

Punch Taverns plc

Group financing and REIT update

7 July 2008



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Overview

24 June 2008 – announced Q3 IMS trading statement covering 44 weeks to 21 June 2008:

- Trading continues in line with our expectations
 - Balance Sheet continues to be strong
 - Identified a structure for conversion to a REIT whilst retaining ownership of all of our existing businesses
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7 July 2008 – Directorate Announcement



Directorate Announcement

- Following the successful completion of the conversion of managed pubs to leased Andrew Knight will be leaving
- Mike Tye will take over from Andrew as Managing Director of Spirit and will join the Plc Board with immediate effect
 - 20 years experience in the leisure industry, notably with Whitbread, Aramark and Forte
 - Led the growth and industry-leading performance of Costa Coffee; the acquisition and integration of Premier Lodge to create Premier (Travel) Inn; and further improved the performance of David Lloyd Leisure
 - Skill set well suited to drive the future growth of the Spirit Business

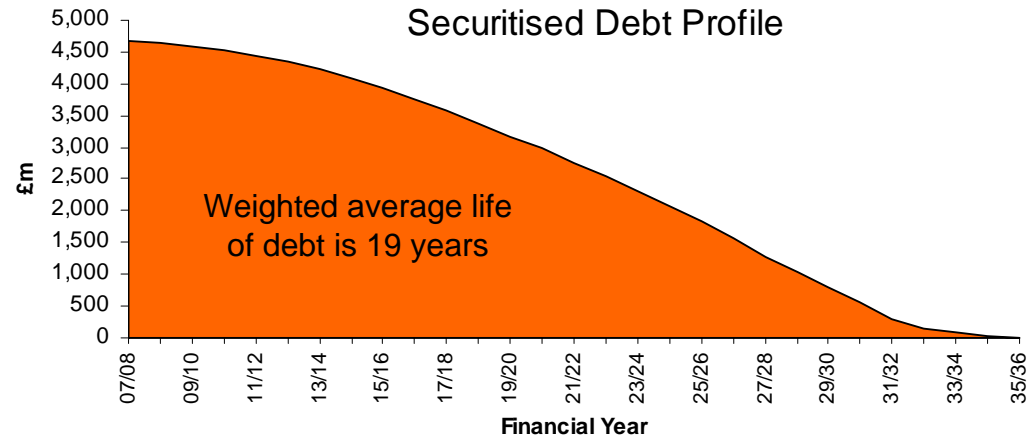


Balance Sheet – well structured and strong



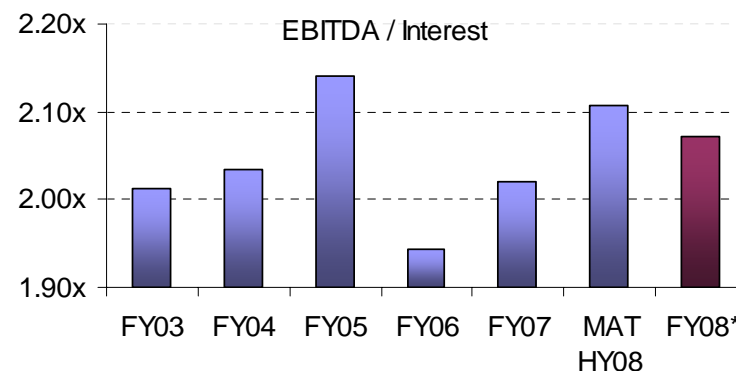
Balance sheet – well structured and strong

- Debt repayable on known schedule extending over 25 years
- Debt at fixed blended interest rate of 6.6%
- Modest securitised debt amortisation requirements
 - FY09 - £34m
 - FY10 - £61m
 - FY11 - £75m
 - FY12 - £80m
- No bank debt
- No anticipated refinancing needs of any kind until convertible bond in Dec 2010



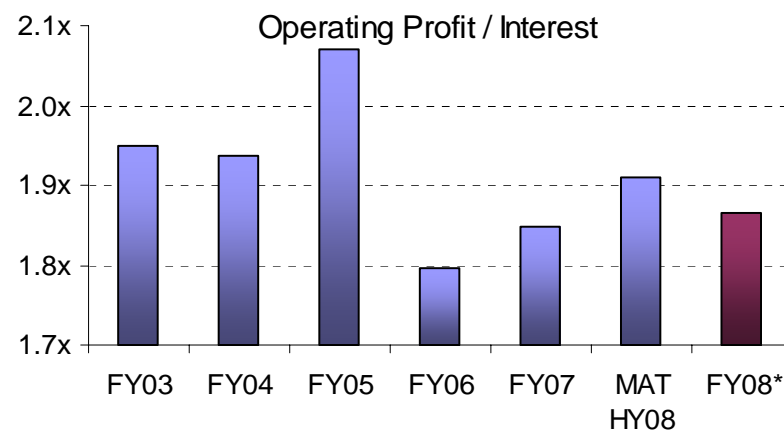
Financial Gearing – well within target range

£'m	FY03	FY04	FY05	FY06	FY07	MAT HY08
EBITDA	235	339	414	606	664	647
Operating profit	227	323	400	560	607	587
Net finance costs	117	167	193	312	328	307
PBT ¹	111	156	207	248	279	280



Interest cover:

- EBITDA/Interest – current level compares favourably to that achieved since flotation
- Operating profit/Interest – well within the acceptable range



MAT HY08 represents 52 weeks to 1 March 2008

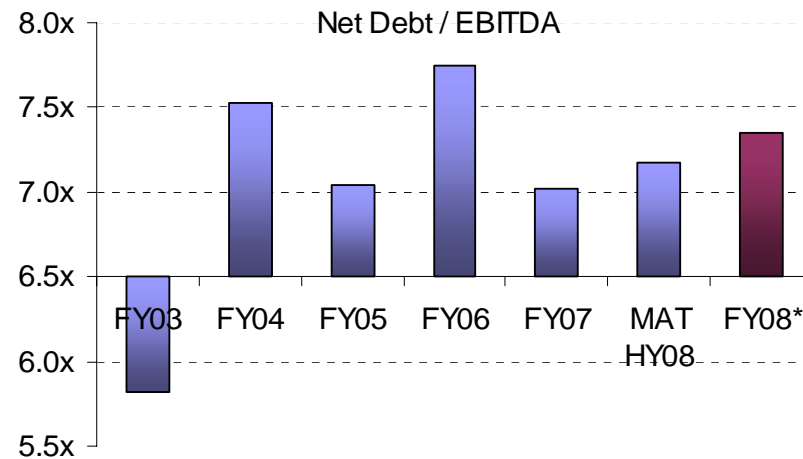
* Indicative level, based on FY08 analyst consensus as at 1 July 2008

¹ Excluding property trading profits



Financial Gearing – well within target range

£'m	FY03	FY04	FY05	FY06	FY07	MAT HY08
Net Debt	1,367	2,553	2,910	4,699	4,655	4,644
EBITDA	235	339	414	606	664	647
Net Debt/EBITDA	5.8x	7.5x	7.0x	7.8x	7.0x	7.2x



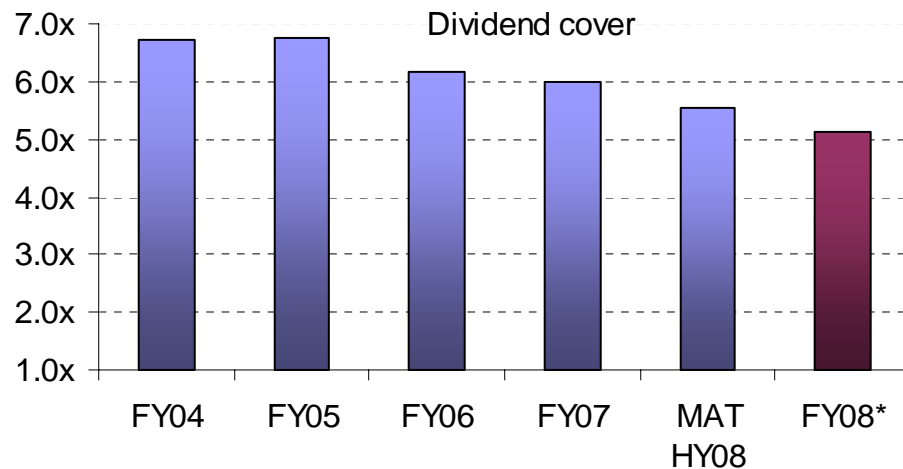
Debt levels compare favourably to recent securitised issuance:

- Leased: Greene King June 2008 tap issue at 8.0x debt/EBITDA
- Managed: Greene King June 2008 tap issue at 6.3x debt/EBITDA
- Corporate debt now fully repaid



Dividend cover – considerable head room

£'m	FY03	FY04	FY05	FY06	FY07	MAT HY08
Profit after tax	98	122	167	195	224	226
Dividend paid	5	18	25	32	37	41
Dividend cover	18.8x	6.7x	6.8x	6.2x	6.0x	5.6x



- Compound annual growth in dividend of 22% per year since 2004
- c.5x dividend cover leaves considerable head room



Secure Long Term Debt

	Fixed Assets	Gross Debt	Cash	Net Debt	MAT HY08 EBITDA	LTV	Debt/ EBITDA
Punch A ¹	2,795	(2,084)	45	(2,039)	261	73%	7.8x
Punch B ¹	1,710	(1,249)	68	(1,181)	162	69%	7.3x
Spirit ¹	2,270	(1,250)	71	(1,179)	207	52%	5.7x
Non-securitised ²	(70)	-	38	38	17		
Convertible ³		(283)		(283)			
Group ⁴	6,705	(4,866)	223	(4,644)	647	69%	7.2x

- Interest 100% effectively fixed; no exposure to LIBOR
- No need to refinance securitised debt
- Convertible bond due to redeem Dec 2010 for £295m
- £50m undrawn corporate facility in place

¹ Under UK GAAP, refer to bondholder reports available on www.punchtaverns.com

² Includes c.200 freehold and long leasehold pubs held outside of the securitisation vehicles with a value of c.£90m; includes property IFRS adjustments

³ Convertible bond issued for £275m in Dec 2005, redeems for £295m in Dec 2010, £283m represents the accreted value as at 1 March 2008

⁴ As per group accounts under IFRS



Cash Generation

Cash Generation (£m)	MAT HY08		
EBITDA	647		
Operating cash flow	571	→	More normalised working capital position going forwards, operating cash flow will be much closer to EBITDA
Interest	(312)		
Tax received/(paid)	13	→	Not fully tax paying until FY10
	272		
Investment	(185)	→	Normalised investment c.£120m p.a.
Free Cash Flow	87		
Acquisitions	(85)	→	Limited acquisition opportunities in short term
Disposals	364	→	Normalised estate churn generates c.£20m p.a.
Dividends	(41)		
	325		



Corporate cash flows

- Almost all of the Group's assets, profit and cash flows are held within the 3 securitisation groups
- Cash is up-streamed from the securitisation groups to Plc, subject to certain conditions
- Corporate needs are largely limited to:
 - Plc dividend payments c.£42m
 - Convertible bond interest £14m
- Future corporation tax and acquisition cash flows are largely permitted to be funded from within the securitisation structures



Corporate resources

- The Group has more than sufficient resources to meet its current corporate needs:
 - c.£90m of freehold and long leasehold pubs held outside the securitisation groups
 - Existing Group cash resources
 - Projected cash up-streaming from the securitisation groups for FY08 and future years
 - Undrawn £50m corporate loan facility
- The majority of the cash generated from the securitisation groups during the next few years is expected to be up-streamed to Plc
 - This continues to hold true if the weak UK consumer environment were to have a greater impact on trading than anticipated



Securitisation structures



Punch A securitisation – significant covenant headroom

- Financial Covenant – DSCR 1.25x:
 - Proforma FY09 EBITDA Headroom based on HY08 MAT*:
 - **17% or £46m; equates to**
 - **c.35% fall in beer margin; or**
 - **c.35% rent reduction**
 - Tested each quarter on a 2 qtr and 4 qtr look-back
- Cash upstream:
 - 1st: c.£30m released to cover tax payments
 - 2nd: dividend up if DSCR > 1.50x
 - Tested annually on a 1 qtr and 4 qtr look-back
 - 3rd: remaining cash used to acquire pubs from elsewhere in the Group



* Based on the proforma annual EBITDA required to achieve the financial covenant in FY09 (£215m) compared to the last published financial performance, being MAT to 1 March 2008 (£261m)
See appendix for further details



Punch B securitisation – significant covenant headroom

- Financial Covenant – DSCR 1.50x (stepping down to 1.25x by August 2010):
 - Proforma FY09 EBITDA Headroom based on HY08 MAT*:
 - **32% or £53m; equates to**
 - **c.61% fall in beer margin; or**
 - **c.68% rent reduction**
 - Tested each quarter on a 2 qtr and 4 qtr look-back
- Cash upstream:
 - 1st: c.£8m released to cover tax payments
 - 2nd: dividend up if DSCR > 1.85x, decreasing to 1.5x in 2010
 - Tested semi-annually on a 1 qtr and 4 qtr look-back
 - 3rd: remaining cash used to acquire pubs from elsewhere in the Group



* Based on the proforma annual EBITDA required to achieve the financial covenant in FY09 (£109m) compared to the last published financial performance, being MAT to 1 March 2008 (£162m)
See appendix for further details



Spirit securitisation – significant covenant headroom

- Financial Covenant – DSCR 1.30x:
 - Proforma FY09 Free Cash Flow (FCF) Headroom based on HY08 MAT*:
 - **40% or £71m; equates to**
 - **c.38% fall in managed outlet profit**
 - Tested each quarter on a 2 qtr and 4 qtr look-back
- Cash upstream:
 - 1st: dividend up if DSCR Opflex > 1.70x
 - Tested quarterly on a 1 qtr and 4 qtr look-back
 - 2nd: remaining cash used to acquire pubs from elsewhere in the Group



* Based on the proforma annual FCF required to achieve the financial covenant in FY09 (£108m) compared to the last published financial performance, being MAT to 1 March 2008 (£179m)
See appendix for further details



Securitisation cash up-streaming

- Most modern whole business securitisation structures include up-stream (RPC) tests, Punch is no different in this respect
- The RPC test is not a financial covenant and there are no consequences of falling below the test other than restrictions on how cash can be passed up to Plc level
- Should trading decline such that DSCR levels fall below the RPC test, the Group still has more than sufficient resources to meet its current corporate needs and does not anticipate any refinancing needs before December 2010 at the earliest
- The majority of the cash generated from the securitisation groups during the next few years is expected to be up-streamed to Plc. The release of cash for tax payments and acquisition of non-securitised pubs is not dependant on achieving the RPC test
- Cash not released from a securitisation group can be released on a phased basis in future years as and when the RPC test is achieved



Debt Covenants

- All debt facilities contain financial covenants, Punch is no different in this respect
- A breach in the Punch DSCR covenants would require a profit decline to a level far in excess of anything previously experienced, and have an impact many times greater than that experienced in the year following the smoking ban

Proforma headroom to the Financial DSCR covenant*			
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- vs HY08 MAT	FY09	FY10	FY11
- Punch A	46	46	46
- Punch B	53	44	29
- Spirit	71	71	71
	170	161	146

- vs HY08 MAT	FY09	FY10	FY11
- Punch A	17%	18%	18%
- Punch B	32%	27%	18%
- Spirit	40%	40%	40%

* Based on the proforma annual EBITDA /FCF required to achieve the DSCR covenant in FY09, FY10 & FY11 compared to the last published financial performance, being MAT to 1 March 2008
See appendix for further details



Potential REIT Conversion



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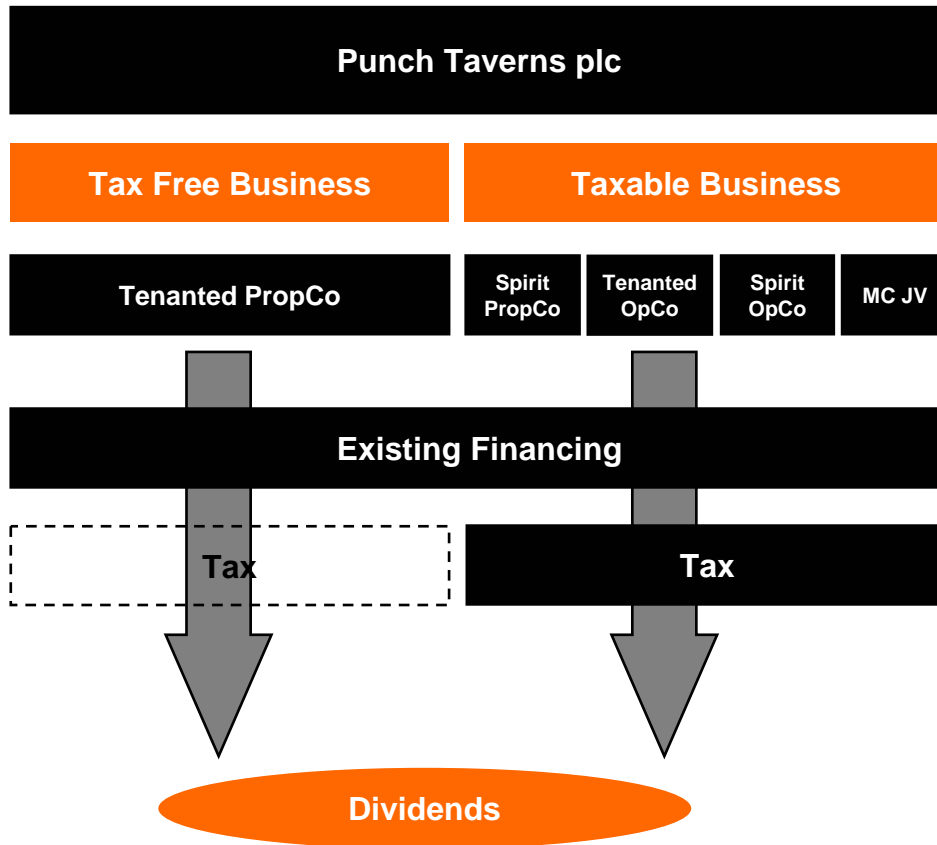
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Potential REIT conversion

- A structure has been identified which would allow Punch to elect to a REIT regime whilst retaining ownership of all of its existing businesses, including Spirit
- A clearance application to HMRC has now been submitted
- Punch would achieve tax benefits from REIT conversion over an already tax efficient capital structure
 - Structured as an internal Opco / Propco in a design that seeks to maximise shareholder value
- Highly advantageous structure allows for retention of Group businesses
 - No requirement to sell Spirit or Matthew Clark interest
- Provides flexibility to consider sales / acquisitions of both Propco or Opco assets when further value enhancing options arise
 - Reduces potential leakage / costs such as debt penalties or diseconomies from reducing purchasing benefits of Group
- Conversion involves material implementation costs and introduces a significantly increased dividend requirement which must be weighed up against the tax benefit
- Punch will assess the merits for shareholders of conversion to a REIT relative to the current business structure



What could the Punch Taverns REIT look like?



- The Real Estate Investment Trust (“REIT”) structure allows investors to efficiently invest in property via listed companies
- By reorganising its corporate structure, Punch can qualify as a REIT
- Key outcomes of the conversion:
 - Property rental income exempt from UK income tax
 - 90% of property rental income paid out as dividends to shareholders
 - Conversion requires one-off entry payment = 2% of asset value of REITable property = c.£110m
 - Thereafter disposals not subject to CGT
- Conversion will not impact Punch’s tenants – restructuring is entirely internal



Creating the REIT option

- Punch would re-organise the business internally around property and operational lines
 - Propco, responsible for all Real Estate activities
 - Opco, comprising all operational activities including managing the Propco and all pub management activities. Structure is designed to retain significant buying benefits of Group and other cost synergies
- Conversion requires changes to the finance structure to allow for creation of separate Opco activities and to allow for future distribution of sufficient cash to meet the REIT dividend test
 - The current securitisations are planned to stay in place, albeit some internal corporate restructuring would be needed



Impact of Conversion

Punch Today

- Efficient capital structure focused on limited equity requirement and long term fixed rate amortising debt
- Provides reasonably efficient tax shelter through debt
- Considerable operational flexibility and retention of cash
- Returns to shareholders generated through returns on cash used in business, capital appreciation and potential share buy-backs

Financial structure:

- Dividend c.£42m
- Tax c.£50m by FY10 and increasing
- Strong free cash generation after debt amortisation

Punch On-Conversion

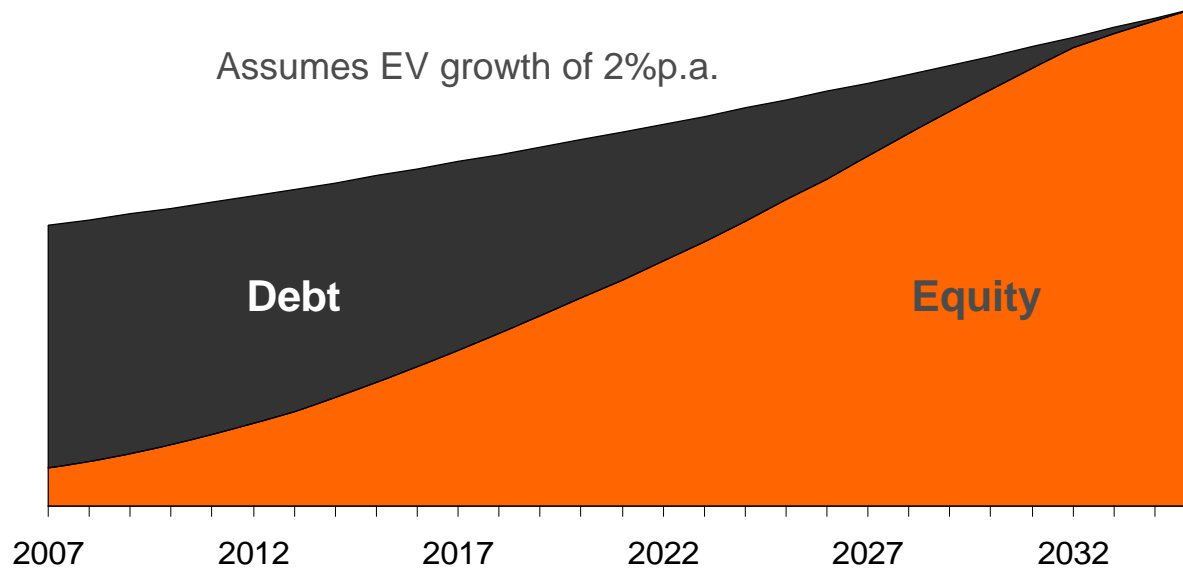
- Highly effective REIT structure allows for shareholders to benefit from tax free treatment of property rental activities
- Business split internally between Operating activities and Property activities with highest calibre management focused on each part of business
- Allows for continued growth of both lines of business
- Retains flexibility to acquire / divest parts of business

Financial Structure:

- Increased dividend to c.£90-£110m
- Reduced tax to c.£20m
- Limited free cash flow after debt amortisation



Growing Shareholder Funds



- Possible future uses of cash:
 - Convertible redemption
 - REIT conversion
 - Share buy-backs
 - Further acquisitions



Summary

- Business trading in line with expectations
- Benefit of combined structure now maintained by REIT option
- Strengthened management team
- Balance Sheet robust and designed for 30 years not 30 months



Appendix



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Net worth and LTV covenants

- In addition to the DSCR covenants, each securitisation has a second financial covenant.
- In Punch A and Punch B, the net worth must remain above a fixed value. The covenant is only tested at the year end, however the position as at the last reporting date (1 March 2008) is set out below:

	Mar-08	Covenant	Headroom	
	£m	£m	£m	% of fixed assets
Punch A	678	200	478	17%
Punch B	491	125	366	21%

- The bondholder financial information is based on UK GAAP reporting, the fixed asset revaluations are therefore updated over a rolling 5 year period (ie those to be revalued this year will have had the benefit of profit uplifts since their last revaluation up to 5 years previously)
- For Spirit, if the DSCR (default) falls below 1.50 (Q2 value 2.15) then a loan to value ratio of not greater than 67% applies. The headroom in EBITDA or FCF at Q2 was £54m or 30%. For information, the loan to value at August 2007 (being the most recent annual valuation) was 57%



Punch A securitisation – data sheet

	MAT March 08	FY09	FY10	FY11
EBITDA	261			
Interest receivable	4			
Interest payable	(139)	(143)	(141)	(138)
Capital payable ¹	(23)	(33)	(36)	(38)
DSCR	1.65x			
Financial DSCR covenant 1.25x		FY09	FY10	FY11
- Indicative EBITDA to meet DSCR covenant		215	215	215
- headroom vs HY08 MAT		17%	18%	18%
Up-stream (RPC) test 1.50x		FY09	FY10	FY11
- Indicative EBITDA to meet RPC test		259	258	258
- headroom vs HY08 MAT		1%	1%	1%

- Proforma Financial Covenant headroom based on HY08 MAT:
 - FY09 - 17%; £46m
 - FY10 - 18%; £46m
- Punch A tap issue closed July 2007, MAT trading to March 2008 does not therefore include a full years benefit from the additional pubs acquired by the securitisation

¹Calculated on an accruals basis



Punch B securitisation – data sheet

	MAT March 08	FY09	FY10	FY11
EBITDA	162			
Interest receivable	4			
Interest payable	(77)	(77)	(76)	(74)
Capital payable ¹	-	-	(22)	(36)
DSCR	2.20x			
Financial DSCR covenant		FY09	FY10	FY11
- DSCR covenant ratio ²		1.50x	1.25x	1.25x
- Indicative EBITDA to meet DSCR covenant		109	118	133
- headroom vs HY08 MAT		32%	27%	18%
Up-stream (RPC) test ²		FY09	FY10	FY11
- DSCR up-stream test ratio		1.85x	1.50x	1.50x
- Indicative EBITDA to meet RPC test		135	141	160
- headroom vs HY08 MAT		17%	13%	1%

- Proforma Financial Covenant headroom based on HY08 MAT:
 - FY09 - 32%; £53m
 - FY10 – 27%; £44m

¹Calculated on an accruals basis

² Ratios step down between August 2009 and August 2010



Spirit securitisation – data sheet

	MAT March 08	FY09	FY10	FY11
Free Cash Flow	179			
Debt Service	(83)	(83)	(83)	(83)
Synthetic Debt Service	(99)	(99)	(99)	(99)
DSCR	2.2x			
DSCR - opflex	1.8x			
Financial DSCR covenant 1.30x		FY09	FY10	FY11
- Indicative Free Cash Flow to meet DSCR covenant		108	108	108
- headroom vs HY08 MAT		40%	40%	40%
Up-stream (RPC) Opflex test 1.70x		FY09	FY10	FY11
- Indicative Free Cash Flow to meet RPC test		167	167	167
- headroom vs HY08 MAT		6%	6%	6%

- Proforma Financial Covenant headroom based on HY08 MAT:
 - FY09 - 40%; £71m
 - FY10 - 40%; £71m



¹Calculated on an accruals basis

