insurance**

Management believes that the properties owned or used by the Enlarged Punch Group are adequately covered by insurance placed with reputable insurers and with commercially reasonable deductibles and limits. Insurance policies held or maintained by the Enlarged Punch Group cover such risks as material damage, business interruption, loss of rent and third party liability. However, certain types of risk are not insured fully either because such insurance is not available or because Management believes that the premium costs are disproportionate to the risks in question (such as full terrorism cover and environmental impairment liability cover).

**Litigation**

Other than as set out below, so far as Punch is aware, neither Spirit nor any member of the Spirit Group is or has been engaged in nor has pending or threatened any governmental, legal or arbitration proceedings which may have or have had in the recent past (covering the 12 months immediately preceding the date of this announcement) a significant effect on the Spirit Group's financial position or profitability:

- Potential criminal proceedings for the use of illegal decoders to broadcast Premiership football games at certain pubs in the Spirit estate and potential civil proceedings for copyright infringement may be brought by BSkyB/FACT against Spirit. No further details (including potential quantum of the claim) have been provided to Punch at this stage; and
- Spirit is currently defending a claim from Red Bull in relation to "passing off" for sales of Red Rooster in Spirit pubs when customers ask for Red Bull. Proceedings have been issued but the parties have agreed to mediation which is due to take place in mid December 2005. No further details (including potential quantum of the claim) have been provided to Punch.

## **Appendix III**

### **Placing of Convertible Bond and Placing Shares**

The issue of convertible bonds (the "Bonds") is intended to raise approximately £275 million and will be convertible into approximately 10% of Punch's issued share capital. The final terms of the Bonds, including the coupon, conversion price and yield to maturity, will be announced as soon as practicable after the close of an accelerated bookbuilding process

The Company is intending to issue new ordinary shares (the "Placing Shares") representing approximately 4% of Punch's issued share capital (the "Placing") to raise up to £75 million. The number of Placing Shares and the issue price will be announced as soon as practicable after the close of an accelerated bookbuilding process.

Neither the Bond offering nor the Placing are conditional upon the completion of the Acquisition.

Payment for and settlement of the Placing Shares is expected to occur on or around 8 December 2005.

Payment for and settlement of the Bonds is expected to occur on or around 14 December 2005.

Morgan Stanley and Citigroup are acting as Joint Bookrunners and Joint Lead Managers (the "Managers") for the issue and sale of the Bonds and the Placing Shares. The Royal Bank of Scotland PLC is a Joint Lead Manager for the issue of the Bonds. The proposed issue of the Bonds and Placing Shares, subject to the satisfaction of certain conditions, will take place at prices established through an accelerated bookbuilding process (the "Bookbuilding Process"). The books will open with immediate effect. It is expected that the books will close today. The number of Placing Shares and the placing price in respect of the Placing Shares (the "Placing Price") and the conversion price, coupon and yield to maturity of the Bonds will be determined by Punch and the Managers at the close of the Bookbuilding Process. The timing of the closing of the books, pricing and allocations may be accelerated at the absolute discretion of the Managers following agreement with Punch.

Details of the number of Placing Shares and the Placing Price and the conversion price, coupon and yield to maturity of the Bonds will be announced as soon as practicable after the close of the Bookbuilding Process.

In connection with the issue and sale of the Bonds and the Placing Shares, the Managers may in addition solicit indications of interest from potential investors in the Bonds for sales of ordinary shares (any such shares being "Sale Shares") including for the purpose of establishing short positions in the ordinary shares of the Company (and together with the Placing, the "Equity Placings"). Subject to demand, the Managers will seek purchasers under the Bookbuilding Process also for such Sale Shares at the Placing Price.

The Placing and any sale of Sale Shares will take place in accordance with the terms and conditions set out in the Appendix to this announcement. The Placing Shares will be credited as fully paid and will rank equally in all respects with the existing ordinary shares of 0.04786 pence each in the share capital of Punch, including the right to receive all dividends and other distributions declared, made or paid after the date of issue of the Placing Shares.

Application will be made to the Financial Services Authority (the "FSA") for both the Placing Shares and the Bonds to be admitted to the official list maintained by the FSA (the "Official List") and to trading by the London Stock Exchange plc (the "Exchange") on its market for listed securities. The Sale Shares will be existing listed ordinary shares of 0.04786 pence each in the share capital of Punch and will rank pari passu in all respects with the other issued ordinary shares of the Company.

The ordinary shares of the Company are listed on the Official List and trade on the Exchange's market for listed securities under the symbol PUB.

The Managers, and any of their affiliates acting as investors for their own accounts may purchase Bonds, Placing Shares and Sale Shares and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for their own accounts in such securities, any other securities of the Company or other related investments in connection with the offering of the Bonds, the Equity Placing or otherwise. Accordingly, references in this announcement to the Bonds, Placing Shares or sale Shares being offered or otherwise dealt with should be read as including any offer to purchase or dealing by the Managers and any of their affiliates acting as investors for their own accounts. The Managers do not intend to disclose the extent of any such investment or transaction otherwise than in accordance with any legal or regulatory obligation to do so.

#### IMPORTANT INFORMATION ON THE EQUITY PLACINGS FOR PLACEES ONLY

MEMBERS OF THE PUBLIC ARE NOT ELIGIBLE TO TAKE PART IN THE EQUITY PLACINGS. THIS APPENDIX AND THE TERMS AND CONDITIONS SET OUT HEREIN ARE DIRECTED ONLY TO PERSONS WHO (I) ARE OUTSIDE THE UNITED KINGDOM OR (II) HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(1) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (AS AMENDED) (THE "ORDER") OR (III) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) ("HIGH NET WORTH COMPANIES, UNINCORPORATED ASSOCIATIONS ETC.") OF THE ORDER OR TO WHOM IT MAY OTHERWISE LAWFULLY BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "RELEVANT PERSONS"). THIS APPENDIX AND THE TERMS AND CONDITIONS SET OUT HEREIN MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS APPENDIX AND THE TERMS AND CONDITIONS SET OUT HEREIN RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. THIS APPENDIX DOES NOT IN ITSELF CONSTITUTE AN OFFER FOR SALE OR SUBSCRIPTION OF ANY SECURITIES IN THE COMPANY.

In this Appendix, unless the context otherwise requires, Placee means a relevant person (including individuals, funds or others) by whom or on whose behalf a commitment to subscribe for or purchase Placing Shares and/or Sale Shares has been given ("Relevant Person").

This announcement and any offer if made subsequently is only addressed to and directed at persons in member states of the European Economic Area who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC) ("Qualified Investors").

Relevant Persons who choose to participate in the Equity Placings will be deemed to have read and understood this announcement in its entirety and to be participating on the terms and conditions contained herein, and to be providing the representations, warranties, agreements, acknowledgements and undertakings, in each case as contained in this Appendix.

In particular, Placees represent, warrant and acknowledge that they are qualified investors (as defined in section 86(7) of the Financial Services and Markets Act 2000 ("FSMA")) and undertake that they will acquire, hold, manage or dispose of any Placing Shares and/or Sale Shares that are allocated to them for the purpose of their business. In the case of any shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the shares acquired by it in such offering have not been acquired on a non-discretionary basis on behalf of, nor have they have been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of shares to the public other than their offer or resale in a relevant member state to qualified investors as so defined or in circumstances in which the prior consent of the Managers has been obtained to each such proposed offer or resale.

This announcement does not and these materials do not constitute an offer to sell or issue or the solicitation of an offer to buy or subscribe for ordinary shares in the Company in Australia, Canada, Japan, South Africa and the United States or in any jurisdiction in which such offer or solicitation is unlawful and the information contained herein is not for publication or distribution, directly or indirectly, in or into Australia, Canada, Japan, South Africa and the United States or any jurisdiction in which such publication or distribution is unlawful.

The Placing Shares and the Sale Shares referred to in this announcement have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or qualified under any applicable state statutes and may not be offered, sold or transferred within the United States (including its territories and possessions). The Placing Shares and the Sale Shares are being offered and sold outside the United States in reliance on Regulation S under the Securities Act.

The distribution of this announcement and the Equity Placings and/or issue and/or sale of ordinary shares in the Company in certain jurisdictions may be restricted by law. No action has been taken by the Company or the Managers that would permit an offer of such ordinary shares or possession or distribution of this announcement or any other offering or publicity material relating to such ordinary shares in any jurisdiction where action for that purpose is required. Persons into whose possession this announcement comes are required by the Company and the Managers to inform themselves about and to observe any such restrictions.

#### **Details of the Placing Agreement, the Placing Shares and the Sale Shares**

The Managers have entered into a placing agreement (the "Placing Agreement") with the Company whereby the Managers have, subject to the conditions set out therein, undertaken to use their reasonable endeavours as agent of the Company to procure Placees to subscribe for the Placing Shares.

The Placing Shares will be credited as fully paid and will rank equally in all respects with the existing issued ordinary shares of 0.04786 pence each in the capital of the Company including the right to receive all dividends and other distributions declared, made or paid in respect of such ordinary shares after the date of issue of the Placing Shares.

In addition, in connection with the issue and sale of the Bonds and the Placing Shares, the Managers may solicit indications of interest from potential investors in the Bonds for sales of Sale Shares, including for the purpose of establishing short positions in the ordinary shares. Subject to demand, the Managers will seek purchasers under the Bookbuilding Process also for such Sale Shares at the Placing Price.

The Sale Shares will be existing listed ordinary shares of 0.04786 pence each in the share capital of the Company and will rank pari passu in all respects with the other issued ordinary shares of the Company.

The placing of the Sale Shares is not subject to the conditions set out in the Placing Agreement.

#### **Application for Listing and Admission to Trading of the Placing Shares**

Application will be made to the FSA for admission of the Placing Shares to the Official List and to the Exchange for admission to trading of the Placing Shares on the Exchange's market for listed securities ("Admission"). It is expected that Admission will take place and dealings in the Placing Shares will commence on or around 8 December 2005.

The Sale Shares are already admitted to the Official List and to trading on the Exchange.

## **Bookbuild**

Commencing today each of the Managers will be conducting an accelerated bookbuilding process (the "Bookbuilding Process") for participation in the Equity Placings. This Appendix gives details of the terms and conditions of, and the mechanics of participation in, the Bookbuilding Process. No commissions will be paid to Placees or by Placees in respect of any Placing Shares or Sale Shares.

## **Principal terms of the Bookbuilding Process**

Each of Morgan Stanley and Citigroup is arranging the Equity Placings as an agent of the Company and the sellers of Sale Shares.

Participation will only be available to persons invited to participate by either of the Managers. Each of the Managers is entitled to enter bids as principal in the Bookbuilding Process. The Bookbuilding Process will establish a single price (the "Placing Price") payable by all Placees where bids are successful. The Placing Price will be agreed between the Managers and the Company following completion of the Bookbuilding Process and any discount to the market price of the ordinary shares of the Company will be determined in accordance with the Listing Rules and IPC guidelines. The Placing Price will be announced (the "Pricing Announcement") on a Regulatory Information Service following the completion of the Bookbuilding Process.

To enter a bid into the Bookbuilding Process, you should communicate your bid by telephone to your usual sales contact at Morgan Stanley or Citigroup. Your bid should state the number of shares in the Company for which you wish to subscribe or purchase at either the Placing Price which is ultimately established by the Company and the Managers or at prices up to a price limit specified in your bid.

Each of the Managers reserves the right not to accept bids or to accept bids in part rather than in whole. The acceptance of bids shall be at each of the Manager's absolute discretion.

The Bookbuilding Process is expected to close today, but may be closed earlier at the sole discretion of the Managers. Each of the Managers may, at its sole discretion, accept bids that are received after the Bookbuilding Process has closed.

If successful, your allocation (constituting the number of Placing Shares and/or Sale Shares allocated to you) will be confirmed to you orally following the close of the Bookbuilding Process, and a conditional contract note in respect of any Placing Shares and a contract note in respect of any Sale Shares will be dispatched as soon as possible thereafter. The relevant Manager's oral confirmation to you, following completion of the Bookbuilding Process, will constitute a legally binding commitment upon you to subscribe and/or purchase for the number of Placing Shares and/or Sale Shares allocated to you on the terms and conditions set out in this Appendix and in accordance with the Company's Memorandum and Articles of Association.

The Managers will make a further announcement following the close of the Bookbuilding Process detailing the number of such shares to be issued and the price at which such shares have been placed.

A bid in the Bookbuilding Process will be made on the terms and conditions in this Appendix and will be legally binding on the Placee by which, or on behalf of which, it is made and will not be capable of variation or revocation after the close of the Bookbuilding Process.

### **Conditions of the Equity Placings**

The Placing of the Placing Shares is conditional, inter alia, on admission of the Placing Shares to the Official List becoming effective and the admission of the Placing Shares to trading on the Exchange becoming effective and the commencement of trading of the Placing Shares on such market following Admission by 9 December 2005 (or such later time and/or date as the Company, Morgan Stanley and Citigroup may agree). If, (a) the conditions referred to above are not satisfied or waived by both Managers within the stated time period or (b) the Placing Agreement is terminated in the circumstances specified below, the Placing will lapse and your rights and obligations hereunder shall cease and determine at such time and no claim can be made by you in respect thereof.

The placement of the Sale Shares is not subject to the terms mentioned above and will be subject to the Exchange rules for on market dealings. Note also that Placees receiving Sale Shares will be required to account for any liability for stamp duty reserve tax arising in connection with the sale of the Sale Shares. Stamp duty will be payable by Placees at 0.5% of the aggregate Placing Price for the Sale Shares allotted to Placees.

By participating in the Bookbuilding Process you agree that your rights and obligations hereunder terminate only in the circumstances described above and will not be capable of rescission or termination by you. The Managers reserve the right (with the agreement of the Company) to waive or to extend the time and/or date for fulfilment of any of the conditions in the Placing Agreement. Any such extension or waiver will not affect Placees' commitments. Neither of the Managers shall have any liability to any Placee (or to any other person whether acting on behalf of a Placee or otherwise) in respect of any decision it may make as to whether or not to waive or to extend the time and/or date for the satisfaction of any condition in the Placing Agreement.

### **Right to terminate under the Placing Agreement**

The Placing Agreement contains provisions entitling the Managers to terminate their obligations prior to Admission on the basis, inter alia, of a breach of any of the warranties contained in the Placing Agreement at any time prior to Admission or if the Company fails to comply with its material obligations under the Placing Agreement which in each case makes it impracticable or inadvisable to proceed with the offer, sale or delivery of the Placing Shares or if there has been a material adverse change in the condition, financial or otherwise, or in the earnings or prospects of the Group taken as a whole since 21 August 2004.

In addition, the Placing Agreement entitles the Managers to terminate their obligations prior to Admission in the event of force majeure.

By participating in the Bookbuilding Process you agree with the Managers that the exercise by Morgan Stanley and Citigroup of any right or termination or other discretion under the Placing Agreement shall be within the absolute discretion of Morgan Stanley and Citigroup and that the Managers need make no reference to you and shall have no liability to you whatsoever in connection with any such exercise.

The placement of the Sale Shares is NOT, however subject to the conditions set out above and will be subject to the Exchange rules for on market dealings. Note also that Placees receiving Sale Shares will be required to account for any liability for stamp duty reserve tax arising in connection with the sale of the Sale Shares.

## **No Prospectus**

No prospectus has been or will be submitted to be approved by the FSA in relation to the Placing Shares or the Sale Shares and the Placees' commitments will be made solely on the basis of the information contained in this announcement, the Pricing Announcement and any information publicly announced to a Regulatory Information Service by or on behalf of the Company prior to the date of this announcement (the "Publicly Available Information"). Each Placee, by accepting a participation in the Equity Placings, agrees that it has neither received nor relied on any other information, representation, warranty or statement made by or on behalf of either of the Managers or the Company and neither of the Managers will be liable for any Placee's decision to accept this invitation to participate in the Equity Placings based on any other information, representation, warranty or statement. Each Placee acknowledges and agrees that it has relied on its own investigation of the business, financial or other position of the Company in accepting a participation in the Equity Placings. Nothing in this paragraph shall exclude the liability of any person for fraudulent misrepresentation.

## **Registration and Settlement**

Settlement of transactions in the Placing Shares following Admission and in the Sale Shares will take place within the CREST system, subject to certain exceptions. In the event that it is impracticable for the Placing Shares to be admitted to the CREST system, the Company and the Managers may agree that all or any of the Placing Shares shall be issued in certificated form.

If you are allocated any Placing Shares in the Bookbuilding Process you will be sent a conditional contract note or in the case of an allocation of Sale Shares, an unconditional contract note. Settlement will be on a T+5 basis. Interest is chargeable daily on payments to the extent that value is received after the due date at the rate of 5 percentage points above prevailing LIBOR.

If you do not comply with these obligations, the relevant Manager may sell your Placing Shares and/or Sale Shares on your behalf and retain from the proceeds, for its own account and benefit, an amount equal to the Placing Price plus any interest due. You will, however, remain liable for any shortfall below the Placing Price and you may be required to bear any stamp duty or stamp duty reserve tax (together with any interest or penalties) which may arise upon any transaction in the Placing Shares on your behalf.

If Placing Shares and/or Sale Shares are to be delivered to a custodian or settlement agent, please ensure that the relevant contract note or notes are copied and delivered immediately to the relevant person within that organization.

Insofar as Placing Shares and/or Sale Shares are registered in your name or that of your nominee or in the name of any person for whom you are contracting as agent or that of a nominee for such person, such Placing Shares will, subject as provided below, be so registered free from any liability to UK stamp duty or stamp duty reserve tax. You will not be entitled to receive any fee or commission in connection with the Equity Placings.

Sales of Sale Shares will be subject to UK stamp duty or stamp duty reserve for which Placees will be liable.

## **Representations and Warranties**

By participating in the Bookbuilding Process you (and any person acting on your behalf):

1. represent and warrant that you have read this announcement;
2. acknowledge that the content of this announcement, the Pricing Announcement and any other Publicly Available Information is exclusively the responsibility of the Company;

3. represent and warrant that the only information upon which you have relied in committing yourself to subscribe and/or purchase for the Placing Shares and/or the Sale Shares is that contained in this announcement and the Publicly Available Information and confirm that you have neither received nor relied on any other information, representation, warranty or statement made by or on behalf of the Company or either of the Managers and acknowledge that the Managers will not be liable for your decision to commit to subscribe for and/or purchase Placing Shares and /or Sale Shares based on any other information or warranty.;
4. you represent and warrant that you are not, or at the time the Placing Shares and/or the Sale Shares are subscribed and purchased will not be subscribing or purchasing on behalf of a resident of Australia, Canada, Japan or South Africa;
5. acknowledge that the Placing Shares and/or the Sale Shares have not been and will not be registered under the securities legislation of Australia, Canada, Japan or South Africa and, subject to certain exceptions, may not be offered, sold, taken up, renounced or delivered or transferred, directly or indirectly, within Australia, Canada, Japan or South Africa;
6. represent and warrant that you are entitled to subscribe for and/or purchase Placing Shares and/or the Sale Shares under the laws of all relevant jurisdictions which apply to you and that you have fully observed such laws and obtained all such governmental and other guarantees and other consents which may be required thereunder and complied with all necessary formalities;
7. acknowledge that the Placing Shares and/or the Sale Shares have not been and will not be registered under the Securities Act, or under the securities laws of any state of the United States, and are being offered and sold on behalf of the Company only outside the United States in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act ("Regulation S");
8. acknowledge that the Placing Shares and/or the Sale Shares have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority;
9. represent and warrant that you are not in the United States (within the meaning of Regulation S) and are subscribing for and/or purchasing the shares in an offshore transaction in accordance with Regulation S;
10. represent and warrant that the issue to you, or the person specified by you for registration as holder, of Placing Shares and/or the Sale Shares will not give rise to a liability under any of sections 67, 70, 93 or 96 of the Finance Act 1986 (depository receipts and clearance services);
11. if you are in the UK, you represent and warrant that you have complied with your obligations in connection with money laundering and terrorist financings under the Criminal Justice Act 1993, the Proceeds of Crime Act 2002 the Money Laundering Regulations (2003) (the "Regulations") and, if you are making payment on behalf of a third party, that satisfactory evidence has been obtained and recorded by you to verify the identity of the third party as required by the Regulations;
12. you fall within section 86(7) of FSMA, being a qualified investor and are otherwise a Relevant Person as defined in this Appendix;

13. if you are a financial intermediary, as that term is used in Article 3(2) of the EU Prospectus Directive 2003/71/EC, the Placing Shares and/or the Sale Shares subscribed for and/or purchased by you in the Equity Placings have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in a Member State of the European Economic Area which has implemented the Prospectus Directive other than qualified investors, or in circumstances in which the prior consent of the Managers has been given to the offer or resale;
14. you have not offered or sold and, prior to the expiry of a period of six months from the commencement of trading of the Placing Shares and/or the Sale Shares, will not offer or sell any Placing Shares and/or the Sale Shares to persons in the United Kingdom except to qualified investors (as defined in section 86(7) of FSMA) or otherwise in circumstances which have not resulted and which will not result in an offer of transferable securities to the public in the United Kingdom within the meaning of section 85(1) of FSMA;
15. you have only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) relating to the Placing Shares and/or the Sale Shares in circumstances in which section 21(1) of FSMA does not require approval of the communication by an authorised person;
16. represent and warrant that you have complied and will comply with all applicable provisions of FSMA with respect to anything done by you in relation to the Placing Shares and/or the Sale Shares in, from or otherwise involving the United Kingdom;
17. represent and warrant that you have all necessary capacity and have obtained all necessary consents and authorities to enable you to commit to this participation and to perform your obligations in relation thereto (including, without limitation, in the case of any person on whose behalf you are acting, all necessary consents and authorities to agree to the terms set out or referred to in this announcement);
18. undertake that you will pay for the Placing Shares and/or the Sale Shares acquired by you in accordance with this announcement on the due time and date set out herein, failing which the relevant Placing Shares and/or the Sale Shares may be placed with other subscribers at such price as each of the Managers determines;
19. acknowledge that participation in the Equity Placings is on the basis that, for the purposes of the Equity Placings, you are not and will not be clients of either of the Managers and that neither of the Managers has duties or responsibilities to you for providing the protections afforded to their clients or for providing advice in relation to the Equity Placings nor in respect of any representations, warranties, undertakings or indemnities contained in the Placing Agreement;
20. undertake that the person who you specify for registration as holder of the Placing Shares will be (i) the Placee or (ii) a nominee of the Placee, as the case may be. Neither of the Managers nor the Company will be responsible for any liability to stamp duty or stamp duty reserve tax resulting from a failure to observe this requirement. Each Placee and any person acting on behalf of the Placee agrees to subscribe on the basis that the Placing Shares will be allotted to the CREST stock account of either of the Managers who will hold them as nominee on behalf of the Placee until settlement in accordance with its standing settlement instructions; and

21. acknowledge that any agreements entered into by the Placee pursuant to these terms and conditions shall be governed by and construed in accordance with the laws of England and you submit (on behalf of yourself and on behalf of any Placee on whose behalf you are acting) to the exclusive jurisdiction of the English courts as regards any claim, dispute or matter arising out of any such contract. The Company, the Managers and others will rely upon the truth and accuracy of the foregoing representations, warranties and acknowledgements.

The agreement to settle your subscription (and/or the subscription of a person for whom you are contracting as agent) of Placing Shares free of stamp duty and stamp duty reserve tax depends on the settlement relating only to a subscription by you and/or such person direct from the Company for the Placing Shares in question. Such agreement assumes that the Placing Shares are not being acquired in connection with arrangements to issue depository receipts or to issue or transfer the Placing Shares into a clearance service. If there were any such arrangements, or the settlement related to other dealing in the Placing Shares, stamp duty or stamp duty reserve tax may be payable, for which neither the Company nor either of the Managers will be responsible. If this were the case, you should take your own advice and notify the relevant Manager accordingly.

Placees of Sale Shares will be liable for any stamp duty or stamp duty reserve tax payable in connection with the purchase of such shares.

END

## Appendix IV

### DEFINITIONS

The following expressions shall have the following meanings throughout this announcement unless the context otherwise requires:

"Acquisition"	the proposed acquisition by the Buyer of the Target on the terms and subject to the conditions set out in the Acquisition Agreement;
"Acquisition Agreement"	the share sale and purchase agreement dated 1 December 2005 and made between, amongst others, Buyer, Target and the Company;
"Board" or "Directors"	the directors of Punch;
"Bonds"	the £275 million 5% convertible bonds due 2010 issued by Jerseyco;
"Bookbuilding Process"	the accelerated bookbuilding process in relation to the Bonds and the Placing Shares
"Business"	the managed pub outlets comprising the Spirit estate;
"Buyer"	Punch Taverns (Redwood Bidco) Limited, an indirect wholly owned subsidiary of Punch;
Citigroup	Citigroup Global Markets Limited and Citigroup Global U.K. Equity Limited, as the context may require;
"Company" or "Punch"	Punch Taverns plc;
"Completion"	completion of the Acquisition, which is expected to take place on or around 30 December 2005;
"Convertible bonds"	means the issue by Jerseyco of £275 million 5% convertible bonds due 2010;
"Enlarged Punch Group"	the Punch Group as enlarged by the Acquisition;
"Exchange"	London Stock Exchange plc;
"Facility"	means the bridge facility of £1,200 million and the revolving credit facility of £50 million under the Facility Agreement;
"Jerseyco"	means a wholly-owned subsidiary of Punch which will shortly be incorporated in Jersey;
"Managers"	Morgan Stanley and Citigroup;
"Morgan Stanley"	Morgan Stanley & Co. Limited, or Morgan Stanley Securities Limited or Morgan Stanley & Co International Limited, as the context may require;

"OFT"	the Office of Fair Trading;
"On-Sale"	the proposed disposal of c. 190 pubs from the Punch estate to third party buyers to address possible competition concerns;
"Ordinary Shares"	ordinary shares of 0.04786 pence each in the capital of Punch;
"Placing"	the placing of up to £75 million of new Ordinary Shares in accordance with the terms of the Placing Agreement;
"Placing Agreement"	the Placing Agreement between the Company, Citigroup Global U.K. Equity Limited and Morgan Stanley Securities Limited dated on or about 1 December 2005;
"Placing Price"	the issue price of the Placing Shares as determined by Punch and the Managers at the close of the Bookbuilding Process;
"Punch Group"	Punch, its subsidiaries and its subsidiary undertakings;
"Sale Shares"	Ordinary Shares in respect of which the Managers have received indications of interest from potential investors in the Bonds;
"Shareholders"	holders of Ordinary Shares;
"Spirit estate"	the pubs which are currently owned by the Spirit Group;
"Spirit" or "Spirit Group"	Target, its subsidiaries and subsidiary undertakings;
"Target"	Spirit Group Holdings Limited, the holding company of the Spirit Group;