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If you have sold or otherwise transferred all of your Punch Ordinary Shares, please forward this document, together with the accompanying documents, as soon as possible to the purchaser or transferee or to the bank, stockbroker or other agent through or to whom the sale or transfer was effected, for onward transmission to the purchaser or transferee. Any person (including, without limitation, custodians, nominees and trustees) who may have a contractual or legal obligation or may otherwise intend to forward this document to any jurisdiction outside the UK should seek appropriate advice before taking any action.

The distribution of this document together with the accompanying Form of Proxy into jurisdictions other than the UK may be restricted by law. Persons into whose possession these documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. Application will be made to the UKLA and to the London Stock Exchange for the Spirit Ordinary Shares to be admitted to the Official List and to trading on the main market for listed securities of the London Stock Exchange, respectively. It is expected that Admission of the Spirit Ordinary Shares will become effective and that dealings in the Spirit Ordinary Shares will commence on the London Stock Exchange at 8.00 a.m. on 1 August 2011.

All of the Spirit Ordinary Shares which are to be issued pursuant to the Demerger are to be issued to holders of Punch Ordinary Shares on the register of members of Punch at the Demerger Record Time and no Spirit Ordinary Shares have been marketed to, nor are any available for purchase, in whole or in part, by, the public in the UK or elsewhere in connection with Admission.

This document has been prepared in connection with the demerger of the Spirit Business from the Punch Group and, unless the context otherwise requires, assumes that the resolution proposed in connection with the Demerger which is numbered 1 in the Notice of Meeting at the end of this Circular will be passed at the Punch General Meeting to be held on 26 July 2011 and that the Demerger is effected.



PUNCH TAVERNS PLC

(incorporated in England and Wales under the Companies Act 1985 with registered number 03752645)

Proposed Demerger of Punch Taverns plc's Spirit Business and Notice of General Meeting

This Circular does not constitute or form part of any offer or invitation to purchase, otherwise acquire, subscribe for, sell, otherwise dispose of or issue, or any solicitation of any offer to sell, otherwise dispose of, issue, purchase, otherwise acquire or subscribe for, any security.

This Circular does not constitute a prospectus or prospectus equivalent document. The Spirit Prospectus relating to Spirit Pub Company plc (including details of the Spirit Ordinary Shares) has been posted to Punch Shareholders and published on Punch's website at www.punchtaverns.com.

You should read the whole of this document and any documents incorporated herein by reference. Your attention is drawn to the letter from the Chairman of Punch, which is set out on pages 5 to 16, and which recommends that you vote in favour of the Resolutions, and to the Notice of Meeting which appears at the end of this Circular. The Punch General Meeting will be held on 26 July 2011 at 9.30 a.m. at One Bunhill Row, London EC1Y 8YY. A Form of Proxy for use at the Punch General Meeting is enclosed and, to be valid, should be completed, signed and returned following the procedures described in the notes to the Notice of Meeting so as to be received by the Company's Registrars as soon as possible but, in any event, so as to arrive no later than 9.30 a.m. on 22 July 2011 (or, in the case of an adjourned meeting, at least 48 hours before the time appointed for holding the adjourned meeting). Alternatively, Shareholders may submit their vote via the internet by accessing the website of the Registrars (www.eproxyappointment.com). CREST members may also choose to utilise the CREST electronic proxy appointment service in accordance with the procedures set out in the Notice of Meeting at the end of this document. Completion and return of a Form of Proxy will not prevent members from attending and voting in person should they wish to do so.

For a discussion of the risk factors relating to the Demerger, the Punch Group (in the context of the Demerger), the Spirit Group and the Spirit Ordinary Shares please see "Risk Factors" in Part III of this document.

Goldman Sachs International, which is authorised and regulated by the FSA, is acting for Punch Taverns plc and Spirit Pub Company plc and for no one else in connection with the Demerger and will not be responsible to anyone other than Punch Taverns plc and Spirit Pub Company plc for providing the protections afforded to customers of Goldman Sachs International, respectively, or for affording advice in relation to the Demerger, the contents of this document or any transaction, arrangement or other matter referred to in this document.

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Overseas Shareholders

The implications of the Demerger for, and the distribution of this document to, Overseas Shareholders may be affected by the laws of the relevant jurisdictions in which such Overseas Shareholders are located. Such Overseas Shareholders should inform themselves about, and observe, all applicable legal requirements.

It is the responsibility of any person into whose possession this document comes to satisfy themselves as to their full observance of the laws of the relevant jurisdiction in connection with the Demerger and the distribution of this document, including the obtaining of any governmental, exchange control or other consents which may be required and/or compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes due in such jurisdiction.

Overseas Shareholders should consult their own legal and tax advisers with respect to the legal and tax consequences of the Demerger in their particular circumstances.

The Spirit Ordinary Shares have not been and will not be registered under the US Securities Act, or under the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States, except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. There will be no public offer of the Spirit Ordinary Shares in the United States.

The Spirit Ordinary Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Spirit Ordinary Shares or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

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NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE IMPLIES THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT ANY EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Forward-looking statements

Certain statements contained in this document, including those in the Parts headed “Letter from the Chairman”, “Risk Factors” and “Business Overview” constitute “forward-looking statements”. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “plans”, “prepares”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology. You should specifically consider the factors identified in this document, which could cause actual results to differ before making any investment decision. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of Punch and/or of the Punch Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding Punch’s and/or the Punch Group’s present and future business strategies and the environment in which Punch, Spirit, the Punch Group and/or the Spirit Group, will operate in the future. Such risks, uncertainties and other factors are set out more fully in the section of this document headed “Risk Factors” and include, among others: risks relating to the Punch Group and/or the Spirit Group, including those that relate to the pub industry and risks associated with the Demerger. These forward-looking statements speak only as at the date of this document. Except as required by the FSA, the London Stock Exchange, the Listing Rules, the Disclosure and Transparency Rules or applicable law, the Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in the Company’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of Spirit Prospectus and this Circular	7 July 2011
Latest time and date for receipt of Forms of Proxy	9.30 a.m. on 22 July 2011
Punch General Meeting	9.30 a.m. on 26 July 2011
Latest time and date for transfers of Punch Ordinary Shares to be registered in order for the transferee to be registered at the Demerger Record Time	6.00 p.m. on 29 July 2011
Demerger Record Time	7.00 a.m. on 1 August 2011
Demerger Effective Time (issue of Spirit Ordinary Shares). Admission to trading, listing of, and commencement of dealings in, the Spirit Ordinary Shares on the London Stock Exchange	8.00 a.m. on 1 August 2011
Crediting of Spirit Ordinary Shares to CREST accounts (uncertificated Shareholders only)	8.00 a.m. on 1 August 2011
Date by which share certificates for Spirit Ordinary Shares should be received (certificated Shareholders only)	16 August 2011

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- (1) The times and dates set out in the expected timetable of principal events above and mentioned throughout this document may be adjusted by Punch and Spirit in consultation with the Sponsor, in which event details of the new times and dates will be notified to the UK Listing Authority, the London Stock Exchange and, where appropriate, Punch Shareholders.
- (2) All references in this document to times are to London time unless otherwise stated.

Helpline

If you have any questions relating to the action you should take in relation to the Demerger, please telephone the Shareholder Helpline on the number set out below. This Helpline is available from 9.00 a.m. to 5.00 p.m. Monday to Friday (except public holidays): +44 (0) 870 707 1248 (from inside the UK calls cost five pence per minute plus network charges). Please note that for legal reasons this Helpline will only be able to provide practical information and will not provide advice on the merits of either the Demerger or Admission or give any financial or taxation advice. For financial or taxation advice, you will need to consult an independent adviser.

PART I

LETTER FROM THE CHAIRMAN OF PUNCH TAVERNS PLC



Punch Taverns plc

(Incorporated in England and Wales under the Companies Act 1985 with registered number 03752645)

Directors:

Peter Cawdron (Non-executive Chairman)
Ian Dyson (Chief Executive)
Steve Dando (Finance Director)
Roger Whiteside (Managing Director – Leased)
Mike Tye (Managing Director – Managed)
Tony Rice (Non-executive Director)
Ian Fraser (Non-executive Director)
Mark Pain (Non-executive Director)
Walker Boyd (Non-executive Director)

Registered office:

Jubilee House
Second Avenue
Burton-upon-Trent
Staffordshire
DE14 2WF

7 July 2011

Dear Shareholder,

Recommended proposals for the demerger of the Spirit Business from the Punch Group

1. Introduction

The Board of Punch today announced its intention to separate the Punch Group into two businesses, with the Spirit Group to be separated from the rest of the Punch Group.

It is proposed that this separation will be effected by way of a demerger of the Spirit Group (comprising 803 managed pubs and 549 leased pubs as at 1 July 2011) to a new company called Spirit Pub Company plc. The Demerger is conditional, *inter alia*, upon the approval of Punch Shareholders at the Punch General Meeting.

If the Demerger proceeds, Punch Shareholders who are registered on the Punch Share Register at the Demerger Record Time will receive:

one Spirit Ordinary Share for each Punch Ordinary Share

then held by them. Punch Shareholders will continue to own their existing Punch Ordinary Shares.

Following the Demerger, it is expected that the Spirit Ordinary Shares will have a premium listing on the Official List and be admitted to trading on the London Stock Exchange. The Punch Ordinary Shares will retain their premium listing on the Official List and will continue to be traded on the London Stock Exchange. The Demerger is expected to become effective on 1 August 2011. It is expected that Admission of, and that dealings on the London Stock Exchange in, the Spirit Ordinary Shares will commence at 8.00 a.m. on 1 August 2011.

The purpose of this document is to:

- (i) set out the background to and the reasons for the Demerger;

- (ii) explain why the Board believes the Demerger is in the best interests of Punch Shareholders as a whole and why it unanimously supports the Demerger;
- (iii) explain the Resolutions to be put to Punch Shareholders at the Punch General Meeting to be held on 26 July 2011; and
- (iv) unanimously recommend that Punch Shareholders vote in favour of the Resolutions.

The size of the Demerger, and the various legal actions which are being effected in connection with the Demerger, means that the approval of the Demerger Resolution by the Punch Shareholders is required pursuant to the Listing Rules and the Companies Act.

2. Background to and reasons for the Demerger

On 22 March 2011, the Company announced the outcome of its strategic review. As part of the strategic review, an analysis was undertaken of the Punch Group's strategy and operations as well as its capital structure, with a view to developing a plan for the Punch Group which creates sustainable growth in shareholder value and represents the best way forward for the Punch Group's business and its stakeholders.

The review began with an assessment of the UK eating-out and drinking-out market before moving on to consider the Punch Group's position within this market, reviewing its underlying growth prospects and current operating plans for both its leased and its managed businesses.

The UK eating-out and drinking-out market

As part of the strategic review, the Company undertook an analysis of the eating-out and drinking-out markets in the UK, which reinforced the well understood trends affecting the future of the pub industry. The key trends which this analysis highlighted were:

- the long-term decline in drinking-out in pubs is expected to continue, driven by changing consumer behaviour, relative price positioning and the impact of regulation. The Company expects there to be a 3.1 per cent. per annum decline in drinking-out in pubs over the next five years;
- the long-term growth in eating-out in pubs is expected to continue, driven by economic growth, changing consumer behaviour and improvements in the quality, service and value for money offering in the pub industry, particularly in the managed sector. The Company expects there to be 3.5 per cent. per annum growth in eating-out in pubs over the next five years;
- geographic and demographic influences are expected to become more apparent and more relevant for the future of the pub industry. In particular, there is an increasing north/south bias and pubs close to high population densities are expected to out-perform those in rural areas;
- the regulatory environment is expected to continue to affect the positioning and fortunes of the pub industry; and
- the number of pubs in the UK is expected to continue to decline with the leased sector experiencing a disproportionate amount of closures and the managed sector continuing to grow.

The Punch Group's managed business

The Punch Group's managed business has a high quality, well-located pub estate, with an attractive exposure to London, the South East and South West regions and areas with higher population densities. Since August 2008, substantial progress has been made in repositioning the business through the improvement of operating disciplines, the upgrading of talent, the revitalisation and development of brands and investment in the estate. This repositioning has resulted in like-for-like sales growth of 5.7 per cent. in the 40-week period ended 28 May 2011.

While progress has been made, the Punch Board believes there is much more to do and that there is significant further sales, profit and value upside in the business. The managed business's average weekly sales per pub and operating margin before rent are behind its major competitors, but the Punch Board does not believe that there are any structural reasons preventing the business from closing the gap. The business has a well-positioned estate and the Punch Board is confident that its operating and investment initiatives are working. A continuation of the current operating momentum and investment in the business, supplemented by new customer and IT infrastructure initiatives means that the business is well placed to continue to grow sales and operating margins over the coming years.

In addition, there is an opportunity over time to build the scale of key brands such as Chef & Brewer, Fayre & Square and Flaming Grill and, increasingly, the managed pub business intends to add the expansion of these brands to its focus on operational delivery. An important part of this opportunity comes from the 549 leased pubs within the Spirit Group. It is intended that up to 100 of these pubs, the majority of which were previously managed pubs, will be converted to one of the managed brands over the next few years.

In summary, the managed pub business is well-positioned to capitalise on the continued growth in eating-out and has a well-located estate. The business has a strong management team, positive operating momentum and the potential to expand, all of which the Punch Board believes represents a significant opportunity to drive sustained growth in shareholder value.

The Punch Group's leased business

Since November 2008, significant progress has been made in moving the Punch Group's leased pub business forward. After two years of double-digit declines in like-for-like net income, the business reported a decline of 5.8 per cent. in the 40 week period ended 28 May 2011 and, helped by the ongoing disposal programme, delivered the first increase in average net income per pub for three years. The Pathway to Partnership programme is succeeding in repositioning the reputation of the business and improving trends in beer volumes and rental incomes.

While the business is profitable and generates free cash flow before debt amortisation, it does continue to face a number of structural challenges. The leased sector as a whole is less well-positioned than the managed sector to respond to changing market dynamics because of its continuing reliance on the declining drinking-out market. In this context, the leased estate has a strong core of pubs but, overall, is not currently well placed to deliver long-term sustainable growth.

Considering the above, and taking into account the financial position of the Punch A Securitisation and the Punch B Securitisation which support the majority of the leased pub business, the Punch Board does not believe that the current plan for the leased business will maximise value for Shareholders. A more radical approach is needed, targeting an estate of around 3,000 high quality pubs over the next five years. This smaller core estate, which as at 5 March 2011 accounted for approximately 75 per cent. of EBITDA and in the year ended 21 August 2010 had an average net income per pub of £80,000, is a high quality, geographically well-located portfolio which is positioned to drive sustainable long-term growth in profitable revenues and cash flow.

In order to maximise the value of the leased pub business as it downsizes to around 3,000 pubs, the leased pub business has been organised into two divisions: core and non-core, with each division having separate teams focused on the specific plans for each:

- The plan for the core division, which as at 1 July 2011 comprised 2,954 pubs, is to drive sustainable growth and embrace the Pathway to Partnership programme. The core division will aim to attract the right partners through new lease offers, expand the Punch Buying Club, develop the skills of its business relationship managers and invest to grow food revenues.
- The plan for the non-core division, which as at 1 July 2011 comprised 2,126 pubs, is to maximise short-term returns with a clear focus on costs and cash flow. It is expected that these pubs will be disposed of over a five-year period at a rate of around 500 per annum, fewer than the number that the Punch Group achieved in 2009 and 2010. These disposals will be phased to ensure a balance between speed of disposal and value. At the same time, it is intended that the focus for the non-core estate will be to continue to drive the operating performance of these pubs which will continue to be part of Pathway to Partnership and have access to the same support infrastructure as the core division. The documentation relating to the Punch Securitisations contains disposal conditions which restrict the ability of the leased business to dispose of pubs where certain EBITDA thresholds are exceeded. However, due to the current headroom within these thresholds, there is no immediate restriction on the ability of the Punch Group to begin downsizing its estate.

In summary, while the challenges in the leased pub business are different from the managed pub business, the Punch Board believes that it has a suitable plan to move the business forward and to generate shareholder value. The leased pub business has a strong core of high quality pubs that are expected to generate sustainable growth and value over time. In essence, the intention is to shift the emphasis of the leased business from quantity to quality.

Synergies

The Punch Board has examined the level and value of synergies between the managed and leased pub businesses and has concluded that they are limited. Synergies that did exist in areas such as financing arrangements, estate management and beer supply agreements have diminished over time as the market has changed and as the divergence in performance and prospects of the managed and leased pub businesses has widened. There is a limited amount of corporate shared services covering areas such as finance, information technology, human resources and property, all of which can be separated. As a result, the Punch Board believes that there are limited incremental operating costs associated with a separation of the two businesses.

Capital structure

The Punch Group is financed through three whole business securitisations, the Punch A Securitisation, the Punch B Securitisation and the Spirit Debenture, as well as cash resources held by the Punch Group outside of these securitisations. The majority of the trading assets of the business are held in the three securitisations.

In addition to the cash resources held outside the securitisations, there are also around 200 unsecuritised short leasehold properties and the Punch Group's 50 per cent. interest in the Matthew Clark joint venture. The short leasehold properties currently give rise to an annual cash outflow of between £15 million and £20 million. The Company is exploring potential opportunities to mitigate this liability and has placed much greater focus on driving operating performance and investment in these pubs, which the Punch Board believes will reduce the cash outflow over time. The Board intends to retain its shareholding in the Matthew Clark joint venture within the Punch Group.

The Spirit Debenture includes the majority of the managed business, as well as 549 leased pubs as at 1 July 2011. Actions taken to dispose of assets, repurchase debt and improve profitability have led to a reduction in the debt within the Spirit Debenture. As a consequence of this, the Punch Board believes the Spirit Debenture will support the growth, investment and development of the managed estate while also facilitating cash returns to shareholders over time.

Debt repurchases and asset disposals have also reduced the absolute debt levels in the Punch A Securitisation and the Punch B Securitisation but leverage, as measured by net debt to EBITDA, has increased due to the decline in profitability. As a result, while the Punch Securitisations continue to remain profitable and generate net cash flow (before debt repayments and disposals), they remain in a highly leveraged position and require EBITDA support to maintain headroom in the DSCR covenant. This situation, together with certain restrictions included in the debt documentation, inhibits the ability of the leased business to execute its plan to downsize the estate and to deliver value for stakeholders. There is no immediate restriction on the ability of the Punch Group to begin downsizing its estate. However, following the Demerger, the relevant members of the Punch Group may engage in some dialogue with key stakeholders with a view to optimising the Punch Group's capital structure and executing its plan to downsize its estate effectively. In the meantime, the Punch Group expects to continue to provide the required financial support to the Punch Securitisations to enable the leased business to build on the progress it has made.

Conclusions

In summary, the strategic review concluded:

- the Company's current strategy is not sustainable and structural change is required to drive value;
- the managed pub business requires investment and development to accelerate its operational turnaround, take advantage of the growth potential of the eating-out market and grow its estate;
- the leased pub business needs to be repositioned to realise the long-term value within its estate by reorganising into two divisions, a core division and a non-core division, and downsizing to an estate of around 3,000 high quality pubs;
- there are limited synergies between the managed pub and leased pub businesses and, therefore, limited incremental operational costs associated with separating them; and
- the Punch Group's current structure and financial position is a barrier to realising value in the business.

A separation of the Spirit Group from the Punch Group is expected to remove actual and perceived barriers to the continued profitable development of their respective businesses by separating the responsibilities of management to provide focus on the development of their respective trades, incentivising management accordingly and developing a clearer market reputation for each business among suppliers, potential retailers, managers and the public.

In light of the factors identified above, the Board has concluded that the Punch Group's current structure needs to be simplified to better align stakeholders' interests and to provide a stronger foundation from which the managed pub and the leased pub businesses can each move forward independently to execute the different plans required to drive value over time.

The Punch Board believes that this process of simplification will be best achieved through the demerger of the Spirit Group from the rest of the Punch Group.

3. The Demerger

The benefits of the Demerger include, *inter alia*:

- enabling the different businesses of the Punch Group and the Spirit Group to focus on the plans required in each to maximise value for shareholders and other stakeholders;
- enhancing the visibility and transparency of both the Punch and the Spirit businesses;
- providing choice and liquidity for all investors to choose to invest, or not, in the managed pub or leased pub businesses; and
- providing certainty and clear accountability, together with targeted incentive arrangements, for management and employees.

The Demerger will create two distinct entities with different strategic, operational and economic characteristics and with separate management teams.

The Spirit Group

Upon Demerger, the Spirit Group will be one of the largest managed pub operators in the UK. The Spirit Group is divided into two main divisions: a managed pub business (which owns 803 pubs as at 1 July 2011) and a leased pub business (which owns 549 pubs as at 1 July 2011). The Spirit Group's objective is to maximise the long-term value of the Spirit Group for its shareholders through a careful investment strategy and continued focus on operational excellence to develop a high quality managed pub portfolio with a view to delivering sustainable growth. As described in section 2 above, in recent years the management in the managed pub business has made substantial progress in repositioning the business through the improvement of operating disciplines, the upgrading of talent, the revitalisation and development of brands and investment in the estate. The Spirit Board intends to continue with this repositioning and to invest in new brands and refurbishments across the current managed estate. The Spirit Group's leased pub business will be operated as a separate division with a view to improving its profitability. In addition, the Spirit Board expects, over the next few years, to convert up to 100 pubs from the leased estate into managed pubs. It is intended that, over time, those leased pubs which the Spirit Board believes are not suitable for conversion to managed pubs will be sold, with the speed and timing of such disposals balanced against other factors, such as the value which can be obtained by the Spirit Group. The current intention is that the Spirit Group will, over time, become a solely managed pub business.

Following the Demerger, the Punch Group will continue to provide certain management and administration services to the Spirit Group's leased pub business, as it does currently, for a period of up to nine months and certain limited communication services (namely email and telephony forwarding) to the Spirit Group's managed pub business for a period of up to nine months. For further details of these arrangements, please see Section 9 of Part IX of this document.

In the 52 weeks ended 21 August 2010, the Spirit Group generated total revenue of £724 million, EBITDA (excluding non-underlying items) of £131 million and operating profit (excluding non-underlying items) of £98 million. At this date, the nominal value of Spirit's net debt amounted to £828.6 million (being £866.5 million gross nominal debt less £37.9 million cash) and gross assets of £2,354 million. In the 28 weeks ended 5 March 2011, the Spirit Group generated total revenue of £378 million, EBITDA (excluding non-underlying items) of £67 million and operating profit (excluding non-underlying items) of £49 million. As at this date, the nominal value of Spirit's net

debt amounted to £794.9 million (being £843.5 million gross nominal debt less £48.6 million cash) and gross assets of £2,375 million.

Further information on the Spirit Group is set out in section B of Part IV of this document.

The Punch Group

The financial information relating to the Punch Group included in this section is presented on a basis that excludes the Spirit Group.

The Punch Group is a leading operator of leased pubs in the United Kingdom. As at 1 July 2011, the Punch estate comprised 5,080 pubs located across the United Kingdom. In addition, Punch has a 50 per cent. shareholding in Matthew Clark (Holdings) Limited, the holding company of the Matthew Clark business, a leading drinks wholesaler and distributor.

The Punch Group's long-term aim is to become one of the UK's highest quality and most trusted leased pub operators. As part of this aim, the Punch Group has reorganised its estate into two separate divisions, a core division which consists, as at 1 July 2011, of 2,954 high quality pubs and a non-core division of 2,126 pubs. The Punch Group's plans for each of the core and non-core divisions are described in section 2 of this Part I.

In the 52 weeks ended 21 August 2010, Punch generated total revenue of £559 million, EBITDA (excluding non-underlying items) of £291 million and operating profit (excluding non-underlying items) of £272 million. As at this date, the nominal value of Punch's net debt amounted to £2,314.7 million (being £2,593.3 million gross nominal debt less £278.6 million cash). In the 28 weeks ended 5 March 2011, Punch generated total revenue of £277 million, EBITDA (excluding non-underlying items) of £138.7 million and operating profit (excluding non-underlying items) of £139 million. As at this date, nominal value of Punch's net debt amounted to £2,283.9 million (being £2,537.1 million gross nominal debt less £253.2 million cash).

Further information on the Punch Group is set out in Section A of Part IV of this document.

4. Summary of how the Demerger is to be effected

The Demerger is to be effected by Punch declaring a special dividend equal to the book value of Punch's shareholding in Spirit Pub Company (Holdco) Limited, the current holding company of the Spirit Group. This special dividend will be satisfied by the transfer by Punch to Spirit of the shares in Spirit Pub Company (Holdco) Limited. In return for this transfer, Spirit will then allot and issue Spirit Ordinary Shares to Punch Shareholders who are registered on the Punch Share Register at the Demerger Record Time on the basis of one Spirit Ordinary Share for each Punch Ordinary Share then held.

This requires, among other things, the approval of Punch Shareholders of the Demerger Resolution to be proposed at the Punch General Meeting. Save for the approvals required from the UKLA and the London Stock Exchange in connection with Admission no other approvals are required for the implementation of the Demerger. However, Punch has entered into, and will continue to engage in, dialogue with all of its key stakeholders in relation to the Demerger.

Further details of the Demerger are set out in Part V of this document.

5. Current trading and prospects – Punch and Spirit

Punch

On 8 June 2011, Punch announced its third quarter trading update, reporting further improvements to underlying trends. The continued implementation of the Pathway to Partnership programme has driven further progress with like-for-like net income for the 12 weeks ended 28 May 2011 down only 3.3 per cent. The ongoing disposal programme, together with these improved like-for-like trends, resulted in an overall growth in net income per pub for the 40 weeks ended 28 May 2011 of 1.3 per cent.

Despite the challenging broader UK consumer environment, the Continuing Group remains on track to meet the Board's full year expectations and the Board remains confident in the long-term prospects for the business.

Spirit

On 8 June 2011, Punch announced its third quarter trading update for the Spirit Group. The Spirit Group maintained the trends experienced earlier in the year delivering strong sales growth in its managed pub business, with like-for-like sales growth for the 12 weeks ended 28 May 2011 of 7.3

per cent. (5.7 per cent. for the 40 weeks ended 28 May 2011) comprising an 8.4 per cent. (7.0 per cent.) increase in like-for-like food sales and a 7.3 per cent. (5.0 per cent.) increase in like-for-like drink sales. While good weather is believed to have helped trading, the focus on operational excellence and the continued investment in the estate resulted in the Spirit Group out-performing the market. During the 40 weeks ended 28 May 2011, 160 pubs were refurbished with a focus on continuing to build the Chef & Brewer, Fayre & Square and Flaming Grill brands. Excluding these invested sites, uninvested like-for-like sales grew 3.5 per cent. in the 12 weeks ended 28 May 2011.

In addition, the positive momentum from the first half of the financial year continued within the Spirit leased pub business, with like-for-like average net income per pub for the 12 weeks ended 28 May 2011 declining only 0.7 per cent. (3.9 per cent. for the 40 weeks ended 26 May 2011) to £97,000 from £97,000 at 5 March 2011 and £99,000 at 21 August 2010 respectively.

While the broader UK consumer environment remains challenging for the Spirit Group, the Spirit Board is confident that the combination of operational excellence and ongoing investment means that the Spirit Group is in line to deliver the Spirit Board's expectations for the 2011 financial year and is well positioned with good long-term growth prospects for the future.

6. Effects of Demerger

Cash allocation

As part of the Demerger, after the payment of certain costs relating to the Demerger, the cash and bonds held by the Punch Group as at 30 June 2011 have been allocated between the Spirit Group and the Punch Group. The purpose of this allocation is to provide each business with the appropriate financial resources and flexibility to deliver its strategic objectives and growth as well as support their respective working capital requirements.

As at 30 June 2011, the Punch Group had total financial resources of £346 million, comprising (i) £190 million of unrestricted cash held by the Punch Group outside of the securitisations, (ii) £111 million of restricted cash held within the three securitisations and (iii) £45 million of bonds held by each of the Punch Group and the Spirit Group. An amount of £30 million was deducted from the total amount of cash held by the Punch Group as at this date, being the amount which the Punch Board estimates will be required to account for the Demerger related costs such as reorganisation costs and transaction costs. The remaining amount of the cash and bonds was then allocated between the Spirit Group and the Punch Group as follows:

- £181 million was allocated to the Punch Group to ensure that it has sufficient resources to continue to support the Punch Securitisations for the foreseeable future. This cash balance comprises £89 million of restricted cash held in the Punch Securitisations, £9 million of bonds held by the Punch Group and £83 million of cash which is unrestricted and held by members of the Punch Group outside of the Punch Securitisations; and
- the remainder was allocated to the Spirit Group to ensure that the Spirit Business has sufficient cash to continue to implement its strategy of investing in its estate and redeveloping its brands. This cash balance amounts to £135 million and comprises £22 million of restricted cash held within the Spirit Debenture, £36 million of bonds held by the Spirit Group and £77 million of unrestricted cash held outside of the Spirit Debenture. Of such unrestricted cash, £4 million was held by the Spirit Group as at 30 June 2011 and £73 million was transferred to the Spirit Group prior to the date of this document.

Summary pro forma financial information

As at 5 March 2011, the Punch Group had consolidated net assets of £1,217.9 million (extracted without material adjustment from the consolidated financial statements of Punch for the 28 weeks ended 5 March 2011). A pro forma statement showing the effect of the Demerger on Punch's consolidated net assets and liabilities is set out in Part VII "Pro forma Financial Information" of this document. As shown in this statement, the illustrative consolidated total assets of the Punch Group as at 5 March 2011 on a pro forma basis and adjusted to reflect the Demerger as if completion had occurred on that date would have been £3,173.6 million. In the 28 weeks ended 5 March 2011, the revenue generated by the Punch Group was £655.4 million, of which £378 million was generated by the Spirit Business.

As at 5 March 2011, the Spirit Business had consolidated gross assets of £2,375.4 million (extracted without material adjustment from the historical financial information of the Spirit Business

for the 28 weeks ended 5 March 2011). For the 28 weeks ended 5 March 2011, the Spirit Group's EBITDA was £67 million and the Punch Group's EBITDA, adjusted to reflect the Demerger, was £139 million.

For the purposes of declaring the Demerger Dividend the Directors have made a determination as to the book value of Punch's investment in Spirit Pub Company (Holdco) Limited. In connection with this determination impairments have been made to the value of certain assets of the Spirit Group. Further details are set out in Part VII: "Pro Forma Financial Information".

Costs

The total costs and expenses to be incurred by Spirit and Punch in connection with implementing the Demerger are estimated to be £30 million (exclusive of amounts in respect of VAT). These costs represent costs incurred in relation to reorganising the Punch Group in anticipation of the Demerger and transaction costs related to the Demerger. As described above, the estimated amount of these costs and expenses has been deducted from the cash and bonds allocated between the Spirit Group and the Punch Group as part of the Demerger.

The Board considers that the Spirit Business and the Punch Group can achieve their greatest potential and value as independent businesses. However, it will be necessary for the Spirit Group and the Punch Group to incur additional costs. These costs are not expected to be material to either the Spirit Group or the Punch Group. These additional costs primarily relate to the operational separation of the two businesses, including the separation of IT and administrative service arrangements and agreeing and operating stand-alone supply agreements and pension schemes for the Spirit Group. These additional costs and the Demerger of the Spirit Business will have a dilutive effect on the earnings of the Punch Group.

7. Board structures and corporate governance

The Punch Group currently has a strong and experienced management team. Following the Demerger, this team will form the core of the boards of Spirit and Punch, ensuring appropriate continuity and will be supplemented by the addition of new talent in both businesses.

The directors of Spirit are:

Name	Position in respect of Spirit
Executive Directors:	
Ian Dyson	Chief Executive Officer
Mike Tye	Deputy Chief Executive Officer
Russell Margerrison	Interim Finance Director
Non-executive Directors:	
Walker Boyd	Non-executive Chairman
Mark Pain	Non-executive director
Tony Rice	Non-executive director and senior independent director

In addition to the above directors, Christopher Bell will join the board as a non-executive director of Spirit with effect from the Demerger Effective Time.

The current directors of Punch are set out at the beginning of this letter.

With effect from the completion of the Demerger, the directors of Punch will be:

Name	Position in respect of Punch
Executive Directors:	
Roger Whiteside	Chief Executive Officer
Steve Dando	Finance Director
Non-Executive Directors:	
Peter Cawdron	Chairman
Ian Fraser	Non-executive director
Ian Dyson	Non-executive director
Mark Pain	Non-executive director and senior independent director

The biographies of the members of the boards of both companies are set out in section 3 of Part IX: "Additional Information".

The Board of Punch announced on 29 June 2011 that, having served as Chairman since January 2007, Peter Cawdron is to step down from the role. The Company has also announced that it will appoint Stephen Billingham as its new non-executive Chairman. Peter will step down as Chairman and Stephen will join the Board and become Chairman of the Company in September 2011.

Following the Demerger, Ian Dyson will be Chief Executive Officer of Spirit and Mark Pain will be a non-executive director of Spirit. However, for a transitional period, they will also be non-executive directors of Punch in order to ensure a smooth and effective separation for both Spirit and Punch.

8. Dividend policies

Punch

Consistent with current policy, given the continued slowdown in the market in which the Punch Group operates and the Punch Group's operating results and financial condition, the Punch Board currently considers it prudent to retain cash and further strengthen the Company's balance sheet before returning cash to Punch Shareholders through distributions. The Punch Board did not recommend a final dividend for the 2008, 2009 or 2010 financial years and, other than the Demerger Dividend, does not anticipate the Company paying or declaring any dividends for the foreseeable future.

Spirit

The Spirit Board intends to adopt a progressive dividend policy while maintaining an appropriate level of dividend cover. This dividend policy will reflect the long-term earnings and cash flow potential of the Spirit Group and retain sufficient flexibility to finance anticipated investment in the estate, fund debt amortisation and support the business generally. It is therefore the Spirit Board's intention to target an initial payout ratio of approximately 33 per cent. of net income over the medium term.

Assuming that there are sufficient distributable reserves available at the time, the Directors intend that Spirit will pay an interim dividend and a final dividend in respect of each financial year in approximate proportions of one-third and two-thirds, respectively, of the total annual dividend. The first dividend paid by Spirit is intended to be the interim dividend in respect of the period ending 3 March 2012, to be announced with its interim results in April and paid in June.

9. Risk factors

Shareholders should consider carefully the risks and uncertainties set out in Part III: "Risk Factors" relating to the Demerger, the Punch Group (in the context of the Demerger), the Spirit Group and the Spirit Ordinary Shares, along with all of the information set out in this document. If any or a combination of these risks actually occurs, the market price of shares in Punch and/or Spirit may decline.

10. Share schemes

Currently awardholders under the Punch Taverns plc Long-Term Incentive Plan 2008 (the "LTIP") have awards over Punch Ordinary Shares (structured as either nil-cost options or conditional awards of shares). As a result of the Demerger each Punch Shareholder will be receiving Spirit Ordinary Shares in addition to his Punch Ordinary Shares by way of distribution and it is intended that the rules of the LTIP relating to company distributions shall be amended so that a similar effect can be achieved for awardholders.

However, the rules do need two further amendments which require Shareholder approval as follows:

- (i) there is currently a limit on the number of shares which may be issued (or transferred from treasury) in any 10 year period to satisfy LTIP awards of (i) 10 per cent. of the Company's share capital for all the Company's share plans, and (ii) 5 per cent. of the Company's share capital for the Company's discretionary share plans. It is proposed that these limits in the LTIP will be amended so that any shares which are issued to satisfy awards held by persons who become employees of the Spirit Group following the Demerger will be excluded for the purposes of these limits. Any shares not counted towards these limits in the LTIP under this

amendment would be included in Spirit's shareholder dilution calculations (against the same 5 per cent. and 10 per cent. limits) in addition to any shares that Spirit issues (or transfers from treasury) under its own employee share plans; and

- (ii) under the rules of the LTIP employees who transfer to the Spirit Group would be treated as leavers and thus the number of shares subject to their awards would be subject to "time pro rating" to reflect the proportion of the original vesting period these employees have served in the Punch Group. It is proposed that as those employees will continue to be employed by the Spirit Group the rules of the LTIP should be amended so that the remuneration committee of the Punch Board can disapply time pro rating for these individuals, which would otherwise apply on Demerger. This would mean that employees transferring to the Spirit Group may instead retain their awards until the normal vesting date. If one of these individuals ceases to be employed by the Spirit Group before the normal vesting date of his award in "good leaver" circumstances, the number of shares subject to his award will be time pro-rated by reference to the date the participant ceases to be employed by the Spirit Group. If an employee leaves the Spirit Group before the normal vesting date of his award for any other reason, the number of shares subject to his award will be time pro-rated by reference to the date of completion of the Demerger.

However, all Directors who are transferring to Spirit have agreed that if they leave Spirit prior to the normal vesting date of their awards outstanding as at the date of this document, other than as a 'good leaver', the awards will lapse in their entirety. The LTIP award to be granted to Russell Margerrison prior to the Demerger Effective Time will also be granted subject to similar terms.

In order to preserve a consistent method of calculating shareholder dilution across the Punch Share Schemes, the same amendment to the limits on the Company issuing or transferring shares from treasury will also be made to the terms of the Punch Taverns plc Share Bonus Plan, although no awards are currently outstanding under this plan.

It is also proposed that the recruitment award made to Ian Dyson in 2010 and described in that year's annual report and accounts will be amended in the same way and this will be effected if the above amendment to the rules of the LTIP is approved.

The Directors believe that these amendments are in the best interests of the Company to ensure that option holders' and award holders' interests are properly aligned with Shareholders and that employees remain incentivised to promote both Spirit and Punch following the Demerger.

Accordingly, a resolution is being proposed at the Punch General Meeting, pursuant to which it is proposed that the amendments to the Punch Share Schemes described above be implemented. The full text of the relevant resolution is set out in the Notice of Meeting at the end of this document. It should be noted that the Demerger is not conditional on this resolution being passed. However, the resolution to amend the Punch Share Schemes is conditional on the Demerger Resolution being passed at the Punch General Meeting.

In order that the Demerger does not disadvantage participants in the Company's other share plans, any outstanding options in the Company's Discretionary Share Plan (which are not "tax favoured" HMRC-approved options) will be adjusted under the terms of the plan so that, to the extent these options are exercised following Demerger, option holders will receive the number of Punch Ordinary Shares which were originally subject to their option plus an equivalent number of Spirit Ordinary Shares. HMRC-approved options will not however be adjusted as part of the Demerger. Participants in the Company's all-employee Share Incentive Plan will be treated in the same manner as other Shareholders and will receive Spirit Ordinary Shares pursuant to the Demerger.

Mike Tye's Spirit Value Growth Plan award will vest on completion of the Demerger, subject to the achievement of the applicable performance condition at that time.

11. Pensions

The Punch Group currently operates three funded defined benefit pension schemes each of which requires funding: the Pubmaster Pension Scheme, the Punch Pub Company Pension Scheme and the Punch Pub Company Retail Pension Scheme. The Punch Group also operates certain other pension arrangements, which comprise a small hybrid pension scheme – Punch Pub Company Retail Retirement Savings Plan and a number of defined contribution pension arrangements.

Defined benefit pension arrangements

Following the Demerger, the Pubmaster Pension Scheme will remain within the Punch Group. Punch has been involved in on-going discussions with the Trustees of the Pubmaster Pension Scheme and has agreed a front-loaded schedule of contributions to mitigate any impact of the Demerger on the scheme and is granting a charge over Punch's offices at Jubilee House. The Pensions Regulator has confirmed that no contribution notice or financial support direction will be served or made in respect of the Pubmaster Pension Scheme as a consequence of the Demerger.

The Punch Pub Company Pension Scheme, Punch Pub Company Retail Pension Scheme and the Punch Pub Company Retail Retirement Savings Plan will, following the Demerger, be operated by the demerged Spirit Group. The Pensions Regulator has confirmed in a separate clearance that in its opinion the Demerger does not appear to weaken the ongoing covenants in respect of these pension schemes and thus no clearance is required.

The Punch Pub Company Retail Retirement Savings Plan is a small hybrid arrangement and the intention is that this will be wound up via a buyout arrangement with an insurance company by the Spirit Group after the Demerger.

Defined contribution pension arrangements

Certain defined contribution pension arrangements are in place as discrete arrangements for certain employees of the Punch Group. These will continue to be provided, as appropriate, in the Spirit Group and in the Punch Group after the Demerger. Where there were defined contribution pension arrangements that were shared between employees in the Spirit Business and other employees of the Punch Group, separate new arrangements have been put in place on the same terms by the Spirit Group for the employees in the Spirit Business.

12. Taxation

General information on the impact of the Demerger on Shareholders with regard to UK and US taxation is set out in Part VIII: "Taxation". Any Punch Shareholder who is in any doubt as to their tax position or who is subject to tax in any jurisdiction other than the UK and the US, should consult their own professional adviser without delay.

13. Overseas shareholders

The implications of the Demerger for Overseas Shareholders may be affected by the laws of the jurisdiction in which they are resident or otherwise located. Overseas Shareholders should inform themselves about and observe all applicable legal requirements.

It is the responsibility of any person into whose possession this document comes to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection with the allotment and issue of Spirit Ordinary Shares pursuant to the Demerger, including the obtaining of any governmental, exchange control or other consents which may be required and/or compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes or levies due in such jurisdiction.

14. Punch General Meeting

You will find set out at the end of this document a notice convening a general meeting of the Company to be held at 9.30 a.m. on 26 July 2011 at One Bunhill Row, London EC1Y 8YY. At the Punch General Meeting, an ordinary resolution will be proposed to approve the declaration of a special dividend to give effect to the Demerger. In addition, a further ordinary resolution will be proposed to approve the amendments to the Punch Share Schemes described in section 10 above.

Shareholders should read the Notice of Meeting at the end of this document for the full text of the Resolutions and for further details about the Punch General Meeting.

15. Action to be taken

You will find enclosed with this document a Form of Proxy for use at the Punch General Meeting or any adjournment thereof. Whether or not you intend to attend the Punch General Meeting you are requested to complete the enclosed Form of Proxy in accordance with the instructions set out thereon and to return it as soon as possible and in any event so as to be received by the Company's registrars, Computershare Investor Services PLC, at The Pavilions, Bridgwater Road,

Bristol BS99 6ZZ. Alternatively, shareholders may submit their vote via the internet in accordance with the procedures set out in the Notice of Meeting at the end of this document. The completion and return of the Form of Proxy will not preclude you from attending and voting in person at the Punch General Meeting, or any adjournment thereof, if you so wish.

16. Further information

Your attention is drawn to the further information set out in Parts II to IX of this document. **You are advised to read the whole of this document and not only rely on the summary information contained in this letter.**

17. Financial advice

The Punch Board has received financial advice from Goldman Sachs International in relation to the Demerger. In providing its advice, Goldman Sachs International has relied upon the Punch Board's commercial assessment of the Demerger.

18. Recommendation

The Punch Board considers that the Demerger and the amendments which are proposed to the Punch Share Schemes are in the best interests of Punch Shareholders as a whole. Accordingly, the Punch Board unanimously recommends that Punch Shareholders vote in favour of the Resolutions to be proposed at the Punch General Meeting, as each Punch Director has undertaken to do in respect of his own beneficial shareholdings, amounting in aggregate to 1,106,058 Punch Ordinary Shares, representing approximately 0.17 per cent. of the issued ordinary share capital of Punch.

Yours faithfully,

Peter Cawdron
Chairman

PART II

SOME QUESTIONS AND ANSWERS ON THE DEMERGER

The following summary of questions and answers has been prepared to help you understand what is involved in the Demerger. You should read the whole of this document and not rely solely on the summary questions and answers set out below. If you require any further information, please contact the Shareholder Helpline, details of which appear on page 4.

Please note that for legal reasons this Helpline will only be able to provide practical information and will not provide advice on the merits of either the Demerger or Admission or give any financial or taxation advice. For financial or taxation advice, you will need to consult an independent adviser.

1. What is being proposed?

The separation of the Spirit Business from the rest of the Punch Group, resulting in the creation of two independent companies, each of which will be admitted to the Official List and to trading on the London Stock Exchange:

- Spirit Pub Company plc, which will own the Spirit Group, comprising the existing managed pub business of the Punch Group, comprising 803 managed pubs as at 1 July 2011. The Spirit Group also owns 549 leased pubs as at 1 July 2011; and
- Punch Taverns plc, which will own the Punch Group's remaining leased pub business comprising 5,080 leased pubs as at 1 July 2011 and the stake in the Matthew Clark joint venture.

This separation is referred to in this document as the Demerger. Following the Demerger, Punch Shareholders will own shares in both listed companies.

Once the Demerger becomes effective, Punch Shareholders will hold one ordinary share in Punch and one ordinary share in Spirit for every one Punch Ordinary Share that they hold at the Demerger Record Time which is expected to be 7.00 a.m. on 1 August 2011.

2. Why am I being sent this document?

The Demerger requires the approval of Punch Shareholders at a general meeting of Punch Taverns plc. This document contains information to assist you in your voting decision.

The Punch General Meeting is to be held at 9.30 a.m. on 26 July 2011 and the notice of the Punch General Meeting is set out at the end of this document.

3. Why is Punch proposing the separation of Spirit and Punch?

An explanation of the background to and reasons for the Demerger is set out in section 2 of Part I of this document. In summary, the Punch Board believes that the benefits of the separation will include:

- enabling the different businesses of the Punch Group and the Spirit Group to focus on the plans required in each to maximise value for shareholders and other stakeholders;
- enhancing the visibility and transparency of both the Punch and the Spirit businesses;
- providing choice and liquidity for all investors to choose to invest, or not, in the managed pub or leased pub businesses; and
- providing certainty and clear accountability, together with targeted incentive arrangements, for management and employees.

4. Will this mean a change in how the two businesses are run?

Following the completion of the Demerger, Punch and Spirit will each have their own board of directors as detailed in section 7 of Part I: "Letter from the Chairman" of this document. Following the Demerger, no directors of Punch will be directors of Spirit and vice-versa, other than Ian Dyson and Mark Pain, who will be the Chief Executive Officer and non executive director of Spirit respectively and, for a transitional, period they will each also be a non-executive director of Punch.

Following the Demerger, the management teams of both businesses will become accountable to their own respective board of directors rather than to the Punch Board. The Spirit Group and Punch Group can then pursue their strategies independently.

5. What will this mean for the share price of Punch Taverns plc?

Following the implementation of the Demerger, Punch Shareholders will hold one Spirit Ordinary Share in addition to their existing Punch Ordinary Share. As a result, the economic value of Punch Shareholders' holding in the Company will then be split between the two listed companies of Spirit and Punch.

The Spirit Ordinary Shares are expected to begin trading on the London Stock Exchange on 1 August 2011. The price of the Spirit Ordinary Shares and the Punch Ordinary Shares will be set by the market and, together, may not necessarily equal the market price of the Punch Ordinary Shares prior to the Demerger being implemented and may be higher or lower.

6. Can I elect to receive cash instead of shares in Spirit?

This is not an option under the Demerger. However, all Punch Shareholders will be entitled to sell their Punch Ordinary Shares or, following their receipt, Spirit Ordinary Shares, in the usual course. It should be noted however, that if you transfer or sell your Punch Ordinary Shares prior to the Demerger Record Time, you will not receive any Spirit Ordinary Shares.

7. How will the Demerger be implemented?

The Demerger will be implemented by Punch declaring a special dividend. This special dividend will be satisfied by a transfer by Punch to Spirit of the shares in its wholly owned subsidiary, Spirit Pub Company (Holdco) Limited, the current holding company of the Spirit Group. In return for this transfer, Spirit will then allot and issue Spirit Ordinary Shares to Punch Shareholders who are registered on the Punch Share Register at the Demerger Record Time on the basis of one Spirit Ordinary Share for each Punch Ordinary Share then held.

Punch Shareholders who sell or otherwise transfer their Punch Ordinary Shares prior to the Demerger Record Time will not receive any Spirit Ordinary Shares.

The Spirit Ordinary Shares are expected to be admitted to the Official List and to trading on the London Stock Exchange on 1 August 2011.

More detail on the implementation of the Demerger is contained in the section entitled "Further Details of the Demerger" in Part V of this document.

8. Will I receive a prospectus relating to the shares that I am being issued in Spirit?

A prospectus in relation to the Spirit Ordinary Shares has been posted to Punch Shareholders and is also available via Punch's website www.punchtaverns.com and Spirit's website www.spiritpubcompany.com.

The prospectus can also be viewed online on the National Storage Mechanism's website www.hemscott.com/nsm.do or at the following places during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) until Admission:

- the registered office of Punch at Jubilee House, Second Avenue, Burton-upon-Trent, Staffordshire DE14 2WF; and
- the offices of Slaughter and May at One Bunhill Row, London EC1Y 8YY.

9. Will there be any ongoing relationship between Spirit and Punch?

Following completion of the Demerger, Spirit and Punch will each operate as independent and separately listed companies with their own management teams and board of directors. As mentioned above, following the Demerger, Ian Dyson will be Chief Executive Officer of Spirit and Mark Pain will be a non-executive director of Spirit. However, for a transitional period, they will also be non-executive directors of Punch in order to ensure a smooth and effective separation for both Spirit and Punch.

The Punch Group will also continue to provide certain management and administrative services to the Spirit Group's leased pub business, as it does currently, for a nine-month period following the completion of the Demerger. In addition, the Punch Group will continue to provide certain limited communication services (namely email and telephony forwarding). These services will be provided

to the Spirit Group's managed pub business for a period of up to nine months following completion of the Demerger. In addition, PTL will provide assistance to Spirit in the preparation of the solus statutory accounts for the subsidiaries of the Spirit Group for the financial year that is to end on 20 August 2011. For further details of these arrangements, please see Section 9 of Part IX of this document.

Spirit and Punch have also entered into a Demerger Agreement which sets out certain arrangements that govern certain aspects of the relationship between Spirit and Punch and their respective subsidiaries pre- and post-Demerger. Please see section 8 of Part IX: "Additional Information" of this document for further details of the Demerger Agreement.

10. Why is there a general meeting and do I need to attend?

The Punch General Meeting has been convened by Punch to approve the Demerger and certain amendments to the Punch Share Schemes. The Punch General Meeting will be held on 26 July 2011.

All Shareholders are entitled and encouraged to attend the Punch General Meeting. If you are not able to come, you are still entitled to vote at the Punch General Meeting by appointing a proxy.

11. Do I need to vote?

It is important that as many Punch Shareholders as possible cast their votes. If you do not wish, or are unable, to attend the Punch General Meeting you may appoint someone (known as a proxy) to act and vote on your behalf. Your proxy must attend the meeting. Alternatively, you can choose to appoint the Chairman of the Punch General Meeting as your proxy.

At the Punch General Meeting separate resolutions will be voted on: one to implement the Demerger and the other to amend the Punch Share Schemes. The Demerger is not conditional on the resolution to amend the Punch Share Schemes being passed.

You may appoint your proxy by either completing the Form of Proxy and returning it, or alternatively submitting your vote via the internet, in accordance with the instructions printed on the Form of Proxy and set out in the Notice of Meeting at the end of this document.

If you hold Punch Ordinary Shares in uncertificated form, you may also appoint a proxy by completing and transmitting a CREST proxy instruction in accordance with the procedures set out in the CREST Manual, ensuring that it is received by Computershare (under CREST Participant ID 3RA50) by no later than 48 hours before the time appointed for the Punch General Meeting.

Should you later change your mind and decide to attend the Punch General Meeting in person, then returning the Form of Proxy will not preclude you from doing so.

12. When will the Demerger come into effect?

With the necessary approvals, it is expected the Demerger will be completed no later than on 1 August 2011. The Spirit Ordinary Shares are expected to be admitted to the Official List and to trading on the main market of the London Stock Exchange, and therefore capable of being traded, from 8.00 a.m. on 1 August 2011. Share certificates in respect of Spirit Ordinary Shares will be issued to you as soon as possible following the Demerger and are expected to be despatched before 16 August 2011.

13. Do I have to pay anything under the Demerger Proposals?

No payment is required.

14. Will I have to pay any tax as a result of the Demerger Proposals?

General information about the UK and US tax treatment of Punch Shareholders arising under the Demerger is set out in Part VIII of this document. If you are in any doubt about your tax position, or if you are subject to tax in any jurisdiction other than the UK and the US, you should consult a professional adviser.

15. What will happen to my Punch Ordinary Shares?

Provided you have not disposed of your Punch Ordinary Shares prior to the Demerger Record Time, you will continue to own the same number of ordinary shares in Punch, but in addition will receive the same number of Spirit Ordinary Shares.

16. When will I receive my new share certificates?

Share certificates for Spirit Ordinary Shares are expected to be issued before 16 August 2011.

17. What will happen if the Demerger is not approved by Punch Shareholders?

In the event that the Demerger is not approved by Punch Shareholders, the Spirit Group and the Punch Group will continue to trade under the umbrella of Punch Taverns plc and you will continue to hold shares in the Company.

18. What will be the dividend policy of each of Spirit and Punch following the Demerger?

The dividend policy of Spirit and Punch is explained in more detail in section 8 of Part I of this document.

19. Do I need to change my existing instructions so far as the payment of dividends is concerned?

Your present dividend instructions will apply in respect of your new shareholdings in Spirit unless you elect otherwise. If you wish to change your instructions, you should contact the Shareholder Helpline, further details of which appear on page 4.

20. What is the estimated cost of implementing the Demerger?

All costs (exclusive of any amounts in respect of VAT) payable in connection with the Demerger (including the listing of Spirit) are estimated to amount to approximately £30 million.

21. What if I still have questions?

If you have read this document and still have questions, then please call our Shareholder Helpline, further details of which are shown on page 4.

For legal reasons this Helpline will only be able to provide practical information and will not provide advice on the merits of either the Demerger or Admission or give any financial or taxation advice. For financial or taxation advice, you will need to consult an independent financial adviser.

PART III

RISK FACTORS

If the Demerger proceeds, Punch Shareholders, who previously had an indirect interest in the Spirit Business, will have a direct interest in the Spirit Group and, accordingly, will be directly subject to risks affecting Spirit, its business, its results of operations and its financial condition.

This section addresses the existing and future material risks that relate to the Demerger, the Punch Group (in the context of the Demerger), the Spirit Group and the Spirit Ordinary Shares. The risks below are not the only ones that the Punch Group and the Spirit 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 Punch Group or the Spirit Group, their respective incomes, operating profits, earnings, net assets, liquidity and capital resources. In such a case, the market price of the Punch Ordinary Shares and/or the Spirit Ordinary Shares may decline and Punch Shareholders could lose all or part of their investment. Punch Shareholders and prospective investors should read this section in conjunction with this entire document.

Risks relating to the Demerger

(A) The Demerger may not complete

Completion of the Demerger is subject, among other things, to the approval of the Demerger by Punch Shareholders at the Punch General Meeting. If completion of the Demerger does not occur, the Spirit Business will remain part of the Punch Group, which may result in a delay in the execution of the business plan of the Spirit Business and the rest of the Punch Group and may mean that the Spirit Business and the rest of the Punch Group will be unable to realise the benefits that the Punch Board has stated that it believes will result from the Demerger. This could have an adverse impact on Punch's business, reputation, financial condition and/or operating results.

(B) For a limited period following the Demerger, the Spirit Group will be reliant on the Punch Group for the provision of certain management and administration services

Pursuant to the management services agreement between Punch Partnerships (PTL) Limited ("PTL") (a member of the Punch Group) and various members of the Punch Group and the Spirit Group dated 3 November 2003 (as amended), the Punch Group currently provides certain management and administration services to members of the Spirit Group. In particular, PTL currently provides all of the management and administration services which are required for the operation of the Spirit Group's leased pub business. It is proposed that PTL will continue to provide management and administration services to the leased pub business of the Spirit Group for a period of up to nine months following the Demerger in substantially the same way, and upon the same terms, as it has prior to Demerger. PTL will also provide assistance in the preparation of solus statutory accounts for subsidiaries within the Spirit Group that operate the managed pub business.

If the Punch Group failed to provide the expected services and it was necessary to replace the Punch Group as the provider of such services at short notice, the Spirit Group could experience difficulty, disruption and increased operating costs which could, in turn, have an adverse impact on the Spirit Group's profitability, financial condition and prospects.

The Spirit Group will have adequate systems in place to comply with its obligations under the Listing Rules and its obligations under the Disclosure and Transparency Rules upon Admission.

(C) After the Demerger, each of the Punch Group and the Spirit Group could fail to meet the challenges involved in operating successfully as a stand-alone business.

Although the Punch Board expects that the Demerger will result in benefits to both of the Punch Group and the Spirit Group, either the Punch Group and/or the Spirit Group may not realise those benefits because of challenges relating to operating successfully as a stand-alone business. These challenges include (i) demonstrating to interested parties that the Demerger will not result in adverse changes in standards of business and impairment of relationships with customers, retailers in their leased estates, or employees as a result of the Demerger; (ii) retaining key personnel; (iii) distraction of management; and (iv) difficulty in effectively marketing and communicating the capabilities of the Punch Group and/or the Spirit Group as a successful stand-alone business.

Any failure of the Spirit Group and/or the Punch Group to meet the challenges involved in setting up and/or separating its systems and functions, operating as a stand-alone business or to realise any of the anticipated benefits of the Demerger could have an adverse impact on the relevant group's business, reputation, financial condition and/or operating results.

(D) Punch and Spirit will have indemnification obligations in favour of each other

Punch and Spirit have entered into the Demerger Agreement and the Demerger Tax Deed that govern the allocation of the assets and liabilities of the businesses between the Punch Group and the Spirit Group, their post-Demerger obligations to each other in respect of, among other things, taxes and their respective indemnity obligations. Subject to certain conditions contained in such agreements, Punch has agreed to indemnify Spirit in respect of certain liabilities associated with the Punch Group prior to the Demerger (for example, in respect of certain guarantees provided by the Spirit Group in relation to the Punch Group) and in respect of certain tax liabilities that may arise after, or as part of, the Demerger. Spirit has also provided similar indemnities to Punch. Some of these indemnities are unlimited in terms of amount and duration and the amounts payable by the Punch Group pursuant to such indemnity obligations could be significant and could have an adverse impact on the Punch Group's business, financial condition and/or operating results.

(E) The Demerger may fail to realise anticipated benefits

There can be no guarantee that either the Spirit Group or the Punch Group will realise any or all of the anticipated benefits of the Demerger, either in a timely manner or at all. If either the Spirit Group or the Punch Group fails to realise some or all of the anticipated Demerger benefits, it could have an adverse impact on the relevant group's business, reputation, financial condition and/or operating results.

Risks relating to Punch (in the context of the Demerger)

(A) Following the Demerger, the Punch Group will form a smaller, less diversified group

Following the Demerger, the Punch Group will no longer own the companies and assets that comprise the Spirit Business. Accordingly, the Punch Group will be smaller and less diversified than it is currently and will have a smaller market capitalisation. In particular, following the Demerger, all of the pubs owned by the Punch Group will be leased and tenanted pubs. Currently the Punch Group's pub estate comprises both leased and managed pubs. Therefore, following the Demerger, the Punch Group will be solely exposed to the leased and tenanted pub market and will no longer have any exposure to the managed pub market.

In addition, as a result of the allocation of the cash and bonds held by the Punch Group between the Punch Group and the Spirit Group, the aggregate amount of the cash and bonds held by the Punch Group will, following the Demerger, be less than the current amount. However, the Directors consider that the amount of cash and bonds allocated to the Punch Group is appropriate in order for the Punch Group to deliver its strategic objectives.

It should also be noted that, as is currently the case, all of the Punch Group's material operating assets will, following the Demerger, be held within the Punch Securitisations. The Punch Securitisations contain certain financial covenants which, if they are not met, could lead to an event of default under the terms of the Punch Securitisations. This is a risk over the longer term as it is expected that the cash held outside the Punch Securitisations will continue to be used to support the profit performance of the businesses which are subject to the Punch Securitisations, in order to maintain sufficient covenant headroom within such securitisations. Over the longer term, should the cash resources within the Punch Securitisations be depleted and the companies which are not subject to the Punch Securitisations do not, or are unable to, provide financial support to the companies that are subject to the Punch Securitisations, this could lead to a breach of the terms of the Punch Securitisations.

As a result of the reduction in the Punch Group's size, should any part of its business underperform, this may have a larger relative impact on the Punch Group than it would have done prior to the Demerger. In addition, consistent with its smaller size, the overall amount of any future debt or equity financing which the Punch Group may obtain may be less, and the terms less favourable, than if the Demerger had not occurred.

(B) Significant trading volumes of Punch Ordinary Shares in the public market in the period post-Demerger and subsequently could affect the share price

Following Admission, there may be a period of relatively high volume trading in the Spirit Ordinary Shares and the Punch Ordinary Shares as the shareholder registers of Spirit and Punch find their natural composition. The Punch Directors are unable to predict whether substantial amounts of the Punch Ordinary Shares will be sold in the open market following Admission. Sales of a substantial number of Punch Ordinary Shares in the public market after Admission, or the perception that these sales might occur, could depress the market price of the Punch Ordinary Shares.

(C) The Punch Group may be unable to implement its business plan to respond to changing consumer habits

While Punch remains committed to the British pub industry, the Board believes that changing consumer habits will result in some pubs not surviving. The current business plan for the Punch Group is centred on downsizing to an estate of about 3,000 leased pubs that the Punch Directors believe have a long-term and sustainable future. The remaining pubs within the Punch Group, 2,126 pubs, comprise a non-core estate which it is anticipated will be sold at a rate of about 500 pubs a year. The documentation relating to the Punch Securitisations contains disposal conditions which restrict the ability of the leased business to dispose of pubs where the EBITDA generated by the pubs to be disposed of, or the cumulative EBITDA of all pubs disposed of, exceeds certain thresholds. Although due to the current headroom within these thresholds there is no immediate restriction on the ability of the Punch Group to begin downsizing its estate, in order to optimise the Punch Group's capital structure and to execute its plan to downsize its estate. However, following the Demerger, the relevant members of the Punch Group may engage in some dialogue with key stakeholders. If the Punch Group is unable to implement its business plan effectively, this could have an adverse impact on the Punch Group's business, reputation, financial condition and/or operating results and will mean that the Punch Group will continue to own certain pubs that the Punch Directors do not believe to be part of the Punch Group's core business, which could have an effect on Punch's business, financial condition and/or operating results.

Risks relating to the Spirit Group

(A) The Spirit Group has substantial debt, the servicing of which requires the allocation of a large proportion of cash flow from operations

As at 1 July 2011, the Spirit Group had total net debt (exclusive of derivative financial instruments) of £866.3 million. This debt is solely owed pursuant to the Spirit Debenture bonds. Under the Spirit Debenture, the issuing vehicle, Spirit Issuer plc, has issued debenture bonds with an aggregate nominal value of £885.1 million as at 1 July 2011, secured over 1,193 of the Spirit Group's 1,352 pubs, and with maturity dates from 2021 to 2034. Further information about each series of debenture bonds currently in issue, including their maturity profile, can be found in section 9 of Part IX: "Additional Information" of this document.

The Spirit Board does not consider that the Spirit Group's debt service obligations present a material risk in the short to medium term, due to the recent improved operating performance of the Spirit Business and the Spirit Group's ability, if necessary or desirable, to use cash held by the Spirit Group outside of the Spirit Debenture to provide financial support to the business which is subject to the Spirit Debenture.

However, there is a risk that over the longer term, the Spirit Group's level of debt could create operational difficulties. The Spirit Group's obligation to make scheduled payments on its indebtedness and to maintain its covenants could limit its financial and operational flexibility, for example by restricting its ability to invest in its estate. This could, over the longer term, have an adverse impact on the business of the Spirit Group which could lead to the ratings of the debenture bonds issued under the Spirit Debenture being downgraded. Any such downgrade could increase the difficulty of suppliers in obtaining credit insurance in respect of the Spirit Group and increase the risk that suppliers become unwilling to contract with the Spirit Group or will request shorter payment terms, which could have an adverse impact on the business of the Spirit Group, its reputation, financial condition and/or operating results.

(B) The terms of the Spirit Debenture contain financial covenants that test the performance of the business within the securitisation group. A breach of such financial covenants could have a material adverse effect on the performance and financial condition of the Spirit Group

The terms of the Spirit Debenture contain financial covenants that test the performance of the business within the securitisation group. Those financial covenants include ratios of EBITDA to debt service and a loan to value ratio and are explained in more detail in section 9 of Part IX: “Additional Information” of this document.

A breach of the terms of the Spirit Debenture, including breach of the financial covenants discussed above, could lead to an event of default under those terms. This is a risk over the longer term, should the cash resources within the Spirit Debenture be depleted such that the companies within the Spirit Debenture are unable to comply with the relevant financial covenants and the companies which are not subject to the Spirit Debenture do not, or are unable to, provide financial support to the companies that are subject to the Spirit Debenture. The consequences of an event of default under the terms of the Spirit Debenture include, but are not limited to, all of the amounts owed by the operating companies subject to the Spirit Debenture to their external creditors (including holders of the debenture bonds issued by Spirit Issuer plc) becoming immediately due and payable and, if such amounts are not paid, the enforcement of the security granted by the companies which are subject to the Spirit Debenture. The enforcement of security could result in the appointment of an administrative receiver in respect of the companies which are subject to the Spirit Debenture, which would result in those companies ceding control of their business to the administrative receiver and which might result in the sale of pubs in the securitisation group and the realisation of its other assets. The acceleration of amounts owed by the operating companies in the Spirit Debenture, enforcement of security granted by the companies in the Spirit Debenture or appointment of an administrative receiver may also affect the ability of the Spirit Group to negotiate supplies for and services to its other pubs. An event of default within the securitisation could, therefore, have a material adverse effect on the performance and financial condition of the Spirit Group.

No event of default has occurred in respect of the Spirit Debenture as at the date of this document.

(C) The terms of the Spirit Debenture contain certain operating covenants that restrict the operational flexibility of the companies subject to them

In addition to the financial covenants referred to in paragraph (B) above, the terms of the Spirit Debenture contain operating covenants imposed upon the companies within the Spirit Debenture, which, if the performance tests in, or the provisions of, those operating covenants are not complied with (which may arise, for example, due to a decline in the Spirit Group’s operating profit), will reduce the Spirit Group’s flexibility in conducting its operations and will limit its ability to engage in activities that may be in its long-term best interest. This may have an adverse effect on the financial condition and prospects of the Spirit Group in the longer term.

In particular, the operating covenants in the terms of the Spirit Debenture include so-called “restricted payment conditions”, pursuant to which the operating companies subject to the Spirit Debenture are required to satisfy certain performance tests (including a minimum ratio of EBITDA to debt service, which is a different test and calculated differently to the DSCR default level as discussed in risk factor (B) above) before they can make certain payments (including dividends and loans) to members of the Spirit Group that are not subject to the Spirit Debenture. Being unable to satisfy the performance tests contained in those “restricted payment conditions” restricts the upstream flow of cash to companies which are not subject to the Spirit Debenture. However, any such cash may be used by companies within the Spirit Debenture for other purposes, including (subject to certain conditions) funding capital expenditure, making acquisitions or reducing the debt levels of the Spirit Debenture. As at the date of this document, the performance tests for making payments to companies outside the Spirit Debenture group are not satisfied. However on completion of the Demerger, the Spirit Group will hold £113 million of unrestricted cash and bonds outside of the Spirit Debenture. Accordingly, the Spirit Board does not consider that the current restriction on up-streaming cash to companies which are not subject to the Spirit Debenture presents a material risk to the Spirit Group in the short to medium term. However, over the longer term, were such restrictions to continue, and the cash resources held outside of the Spirit Debenture were depleted and not replenished, this could have an adverse impact on the Spirit

Group's capital expenditure, expansion efforts, distributions to Spirit Shareholders and the Spirit Group's business generally.

The operating covenants contained in the documents governing the Spirit Debenture also restrict, among other things, the ability of the operating companies within the Spirit Debenture to:

- conduct acquisitions, mergers, or consolidations other than with the consent of the security trustee of the Spirit Debenture and on certain prescribed terms;
- sell assets without satisfying certain financial tests and without using the proceeds from such sales for certain permitted uses;
- incur additional debt on unsubordinated terms or in excess of certain thresholds without satisfying certain financial metrics;
- create security interests securing indebtedness, other than certain permitted security interests;
- incur capital expenditure in excess of certain thresholds; and
- raise capital.

While these restrictions limit the operational flexibility of the Spirit Group, they do not materially restrict the ability of the Spirit Group to implement its current strategy. However, such restrictions could, over the longer term, have an adverse effect on the financial condition, results of operations and prospects of the Spirit Group. The operating covenants contained in the terms of the Spirit Debenture are discussed more fully in section 9 of Part IX: "Additional Information" of this document.

(D) The Spirit Group's business is exposed to interest rate risks from its financial instruments

Under the Spirit Debenture, the Spirit Group borrows at both fixed and floating rates of interest and then employs derivative financial instruments such as interest rate swaps to manage the Spirit Group's exposure to interest rate fluctuations. These derivative arrangements expose the Spirit Group to the risk that a counterparty will not perform its obligations.

Cash flows associated with cash deposits and interest rate swaps and the fair value of these financial instruments fluctuate with changes in interest rates. For example, in the financial year ended 21 August 2010, the Spirit Group incurred a £46.8 million financing charge for the mark-to-market of certain interest rate hedges. The use of fixed-rate borrowings and derivative financial instruments exposes the Spirit Group to the risk that the Spirit Group does not benefit from falls in interest rates and is exposed to unplanned costs, such as breakage costs, when debt or derivative financial instruments are restructured or repaid early.

(E) Unfavourable general economic conditions in the United Kingdom have had and may continue to have a negative effect on the Spirit Group's business

All of the Spirit Group's pubs are located in the United Kingdom and, therefore, the results of the Spirit Group's operations are substantially influenced by general economic conditions in the United Kingdom. In particular, the Spirit Group's revenues are affected by the level of consumer confidence and expenditure on leisure activities.

The state of the United Kingdom economy has had and continues to have an adverse effect on consumer confidence and expenditure, and Spirit is unable to predict when economic conditions will improve. In addition, economic factors such as the United Kingdom government's austerity measures, possible rises in interest rates, declining wages, higher unemployment, tax increases, lack of consumer credit and falling house prices could all adversely affect the level of consumer confidence and expenditure.

Any further reduction in levels of consumer confidence or expenditure could further adversely affect the Spirit Group's operating results, financial condition and prospects.

(F) Consumer perceptions towards, and tastes relating to, the consumption of food and alcohol may continue to change

In the United Kingdom, consumption of alcoholic beverages has become the subject of considerable social and political attention in recent years due to increasing public concern over adverse health consequences associated with the misuse of alcohol (including alcoholism) and alcohol-related social problems (including drink-driving, binge drinking and under-age drinking).

Changes in consumer tastes in both food and drink, and demographic trends over time have adversely affected, and may continue to adversely affect, the appeal of the Spirit Group's pubs to

consumers, especially if the Spirit Group does not anticipate, identify and respond to such changes by evolving its brands, formats, offerings and premises. This, in turn, would have an adverse effect on the Spirit Group's operating results, financial condition and prospects. In addition, any increased focus on the potentially harmful effects of alcohol, such as a public service advertising campaign by the United Kingdom government, might reduce sales of alcoholic beverages and therefore negatively affect the Spirit Group's operating results, financial condition and prospects.

(G) The Spirit Group may not, or may not be able to, effectively implement its current business plan

The current business plan for the Spirit Group is centred on: (i) the repositioning of the managed business, in particular to take advantage of growth in the eating-out market, through the continued implementation of the "Operational Excellence" programme, the upgrading of talent, the revitalisation and development of brands and investment in the managed estate; and (ii) the conversion over the next few years of certain of the Spirit Group's leased pubs to managed pubs. It is intended that, over time, those leased pubs which the Spirit Board believes are not suitable for conversion to managed pubs will be sold, with the speed and timing of such disposals to be balanced against other factors, such as the value which can be obtained by the Spirit Group. Any failure of the Spirit Group to execute its business plan effectively could have a material adverse effect on the Spirit Group's business, reputation, financial condition and/or operating results. In addition, a failure to implement the leased pub disposal programme and/or the leased to managed pub conversion programme referred to above in line with the business plan will cause the Spirit Group to continue to be exposed to the following risk factors which relate to the Spirit Group's leased estate, further details of which are set out in this Part entitled "Risk Factors":

- retailers may fail to pay amounts due promptly or at all, and the Spirit Group may have to increase its level of support for struggling retailers (see paragraph (BB));
- the Spirit Group does not control the day-to-day operation of its leased pubs at pub level (see paragraph (CC));
- the Spirit Group may be unable to attract and/or retain high quality retailers to lease its pubs (see paragraph (DD)); and
- the rent determination and review arrangements in the Spirit Group's lease and tenancy agreements can lead to decreased rents (see paragraph (EE)).

(H) Sales of beer may continue to decline and impact upon business performance

A significant portion of the Spirit Group's revenue is currently derived from the sale of beer to its customers. Beer sales (by volume) have been in decline for a number of years and in recent years the rate of decline has increased, with a disproportionate impact on the on-trade market. Total beer sales in the United Kingdom fell 3.9 per cent. in 2010 and 3.8 per cent. in the first quarter of 2011 compared with the same period in 2010 according to figures published by the British Beer and Pub Association. This decline is principally as a result of a decline in the number and proportion of male pub visitors and an increase in beer sales in the off-trade market. Growing health and drink-driving concerns, the smoking ban, the ability of consumers to purchase canned or bottled beer at lower prices in many off-licences and supermarkets, the expansion of trading hours at those outlets and increased entertainment options at home, have also contributed to the downward trend in beer sales in pubs in recent years.

If the Spirit Group is not able to develop its income streams from products other than beer, a continued decline in the United Kingdom beer market could have an adverse effect on the Spirit Group's revenues. A decline in the United Kingdom beer market or in the ability of pubs to attract customers could result in an increase in defaults and business failures among retailers within the Spirit Group's leased estate, which could adversely affect the Spirit Group's operating results, financial condition and prospects.

(I) The Spirit Group's pubs face a high level of competition for consumers

The Spirit Group's pubs compete for consumers with a wide variety of pubs and restaurants (in particular casual dining outlets) as well as off-licences, supermarkets and takeaways, some of which may offer higher amenity levels or lower prices or may be backed by greater financial and operational resources. Any provider of leisure facilities or services which could draw consumers away from the Spirit Group's pubs is potentially a competitor of the Spirit Group. This includes providers of certain products and services for the family home, which has become an increasingly attractive option for consumers, with improvements in home entertainment, the availability of cable

and satellite television and the expansion of internet usage. The on-trade beer market in the United Kingdom has recently been impacted by the pricing policies of the large supermarket groups, with the off-trade accounting for a greater proportion of United Kingdom beer sales than in the past, and by the introduction of the smoking ban. The Spirit Group's business also faces increasing competition from other pub operators. The Spirit Group's pubs may not be successful in competing against any or all of these alternatives and a sustained loss of customers to other pubs or leisure activities, a decline in beer prices as a result of increased competition or increased consumption of alcohol at home could have an adverse effect on the Spirit Group's operating results, financial condition and prospects.

(J) The Spirit Group is dependent on key executives and personnel for its future success

The Spirit Group's future success is substantially dependent on the continuing services and performance of key executives and its ability to continue to attract and retain highly skilled senior management and high calibre pub managers. Since 2008, as part of its "Operational Excellence" initiative, the Spirit Business has been focused on increasing the calibre of its senior management and general managers, which has resulted in the replacement of approximately 40 per cent. of the Spirit Group's general managers and approximately 40 per cent. of its business development managers. The failure of the Spirit Group to continue to implement this strategy successfully or the failure to retain or recruit highly skilled and competent executives, senior management and pub managers or significant numbers of other key employees could have an adverse effect on the Spirit Group's operating results, financial condition and prospects.

(K) Further consolidation in the pub industry in the United Kingdom may result in the Spirit Group being unable to compete with larger competitors

The pub industry in the United Kingdom has undergone periods of consolidation through joint ventures, mergers and acquisitions. Further consolidation in the pub industry in the United Kingdom could lead to the emergence of larger competitors, who may have greater financial and operational resources than the Spirit Group. The Spirit Group may not be able to respond to the pricing pressures that may result from further consolidation of the pub industry in the United Kingdom and may not be able to compete successfully for the acquisition of pubs and pub-owning companies with larger competitors. If the Spirit Group does not continue to be a major participant in the pub industry in the United Kingdom, it may not be able to secure favourable pricing from suppliers or attract, and/or retain, suitable employees to operate the Spirit Group's managed pubs or retailers to lease the Spirit Group's leased pubs, which could have an adverse effect on the operating results, financial condition and prospects of the Spirit Group.

(L) An increase in global food prices and energy costs may negatively affect the profitability of the Spirit Group's managed pubs

Food purchases account for a significant portion of the operating expenses of the Spirit Group's managed estate. The Spirit Group's managed estate is also a large commercial user of gas and electricity, and is subject to fluctuations in energy costs. Volatility in global food prices and energy costs have had a negative impact on operating margins for the Spirit Group's managed business. Prices remain subject to volatility and, if further rises were to occur (including as a result of a depreciation of the pound sterling), this could result in a reduction of margins and profits from the Spirit Group's managed estate, which in turn could have an adverse effect on the Spirit Group's operating results, financial condition and prospects. The Spirit Group may also not be able to increase its prices to offset any future or further increases in such costs without suffering reduced sales and revenue, which could in turn, also have an adverse effect on the Spirit Group's operating results, financial condition and prospects.

(M) The Spirit Group's revenue is affected by the weather and the timing of major sporting events

Attendance levels at the Spirit Group's pubs are affected by the weather and the timing of major sporting events. Persistent rain, snow or other inclement weather, especially during the summer months or over the Christmas period, which are peak trading times, can have a negative effect on revenue generated by the Spirit Group's pubs and this, in turn, can have an adverse effect on the Spirit Group's operating results, financial condition and prospects.

Major sporting events, especially those in which British teams are successful, can also affect revenue. The absence of major events, or the poor performance of a British team, could have an adverse effect on the Spirit Group's operating results, financial condition and prospects.

(N) Incidents involving the abuse of alcohol, use of illegal drugs and violence are a significant risk to the Spirit Group's operations

Incidents involving the abuse of alcohol, use of illegal drugs and violence on the Spirit Group's premises may continue to occur or may increase in frequency. Such activity may directly interrupt the operations of the Spirit Group and could result in litigation or regulatory action, either of which could adversely affect the Spirit Group's operating results, financial condition and prospects.

(O) Food or beverage contamination or other health and safety incidents could adversely affect the Spirit Group's operations

The Spirit Group is susceptible to major local, national or international food or beverage contamination or other health scares (for example, salmonella and E. coli, "swine flu" or "H1N1" and other airborne diseases) affecting the type of food and beverages sold in, and attendance levels at, the Spirit Group's pubs. Such contamination or scares could affect consumer confidence and preferences, resulting in reduced attendance or expenditure at the Spirit Group's branded pubs, or could lead to increased costs for the Spirit Group (including in relation to sourcing alternative suppliers or products). In addition, a serious contamination or scare at one of the Spirit Group's branded pubs could negatively affect the reputation of that brand.

As a result of the nature of its business, the Spirit Group is also exposed to the risk of other health and safety incidents, for example, accidents occurring on its premises. Accordingly, the Spirit Group is required to adopt and maintain rigorous health and safety policies. However, given the access members of the public have to the Spirit Group's premises, the Spirit Group's health and safety policies may not be able to prevent a serious health and safety incident from occurring. The occurrence of a serious health and safety incident at one of the Spirit Group's branded pubs could negatively affect the reputation of that brand.

A serious food or beverage contamination or other health and safety incident could therefore negatively impact the Spirit Group's operating results, financial condition and prospects.

(P) The Spirit Group relies on a limited number of suppliers and, if such suppliers continue to consolidate, or face business difficulties, prices paid by the Spirit Group to suppliers may rise or the Spirit Group's operations may be disrupted

The brewing and distribution industry in the United Kingdom has seen a movement towards consolidation in recent years, which reduces the number of suppliers available to the Spirit Group and may have the effect of raising prices paid by the Spirit Group. The Spirit Group relies on an increasingly limited number of major brewing companies to supply it with beer and other drink products, with over 85 per cent. of the Spirit Group's beer supplied by Heineken UK, Molson Coors (UK), AB InBev UK, Carlsberg UK and Diageo during the financial year ended 21 August 2010, of which Heineken UK currently supplies the largest proportion.

In addition, the Spirit Group uses Wincanton for food warehousing and distribution services for the managed estate and Carlsberg UK for drink warehousing and distribution services, and if either of these suppliers failed to meet agreed service levels this could create difficulties for the Spirit Group.

Furthermore, replacing the Spirit Group's suppliers of drinks and warehousing and distribution services could be difficult and disruptive and lead to significant costs and expenses being incurred by the Spirit Group. Further consolidation could increase the Spirit Group's reliance on a limited number of suppliers, who might then be able to exert additional pressures on the Spirit Group which could have the effect of raising prices paid by the Spirit Group for goods bought or delivered. The Spirit Group's costs could increase and its business could be disrupted to the extent the Spirit Group's suppliers face business or financial difficulties due to the current economic environment. Although the Company is not aware of any current breach of contract by any of its key suppliers, if the Spirit Group was required to replace any of its key suppliers on short notice as a result of a breach of contract by the relevant supplier, this could be difficult and disruptive and lead to significant costs and expenses being incurred by the Spirit Group. These risks could result in an increase in the Spirit Group's operating costs which would, in turn, have an adverse effect on the Spirit Group's profitability, financial condition and prospects. In addition, the Spirit Group's supply contracts (including those with key suppliers) have expiry dates ranging between February 2012 and September 2017 and some may be terminated on short notice prior to their normal expiry date in certain circumstances. Whilst the Company expects these contracts to be re-negotiated and/or extended on a rolling basis and does not expect them to be terminated on short

notice, a requirement to replace a key supplier on short notice could have similar consequences to those outlined above.

(Q) Fluctuations in the property market in the United Kingdom could reduce the value of the Spirit Group's properties

The property market in the United Kingdom is subject to fluctuations and, if the current national downturn in the property market continues, it could lead to a sustained reduction in the Spirit Group's freehold property values. There can be no certainty that property values will recover at any particular time, or at all. In addition, valuations of pubs are impacted by the trading performance of the pubs, with poorer trading generally leading to lower valuations. Where impairment indicators are identified, the Spirit Group's pubs are reviewed for impairment on an individual basis. If the recoverable amount of an individual pub (based primarily on value-in-use) is less than the carrying value of that pub in the Spirit Group's accounting records, an impairment charge is recognised. As a result of the application of relevant impairment indicators, the Spirit Group incurred an impairment charge of £65.1 million on the carrying value of its pubs in the 28 weeks ended 5 March 2011. The Spirit Debenture contains a loan to value ratio covenant which only applies where the debt service cover ratio in the Spirit Debenture falls below a specified level. Because the operating companies subject to the Spirit Debenture are currently satisfying, and have always satisfied, the debt service cover ratio above the specified level, the loan to value ratio covenant has not applied to the operating companies subject to the Spirit Debenture.

However, over the longer term, should the cash resources within the Spirit Debenture be depleted and the companies which are not subject to the Spirit Debenture do not, or are unable to, provide financial support to the companies that are subject to the Spirit Debenture, the relevant debt service cover ratio could fall below the specified level. Were this to occur the loan to value covenant would apply and if there was a failure to comply with the loan to value ratio covenant, an event of default under the terms of the Spirit Debenture could occur. The consequences of an event of default under the terms of the Spirit Debenture include, but are not limited to, all of the amounts owed by the operating companies in the Spirit Debenture to its external creditors (including holders of the debenture bonds issued by Spirit Issuer plc) becoming immediately due and payable and, if such amounts are not paid, the enforcement of the security granted by the companies which are subject to the Spirit Debenture. More details on the loan to value ratio covenant and the consequences of failing to comply with it can be found in section 9 of Part IX of this document.

(R) The value realised by the Spirit Group on disposals of pubs may be adversely impacted by fluctuations in the property market, the inherently illiquid nature of pubs and other factors

The strategy for the Spirit Group's leased estate includes the disposal, over time, of those leased pubs that the Board does not consider suitable for conversion into managed pubs. In addition, though not part of the current business plan of the Spirit Group, the Spirit Group may dispose of other pubs within its managed estate over time. During a downturn in the property market, such as the current national downturn, the proceeds received by the Spirit Group from such disposals may be reduced. As valuations of pub assets are affected by the trading performance of the pubs, a weak economic climate, such as in the United Kingdom at present, which results in poorer trading, will generally lead to lower valuations for pub assets and, in turn, could adversely impact the proceeds received by the Spirit Group from disposals. In addition, portfolios of pubs are inherently illiquid and cannot be sold quickly, which means that the Spirit Group may not be able to vary its portfolio of pubs quickly in response to changes in economic or other conditions. The Spirit Group's securitisation also contains limitations on the disposal of pubs and how the proceeds from disposals are applied, and these limitations may adversely affect the value realisable by the Spirit Group from pub disposals.

If the value realised from the disposals is lower than expected, the Spirit Group's cash flow, financial condition and prospects in the longer term could be adversely affected.

(S) The Spirit Group may have to bear liability for leasehold properties which it has sold to third parties

Over time, a number of pubs have been sold by members of the Spirit Group to third parties. Disposals have been by way of sale of individual pubs or as portfolios. Where the properties disposed of are leasehold, the Spirit Group will remain liable to perform the tenant's obligations under the lease (including the obligation to pay rent) if the relevant purchaser fails to perform them where (a) the relevant lease has been entered into before 1 January 1996 or (b) the relevant lease

has been entered into on or after 1 January 1996 and the relevant member of the Spirit Group has entered into an “authorised guarantee agreement” or otherwise given a guarantee of the tenant’s obligations. In the case of (a), the Spirit Group’s potential liability in relation to the relevant lease will continue for the length of the lease but in the case of (b), the Spirit Group’s potential liability in relation to the relevant lease will end as and when the relevant purchaser transfers the lease to a third party. As part of past disposals, purchasers have been required to indemnify the Spirit Group against this contingent liability. However, in the event that a purchaser fails to comply with the tenant’s obligations in a lease, the Spirit Group will most likely be unable to recover pursuant to the indemnity (most usually because a purchaser becomes insolvent) and the Spirit Group may suffer a loss as a result of its obligation to continue performing the tenant’s obligations (including the payment of rent) under the lease.

In these circumstances, to try to limit the potential losses, the Spirit Group is most likely to take an assignment back of the leases to such properties in consideration of the assumption by the Spirit Group of the tenant’s obligations under each lease. During the period covered by the historical financial information set out in this document 85 leasehold pubs have reverted to the Spirit Group as a result of such assignments back. Further reversions of this type of leasehold pub to the Spirit Group could result in losses which would adversely affect the Spirit Group’s operating results, financial condition and prospects.

(T) Computer or information system breakdowns could impair the Spirit Group’s ability to conduct its business

The Spirit Group’s business and the efficiency of its management processes depend on the effective operation of both the Spirit Group’s information technology networks and computer systems (in particular the “EPoS” system, which is the Spirit Group’s electronic till and stock monitoring system for its managed pub business) and, for a transitional period, those of Punch Partnerships (PTL) Limited (the provider of management and administrative services to the leased estate for a period of nine months following the Demerger). If these systems or any of the Spirit Group’s financial, human resources, communication or other systems were to be disabled or did not operate properly (including as a result of computer viruses, problems with the internet or sabotage), the Spirit Group could suffer disruption to its business and supply chains, incur liability to retailers or customers or experience loss of data. The Spirit Group currently intends to upgrade certain parts of its information technology infrastructure in the next 12 to 18 months and any failure to implement any such upgrade successfully could adversely affect the Spirit Group’s business. Were any of the above risks to materialise, they could have a significant effect on the Spirit Group’s ability to conduct its business which, in turn, could have an adverse effect on the Spirit Group’s operating results, financial condition and prospects.

(U) The Spirit Group is exposed to counterparty credit risk

Spirit is exposed to counterparty credit risk in relation to key third parties with whom it contracts, for example suppliers, insurers and providers of financial derivatives used to hedge interest rate risk. There is a risk of a loss being sustained by the Spirit Group as a result of either a payment default by the relevant counterparty or, in the case of suppliers, a default in supplying the relevant goods or services. In the case of insurers, the extent of the Spirit Group’s loss could be the full amount of the loss the Spirit Group has sought to insure against or, in the case of hedging transactions, the Spirit Group may incur costs in replacing the relevant transactions which it may not be able to do on the same terms, or at all. In that case, the Spirit Group would cease to benefit from the relevant hedging arrangement. Under Spirit’s risk management policy, Spirit only deals with counterparties with certain minimum credit ratings and has set its maximum exposure to each of them with regard to credit ratings. There can be no assurance, however, that Spirit will successfully manage this risk or that such payment defaults by counterparties, or defaults by suppliers, will not have an adverse impact on Spirit’s business, financial condition and/or operating results.

Regulatory Risks

(V) The pub industry in the United Kingdom is highly regulated and pub operations require licences, permits and approvals

The Spirit Group’s pubs are subject to laws and regulations that affect their operations, including in relation to employment, minimum wages, pub licensing, alcoholic drinks control, leisure (gaming) machines, competition, health and safety, sanitation, data protection and access for the disabled. These laws and regulations impose a significant administrative burden on the Spirit Group and its

retailers, as pub managers and retailers have to devote significant time to compliance with these requirements and therefore have less time to dedicate to trade. If additional or more stringent requirements were to be imposed in the future, it would increase this burden, which could adversely affect the Spirit Group's operating results.

For example, the Business Innovation and Skills Select Committee ("**BISC**") is currently reviewing the introduction of the British Beer and Pub Association Framework Code of Practice, which has been drawn up and implemented by the pub industry in response to reviews of tenancy arrangements which require lessees and tenants to obtain beer, and other beverages and ancillary products, including leisure machines, from nominated suppliers. BISC stated that it would consider the impact of the voluntary reform after June 2011 and re-assess whether to recommend Government intervention. Government intervention could affect the way the Spirit Group contracts with lessees and tenants but it is not possible to predict what recommendations the BISC will make nor is it possible to predict how the Government would implement any recommendations.

(W) The Spirit Group may experience delays and failures in obtaining and retaining required licences, permits and approvals

Each of the Spirit Group's pubs is licensed to permit, among other things, the sale of alcoholic drinks. Difficulties or failures in obtaining or maintaining required licences or approvals could delay or prohibit the operation of the Spirit Group's pubs. If any of the Spirit Group's pub licences were withdrawn or amended, the profitability of the affected pubs could be adversely affected and this, in turn, may have an adverse effect on the Spirit Group's operating results, financial condition and prospects.

Licensing requirements which affect the Spirit Group's pubs are subject to change, and additional or more stringent requirements may be imposed on the Spirit Group's operations in the future. For example, pursuant to the proposed Police Reform and Social Responsibility Bill, the Spirit Group may be impacted by the potential imposition of a levy for the sale of alcohol late at night and further changes to the licensed hours for the sale of alcohol. This may reduce the ability of the Spirit Group's pubs to sell alcoholic drinks, which could have an adverse effect on the Spirit Group's operating results, financial condition and prospects.

(X) United Kingdom government legislation and campaigns relating to the consumption of alcohol and changes in drink-driving laws may reduce demand for the Spirit Group's alcoholic drinks

The United Kingdom government periodically contemplates imposing measures relating to the consumption of alcohol, including the reduction of licensing hours, raising the legal drinking age to 21, the introduction of minimum prices for alcoholic drinks and the introduction of a mandatory code imposing certain conditions on all alcohol retailers. Any such measures could reduce the Spirit Group's flexibility to implement profitable business strategies and have a material effect on the Spirit Group's operating results, financial condition and prospects.

As car drivers and passengers account for a significant proportion of pub customers in the United Kingdom, the implementation of any legislation to reduce further the legal blood alcohol limit for drivers in the United Kingdom could result in customers in the Spirit Group's rural and suburban pubs drinking less or frequenting pubs less often, which could lead to a reduction in revenue in those pubs and a decline in the Spirit Group's income from the sale of alcoholic drinks. This, in turn, could have a negative impact on the Spirit Group's operating results, financial condition and prospects. In addition, public service advertising campaigns by the United Kingdom government or other authorities warning against the dangers of drink-driving can adversely affect the level of the Spirit Group's business. While the United Kingdom government has recently ruled out lowering the current legal blood alcohol limit for drivers following the recent report by Sir Peter North, many charities and campaign groups are urging the United Kingdom government to reconsider its decision.

(Y) The taxes and duties to which the Spirit Group is subject may increase

The Spirit Group's activities are affected by a number of taxes and duties, such as the duty on alcoholic drinks, VAT and other business taxes. Changes in law and practice that affect all or any of these matters may adversely affect the financial performance of the Spirit Group. In particular, the United Kingdom government has imposed a duty escalator which commenced from 23 April 2009, pursuant to which duties on alcohol have risen each year by 2 per cent. above inflation. The United Kingdom government has stated its intention to continue to do the same until 2014/2015. The United Kingdom government intends to introduce a reduced rate of duty for lower strength

beer and an increased rate for high strength beer from 1 October 2011. The United Kingdom government also increased the standard rate of VAT to 20 per cent. on 4 January 2011. In addition, the United Kingdom government intends to consult on replacing the existing duty regime for amusement machines with a new “machine games duty”. To the extent that the Spirit Group does not, or is not able to, pass on any such duty or any further VAT increases to its customers, this will reduce the Spirit Group’s margins and could consequently have an adverse effect on the Spirit Group’s operating results, financial condition and prospects. On the other hand, to the extent (if any) that the Spirit Group does pass on this duty or any further VAT increases to its customers, it could result in decreased demand and consequently could have an adverse effect on the Spirit Group’s operating results, financial condition and prospects.

(Z) Employment regulations provide certain rights and protections to the Spirit Group’s employees, and changes to these regulations may decrease the Spirit Group’s ability to operate its business efficiently

The Working Time Regulations (the “**WT Regulations**”) control the hours employees are legally allowed to work. Under the legislation, workers may only be required to work a 48-hour week (although they can choose to opt out and work longer if they wish). The WT Regulations also set out rights and protections in areas such as minimum rest time, days off and paid leave. Many employees of the Spirit Group are covered by the WT Regulations. The existence of the ability to opt out of, and the guidance as to who is covered by, the WT Regulations may possibly change in the future. In addition, under the Part-Time Workers (Prevention of Less Favourable Treatment) Regulations 2000, part-time workers can claim the same rights as full-time workers. Similar provisions apply to employees engaged under fixed-term contracts under the Fixed Term Employees (Prevention of Less Favourable Treatment) Regulations 2002, under which employees engaged under fixed-term contracts can claim the same rights as employees engaged under permanent contracts.

The WT Regulations may impose constraints on the ability of the Spirit Group to deploy employees efficiently to a degree that could adversely affect the Spirit Group’s operating costs and, in turn, its operating results, financial condition and prospects.

In October 2010, the national minimum wage rose to £5.93 an hour from £5.80 and, for the first time, people aged 21 benefit from the rate. Previously the full rate minimum wage applied to employees aged 22 and over. Any further increase in the minimum wage, or its scope, could affect the Spirit Group’s operating costs and, in turn, its operating results, financial condition and prospects.

(AA) The Spirit Group may need to increase contributions to cover deficits with respect to its pension schemes

The Spirit Group operates two defined benefit pension schemes: the Punch Pub Company Pension Scheme and the Punch Pub Company Retail Pension Scheme (each a “**Pension Scheme**” and together, the “**Pension Schemes**”). These are both closed to new entrants. As at 5 March 2011, there was a net retirement benefit asset of £10.3 million calculated on an International Accounting Standard 19 basis.

There are many risks for the Spirit Group arising from the operation of the Pension Schemes, and a description of some of these follows. The United Kingdom pensions regulator (the “**Pensions Regulator**”) may impose a scheme funding target and employer contribution rate, if those matters cannot be agreed between the scheme trustees and the relevant employers. In addition, the trustees of either pension scheme may wind up the relevant scheme, as permitted in certain circumstances. The Pensions Regulator also has a statutory power to order a pension scheme to be wound up. Winding up the schemes would result in a statutory obligation on the various participating employers to fund the schemes by reference to a “buyout basis” (which represents the estimated cost of securing members’ benefits by purchasing annuity policies from an insurance company). The Pensions Regulator may require funding or funding guarantees from members of the Spirit Group (in the form of a contribution notice or financial support direction) for defined benefit pension schemes in various circumstances. In addition, the trustees of the Pension Schemes may alter the investment profile of the relevant scheme. For example, the trustee could exchange equity investments for lower risk investments such as bonds, which would typically increase the employer funding obligations in relation to the schemes because of the lower rate of return expected from lower risk investments.

The foregoing risks are linked to the funding level of the Pension Schemes, which may be adversely affected by a number of factors, including: (i) reducing bond yields (since lower yields mean a pension obligation is assessed as having a higher value); (ii) increasing life expectancy (which will make pensions payable for longer and, therefore, more expensive to provide); (iii) investment returns failing to meet expectations; (iv) actual and expected price inflation, subject to the limits set out in the Pension Schemes' governing documentation; (v) funding volatility as a result of any mismatch between the assets held and the assets by reference to which the scheme liabilities are calculated; and (vi) other events occurring which make past service benefits more expensive than anticipated in the actuarial assumptions by reference to which past pension contributions were assessed, including unanticipated changes to tax or other legislation.

Risks Relating to Leased Estate

(BB) Retailers may fail to pay amounts due promptly, or at all, and the Spirit Group may have to increase its level of support for struggling retailers

In relation to the Spirit Group's leased pub business, there is a general risk that rental and other payments owing to landlords in the Spirit Group (including, for example, for the supply of beer and other products to tenants) 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 of the Spirit Group. Continued failure by a particular retailer to pay rental and other payments due to the Spirit Group will usually result in the termination of the tenant's lease and either the closure of the pub or the leasing of the relevant pub to a new retailer. Where a pub is leased to a new retailer, there may also be a period following the departure of the former retailer, and before a replacement retailer can be found, where cash flow to the Spirit Group is reduced. The relevant pub may also become vacant which would reduce the Spirit Group's revenue and its ability to recover certain operating costs (which would result in it incurring additional expenses until the property is re-let). In addition, the rent and other payments payable by replacement retailers may not be as high as those payable by former retailers. These risks could have an adverse effect on the Spirit Group's operating results, financial condition and prospects.

In light of the difficult trading environment the Spirit Group is currently providing support to certain of its retailers who are struggling. A continued weakening of the United Kingdom economy may require the Spirit Group to increase levels of support to retailers. Increased support to retailers could result in a decrease in the Spirit Group's revenue which could, in turn, adversely affect the Spirit Group's operating results, financial condition and prospects.

(CC) The Spirit Group does not control the day-to-day operation of its leased and tenanted pubs

The Spirit Group's leased and tenanted pubs are let to retailers who are generally free to operate and manage the pub as they see fit, subject to the terms of their lease or tenancy agreements. Since a substantial proportion of the Spirit Group's leased pub business' turnover is currently derived from the sale of drink products to its retailers, declining sales due to local factors over which the Spirit Group may have no direct control, such as poor pub management, ineffective marketing or changing local demographic trends, may result in a decline in the Spirit Group's sales to that pub. In addition, dishonest retailers under-reporting sales volumes or selling third party beer in contravention of a tie arrangement could adversely affect the Spirit Group's revenue.

Unless a retailer fails to pay rent or otherwise comply with the terms of a lease or tenancy agreement, the Spirit Group cannot remove an under-performing retailer by terminating the lease or tenancy agreement early or by refusing to renew the relevant agreement automatically at the end of its term. Persistent under-performance by retailers would, in the aggregate, result in a decrease in the Spirit Group's revenue and could adversely affect the Spirit Group's operating results, financial condition and prospects.

(DD) The Spirit Group may be unable to attract and/or retain high quality retailers to lease its pubs

Individuals within, or seeking to enter, the pub operating business have several alternatives to being a retailer of one of the Spirit Group's pubs, any one or more of which may prove to be more attractive depending on their personal circumstances. These include becoming an employee of a managed pub company, acquiring a pub freehold or leasehold outright or joining one of numerous other leased or tenanted pub companies as a lessee or tenant. Licensed restaurants, cafes and bars can also offer attractive business opportunities for the type of retailers that the Spirit Group would like to attract. In addition, recent adverse media reporting about retailers deriving low earnings and the pub industry in general may also have an impact on the willingness of individuals

to continue to be, or become, retailers in the Spirit Group's leased estate. The Spirit Group may not be successful in convincing current or prospective retailers of the benefits of leasing its pubs and the Spirit Group may lose high quality retailers as a result, which may adversely affect the Spirit Group's operating results, financial condition and prospects.

(EE) The rent determination and review arrangements in the Spirit Group's lease and tenancy agreements can lead to decreased rents

In relation to the Spirit Group's leased estate, the Spirit Group receives fixed rental payments from each of its retailers, at a rate negotiated when the lease or tenancy agreement is signed. Rental rates for a given pub are assessed by the Spirit Group on the basis of its likely level of retail trading. If the Spirit Group initially underestimates the likely level of retail trading for a pub, it may, in certain circumstances, agree to a lower fixed rent and consequently receive a smaller share of the pub's profits until the next rent review.

Additionally, the tenancy agreements and leases for certain pubs in the leased pub estate contain open market rent review provisions. Therefore, it is possible that rents from such pubs could decrease if the open market rental value at the time of review is less than the rent then payable. Moreover, regardless of the terms of the relevant rent review provision, the Spirit Group may agree to lower the rent payable, as appropriate, in light of economic or other circumstances. In addition, some of the tenancy agreements and leases for the Spirit Group's pubs in its leased estate also provide for annual rent reviews by reference to movements in the retail price index. A decrease in the retail price index would reduce the rents payable in respect of those pubs. Any of the foregoing developments will decrease the Spirit Group's revenues which, in turn, may adversely affect the Spirit Group's operating results, financial condition and prospects.

Risks relating to Spirit Ordinary Shares

(A) There is no prior trading record for the Spirit Ordinary Shares

Since the Spirit Ordinary Shares have not previously traded, their market value is uncertain. Following Admission, the market price of the Spirit Ordinary Shares may be volatile and may go down as well as up and Spirit Shareholders may therefore be unable to recover their original investment. The Spirit Group's operating results and prospects from time to time may be below the expectations of market analysts and investors.

At the same time, equity market conditions may affect the Spirit Ordinary Shares regardless of the operating performance of the Spirit Group. Share market conditions are affected by many factors, such as general economic and political conditions, terrorist activity, movements in or outlook on interest rates and inflation rates, currency fluctuations, commodity prices, changes in investor sentiment towards the operators of leased and/or managed pubs and the supply and of demand for capital.

Accordingly, the market price of the Spirit Ordinary Shares may not reflect the underlying value of the Spirit Group's assets, and the price at which investors may dispose of their Spirit Ordinary Shares at any point in time may be influenced by a number of factors, only some of which may pertain to the Spirit Group while others may be outside the Spirit Group's control.

(B) Significant trading volumes of Spirit Ordinary Shares in the public market in the period post-Demerger and subsequently could impact the share price

Following Admission of the Spirit Ordinary Shares there may be a period of relatively high volume trading in the Spirit Ordinary Shares as the shareholder register of Spirit finds its natural composition. The Spirit Directors are unable to predict whether substantial amounts of the Spirit Ordinary Shares will be sold in the open market following Admission. Sales of a substantial number of the Spirit Ordinary Shares in the public market after Admission, or the perception that these sales might occur, could depress the market price of the Spirit Ordinary Shares.

(C) Spirit may decide to offer additional Spirit Ordinary Shares in the future, diluting the interests of existing Spirit Shareholders and potentially adversely affecting the market price of the Spirit Ordinary Shares

Whilst there is no present intention to do so, if Spirit decides to offer additional Spirit Ordinary Shares or other securities convertible into Spirit Ordinary Shares in the future, this could dilute the interests of existing Spirit Shareholders and/or have an adverse impact on the market price of Spirit Ordinary Shares. An additional offering by Spirit, or the public perception that an offering may occur, could have an adverse impact on the market price of the Spirit Ordinary Shares.

(D) There is no guarantee that dividends will be paid

There can be no assurances that Spirit will determine that it will pay dividends. If it determines that it will pay dividends, there can be no assurance that it will be able to pay dividends in the future. Under United Kingdom company law, a company can only pay cash dividends to the extent that it has distributable reserves and cash available for this purpose. As a holding company, the Spirit's ability to pay dividends in the future will be affected by a number of factors, including having sufficient distributable reserves and its ability to receive sufficient dividends from subsidiaries.

The ability of companies within the Spirit Group to pay dividends and the Spirit's ability to receive distributions from its investments in other entities are subject to restrictions, including, but not limited to, the existence of sufficient distributable reserves and cash and the covenants in the Spirit Debenture. These restrictions could limit the payment of dividends and distributions to Spirit by its subsidiaries, which could in future restrict Spirit's ability to fund other operations or to pay a dividend to holders of the Spirit Ordinary Shares. Any of the foregoing could have an adverse impact on the market price of the Spirit Ordinary Shares.

(E) Any dividend payments will be in sterling and any Spirit Shareholder whose principal currency is not sterling will be subject to exchange rate fluctuations

The Spirit Ordinary Shares are, and any dividends to be paid in respect of them will be, denominated in sterling. An investment in the Spirit Ordinary Shares by a Spirit Shareholder whose principal currency is not sterling exposes such a Spirit Shareholder to foreign currency exchange risk. Any depreciation of sterling in relation to such foreign currency will reduce the value of the investment in the Spirit Ordinary Shares or any dividends in foreign currency terms and any appreciation of sterling will increase such value in foreign currency terms.

(F) Spirit Shareholders may not be able to exercise pre-emption rights or participate in future issues of Spirit Ordinary Shares and Spirit Shareholders outside the United Kingdom may not be able to participate in future issues of Spirit Ordinary Shares

Securities laws of certain other jurisdictions may restrict the participation, or Spirit's ability to allow participation, by certain Spirit Shareholders in such jurisdictions in any future issue of Spirit Ordinary Shares or of other securities carried out by Spirit.

In the case of a future allotment of new Spirit Ordinary Shares for cash, existing Spirit Shareholders have certain statutory pre-emption rights unless those rights are disapplied by a special resolution of the Spirit Shareholders at a general meeting. An issue of new Spirit Ordinary Shares not for cash or when pre-emption rights have been disapplied could dilute the interests of the then-existing Spirit Shareholders. Even where pre-emption rights do apply, holders of Spirit Ordinary Shares who are located in the US may not be able to exercise their pre-emption rights unless a registration statement under the US Securities Act is effective with respect to such rights or an exemption from the registration requirements is available thereunder. There can be no assurance that Spirit will file any such registration statements, or that an exemption to the registration requirements of the US Securities Act will be available, which would result in certain Spirit Shareholders in the US being unable to exercise their pre-emption rights. Securities laws of certain other jurisdictions may restrict Spirit's ability to allow participation by Spirit Shareholders in such jurisdictions in any future issue of Spirit Ordinary Shares or of other securities carried out by Spirit.

This could have an adverse impact on the market price of the Spirit Ordinary Shares and the ability of Spirit to raise funds to meet its business requirements.

(G) The ability of Overseas Spirit Shareholders to bring actions or enforce judgments against Spirit or the Spirit Directors may be limited

The ability of an Overseas Spirit Shareholder to bring an action against Spirit may be limited under law. Spirit is a public limited company incorporated in England and Wales. The rights of holders of the Spirit Ordinary Shares are governed by English law and by the Spirit Articles of Association. These rights differ from the rights of shareholders in typical US corporations and some other non-UK corporations.

An Overseas Spirit Shareholder may not be able to enforce a judgment against some or all of the Spirit Directors and executive officers. All of the Spirit Directors and executive officers are residents of the United Kingdom. Consequently, it may not be possible for an Overseas Spirit Shareholder to effect service of process upon the Spirit Directors and executive officers within the Overseas Spirit Shareholder's country of residence or to enforce against the Spirit Directors and executive officers

judgments of courts of the Overseas Spirit Shareholder's country of residence based on civil liabilities under that country's securities laws. There can be no assurance that an Overseas Spirit Shareholder will be able to enforce any judgments in civil and commercial matters or any judgments under the securities laws of countries other than the United Kingdom against the Spirit Directors or executive officers who are residents of the United Kingdom or countries other than those in which judgment is made. In addition, English or other courts may not impose civil liability on the Spirit Directors or executive officers in any original action based solely on foreign securities laws brought against Spirit or the Spirit Directors in a court of competent jurisdiction in England or other countries. This could have an adverse impact on the market price of the Spirit Ordinary Shares.

PART IV
BUSINESS OVERVIEW

Section A: Description of the Punch Group (following the Demerger)

All of the financial information relating to the Punch Group included in this Section A is presented on a basis that excludes the Spirit Business.

1. Overview of Punch

Upon Demerger, the business of the Punch Group will comprise a leased pub business comprising 5,080 pubs as at 1 July 2011. The Punch Group will also continue to hold its existing 50 per cent. shareholding in Matthew Clark (Holdings) Limited, a joint venture with CHAMP Private Equity. The Punch Group will be positioned to drive long-term value by downsizing to an estate of around 3,000 high quality pubs, with the aim of being one of the UK's highest quality and most trusted leased pub operators.

As a percentage of the Punch Group's total, the operating profit before non-underlying items deriving from the leased pub business was 99% for the financial years ended 23 August 2008, 22 August 2009 and 21 August 2010, and was 98% for the 28 weeks ended 5 March 2011; with the remaining 1% and 2% respectively coming from the joint venture in Matthew Clark (Holdings) Limited.

Retailers lease their pub(s) from the Punch Group on the basis of a single agreement, pursuant to which the three principal sources of the Punch Group income is generated:

- sales of beer and other drink products to the retailer;
- rent, which is fixed at the outset of each lease or tenancy and is based on the open market rental value of the pub as agreed between the retailer and the Punch Group; and
- income from leisure machines, which, to the extent retailers choose to take leisure machines from the Punch Group, is derived from a profit sharing arrangement.

The Punch Group does not directly manage the retail business in its pubs. As a result, the pubs that make up the estate have lower fixed costs for Punch than they would if they were managed pubs.

2. Strategy

The Punch Group's aim is to become one of the most trusted and best value pub partnership businesses in the UK creating long-term sustainable value from a high quality estate of around 3,000 pubs.

As part of the strategic review, the conclusions of which were announced on 22 March 2011, the Punch Group has reassessed its leased estate and has divided its estate into two divisions, a core estate of 2,954 pubs as at 1 July 2011 and a non-core estate of 2,126 pubs as at 1 July 2011.

Core division

As at 1 July 2011 the core division comprised 2,954 pubs. This division, as at 5 March 2011, accounted for about 75 per cent. of the Punch Group's EBITDA with an average net income per annum of £80,000 per pub. The Board's strategy for this division is to continue to drive sustainable growth building on the platform created by the "Pathway to Partnership" programme: seeking to attract high calibre retailers through new lease offers, driving sales through the Punch Buying Club, investing for growth to drive food revenues, developing the skills of the Punch Group's business relationship managers and working with retailers to drive pub performance. It is proposed that the majority of the Punch Group's future capital expenditure will be focused on the core division.

Non-core division

As at 1 July 2011 the non-core division comprised 2,126 pubs. This division, as at 5 March 2011, accounted for about 25 per cent. of the Punch Group's EBITDA with an average net income per annum of £40,000 per pub. The Board's strategy for this division is focused on maximising short-term returns with a clear focus on costs and cash flow. The Board currently expects to dispose of these pubs over a five-year period at a rate of about 500 pubs per annum. This division will

continue to be a part of the “Pathway to Partnership” programme with the same access to support and infrastructure as the core division in order to drive the operating performance of these pubs.

As described further in section 8 of Part IX of this document, the documentation relating to the Punch Securitisations contains disposal conditions which restrict the ability of the leased business to dispose of pubs where certain EBITDA thresholds are exceeded. However, due to the current headroom within these thresholds there is no immediate restriction on the ability of the Punch Group to begin downsizing its estate, though, the Punch Group’s strategy to dispose of the pubs which form part of the non-core division will need to be implemented in a manner which takes account of the covenants and the relevant restrictions. However, following the Demerger, the relevant members of the Punch Group may engage in dialogue with bondholders with a view to optimising the capital structure and downsizing the leased estate effectively.

Deployment of cash resources

Punch expects to continue to utilise the cash held outside of the Punch A Securitisation and the Punch B Securitisation to support the profit performance in the businesses which are subject to the securitisations, in order to maintain sufficient headroom under the financial covenants contained within such securitisations. Further details of such covenants can be found in section 8 of Part IX of this document. See also “Risks relating to Punch (in the context of the Demerger)”, which can be found in Part III of this document.

Following the Demerger, the directors of the relevant Punch Group companies will continue to have regard to the funding and working capital requirements of all relevant members of the Punch Group when considering the use of the cash resources and other assets which will be retained by the Punch Group following the Demerger.

Considerations which will be relevant to the deployment of these resources will include an assessment of the Punch Group’s actual and contingent liabilities from time to time, including those arising as a result of the various contractual linkages which exist across the Punch Group.

Such linkages include those arising from management services, supply arrangements, pension liabilities, real estate (including guarantees of sale and leaseback liabilities), group tax assets and liabilities and intercompany loans.

Specific linkages which exist between companies which are subject to the Punch Securitisations and the rest of the Punch Group also include contingent liabilities to the providers of financial guarantees under the Punch Securitisations, tax indemnities given by members of the Punch Group to members of the Punch Securitisations and intercompany loans between members of the Punch Group and members of the Punch Securitisations.

3. Key strengths

The Punch Group’s key strengths include:

High quality core pub portfolio

The Punch Group’s core estate is of a high commercial quality with an average net income per pub of £80,000 per annum.

Demonstrable ability to recruit, retain, train and develop entrepreneurial retailers

The Punch Group actively recruits talented and motivated retailers through a dedicated recruitment team, targeted marketing and a recruitment website that screens applicants against desired core competencies. The skills and knowledge to run a successful pub are enhanced by a training programme, including a mandatory induction course which incorporates nationally recognised qualifications accredited by the British Institute of Innkeeping and a voluntary advanced training course.

Simple and adaptable business model

No single pub or any single retailer accounted for more than 1 per cent. of Punch Group’s operating profit for the 2010 financial year, nor in the 28 weeks ended 5 March 2011. Additionally, each retailer is able to adapt quickly to local market conditions without the bureaucracy of a centralised decision-making process.

Experienced and motivated management team

The Punch Group's management team has extensive experience in relation to pubs, drinks retailing and associated activities.

Purchasing economies of scale

The Punch Group is able and will, following the Demerger, continue to be able, to utilise its size to secure material discounts on drink products from its suppliers and so increase its margins on sales of drink products to retailers.

Experienced and dedicated property team

The Punch Group's property team has extensive experience, having actively managed the estate over numerous years, as well as a proven track record in exploiting higher value alternative use opportunities from pubs.

4. Operational statistics

Set out in the table below are the operational statistics of the core and non-core divisions of the Punch Group for the 40 weeks ended 28 May 2011 and 28 weeks ended 5 March 2011:

	Core		Non-core		Punch Pro Forma	
	2010/11 40 Wks	2010/11 28 Wks	2010/11 40 Wks	2010/11 28 Wks	2010/11 40 Wks	2010/11 28 Wks
Like-for-like revenue	2,956	2,956	2,182	2,182	5,138	5,138
Drinks	1.5%	0.3%	(8.7%)	(9.7%)	(1.4%)	(2.6%)
Rent	(1.4%)	(1.7%)	(14.6%)	(14.6%)	(5.2%)	(5.5%)
Machines and Other	(10%)	(11%)	(17%)	(17%)	(13%)	(13%)
Total revenue	0.5%	(0.6%)	(10.6%)	(11.4%)	(2.8%)	(3.7%)
Like-for-like net income	(2.0%)	(3.2%)	(14.5%)	(15.4%)	(5.8%)	(6.8%)
Net income (MAT) / pub	£78k	£78k	£38k	£40k	£61k	£62k

5. Agreements with retailers

The relationship between the Punch Group and its retailers is generally governed by the type and terms of the lease or tenancy agreement in place between them. The Punch Group enters into one of three main categories of such lease or tenancy agreement with its retailers, under which the retailer operates the pub as either a lessee or a tenant and agrees to pay the rent specified in the relevant agreement. The three main categories of tenancy agreement are the standard lease, the standard tenancy and the tenancy-at-will. As part of the lease or tenancy agreement, the retailer also agrees that the Punch Group or the Punch Group-designated supplier is to be the retailer's sole source of supply for certain products. These "tie" arrangements relate primarily to the retailer's purchase of beer and cider, sales of which generally constitute the majority of the retailer's revenue.

Standard leases are generally fully repairing, meaning the lessee (the tenant) is responsible for repairs to the premises during the term of the lease, and are generally fully assignable after two years (subject to the consent of the Punch Group, which is not to be unreasonably withheld). They generally contain provisions for annual price index rent adjustments. Tenancy agreements, which are shorter-term arrangements, involve the Punch Group undertaking to carry out the majority of repairs to the pubs and are generally not assignable but do have an annual price index rent adjustment. Retailers are usually required to provide a deposit on entry into their agreement. Some forms of leases and tenancy agreements contain landlord's or retailer's options to break the lease or tenancy. In addition, there may be circumstances in which the Punch Group would allow a retailer to terminate a lease or tenancy agreement early, as it is in the interests of the Punch Group to have motivated retailers in its pubs.

Tenancy-at-will arrangements are used as transitional arrangements, before installing a retailer on a lease or tenancy agreement. Under a tenancy-at-will, a retailer operates the pub on a short-term basis with no notice period to vacate required by either the Punch Group or the retailer.

The Punch Group has recently completed the roll-out of its “Pathway to Partnership” programme and has successfully launched an online buying club, the “Punch Buying Club”, aimed at driving sales through marketing support and development of non-tied drinks categories. Club members are encouraged to meet at regional events and share best practice with each other and suppliers.

The table below sets out the percentage of the leased estate operated under the various leases and tenancies as at 1 July 2011:

Type of agreement	Percentage of total leased estate
Standard leases	54.6
Tenancy agreements	25.6
Tenancy-at-will	13.7
Not trading	3.3
Other agreements	2.8
TOTAL	100.0

The profile of unexpired terms in lease and tenancy agreements with retailers within the leased estate as at 1 July 2011 is set out below:

Year of expiry	Agreements
Financial year ending August 2011	55
Financial year ending August 2012	281
Financial year ending August 2013	362
Financial year ending August 2014	384
Financial year ending August 2015	577
Financial year ending August 2016	537
Financial year ending August 2017	248
Financial year ending August 2018	180
Financial year ending August 2019	161
Financial year ending August 2020	265
Post financial year ending August 2020	1,069
Open-ended	795
No agreement	166
TOTAL	5,080

Rental income is paid to the Punch Group in advance in accordance with the type of agreement for the lease or tenancy of a pub by the retailer. The rent is agreed at the outset of each lease or tenancy agreement, and, in the case of new leases and tenancies, is based on its open market rental value. The table below sets out the spread of annual rental income per pub in the estate as at 1 July 2011:

Annual rental income (£)	Number of pubs
0 – 5,999	704
6,000 – 11,999	328
12,000 – 17,999	621
18,000 – 23,999	745
24,000 – 29,999	781
30,000 – 35,999	623
36,000 – 41,999	454
42,000 – 47,999	292
48,000 – 59,999	316
> 60,000	216
TOTAL	5,080

The majority of pubs in the Punch Group's estate are subject to rent reviews every five years and on the last day of the term and some rents are also adjusted annually by reference to the retail price index. Following a rent review, the rent payable under a lease or tenancy agreement may either increase or decrease. The table below shows the number of tenancy agreements that will be subject to a rent review in a given period as at 1 July 2011:

Year of review	Agreements
Financial year ending August 2011	88
Financial year ending August 2012	462
Financial year ending August 2013	358
Financial year ending August 2014	324
Financial year ending August 2015	424
Financial year ending August 2016	257
No review or renewal after the financial year ending August 2016	3,167
TOTAL	5,080

Over the periods shown below, collection and bad debt write-off rates, expressed as a percentage of collectable debt (rent plus goods and services supplied) for the leased estate, have been as follows:

	Collected (percentage of collectable debt)	Bad debt (percentage of collectable debt)
Financial year ended August 2008	99.19	0.81
Financial year ended August 2009	99.20	0.80
Financial year ended August 2010	99.17	0.83
28 weeks to 5 March 2011	99.12	0.88

Bad debts, when they arise, usually relate to forfeiture, bankruptcy or abandonment of pubs.

As at 1 July 2011, the Punch Group had either a freehold interest or a leasehold interest of longer than or equal to 50 years' remaining duration in approximately 94.3 per cent. of the pubs in the estate. As at 1 July 2011, approximately 5.7 per cent. of pubs in the leased estate had a leasehold interest with a remaining duration of less than 50 years. The terms of and rents payable by the Punch Group in respect of the head leases of the leasehold properties in the leased estate are as follows:

Remaining term (years)	Total pubs	Total group rent £ million (per annum)
0 – 19	181	2.5
20 – 49	110	4.8
50 – 99	70	0.6
100 – 999	34	0.1
> 999	—	—
TOTAL	395	8.0

6. Classification of estate

The Punch Group's pubs cover a broad range of markets in the United Kingdom from local community pubs to premium dining venues.

The Punch Group's estate is divided into two divisions, which as at 1 July 2011 comprised a core estate of 2,954 pubs and a non-core estate of 2,126 pubs.

7. Geographic spread of estate

The table below indicates the division of the Punch Group's estate by region as at 1 July 2011:

Region	Number of pubs	Percentage of total estate
South East	983	19.3
London	219	4.3
North West	652	12.8
East Midlands	354	7.0
Yorkshire/Humberside	711	14.0
West Midlands	604	11.9
East Anglia	196	3.9
South West	475	9.4
North	302	5.9
Scotland	322	6.3
Wales	262	5.2
TOTAL	5,080	100.0

8. Products and services

Beer supply and other drink products

The Punch Group currently contracts on a group-wide basis with various suppliers of drink products, ranging from the national brewers being as Heineken UK, Molson Coors (UK), AB InBev UK, Carlsberg UK and Diageo to regional brewers such as Adnams, Black Sheep, Fullers, Greene King, Marston's and Wells & Young's. Soft drinks are largely supplied to the Punch Group by Britvic and Coca-Cola Enterprises. These arrangements will remain in place on their existing terms following the Demerger.

The national brewers Heineken UK, Molson Coors (UK), AB InBev UK, Carlsberg UK and Diageo provided 87.5 per cent. of the beer, cider and spirits supplied to the Punch Group (excluding the Spirit Business) during the financial year ended 21 August 2010. A beer supply agreement between Heineken UK and the Punch Group was entered into in August 2006 and will expire in August 2016. In March 2007, the Punch Group negotiated new supply terms with AB InBev UK for supply until September 2011 and Punch is currently in advanced discussions in connection with a new agreement to replace the existing agreement when it expires. Molson Coors (UK) supplies beer to Punch under a supply agreement, which will expire in March 2013. The Punch Group has recently concluded negotiations with Carlsberg UK for the supply of beer to the Punch Group until September 2017.

There are tie arrangements in the lease and tenancy agreements with the Punch Group's retailers, under which such retailers are (subject to any "Guest Beer" provisions entitling the retailer to source a limited range of beers from other parties) required to purchase all of their beer and, in certain cases, cider requirements, from the Punch Group. Retailers may choose from a wide range of ales, lagers, stouts and ciders. Many of the tie arrangements also require retailers to purchase other products from the Punch Group, including wine, spirits, premium packaged drinks and soft drinks. In addition, some retailers purchase various non-tied drink products. Tie arrangements requiring retailers to purchase their beer and cider from the Punch Group are, however, more common and are typically more profitable (per unit) than ties of other products.

As a result of the Punch Group's size, the Punch Group is able to negotiate material discounts on drink products with its suppliers. The discounts, and the resulting margins, obtained by the Punch Group constitute the largest component of its profit from sales of drink products to retailers. Brewers and suppliers set a wholesale price for each of their products, which the Punch Group uses as the basis for setting its prices for the sale of beer and other products to retailers. The mechanics for wholesale price rises imposed by the brewers and suppliers on the Punch Group are specified in the supply agreements between the relevant brewer or supplier and the Punch Group. Generally, as brewers and suppliers change wholesale prices these changes are reflected in revised prices set by the Punch Group. Recently, however, as part of actions taken by the Punch Group to support its retailers in the current challenging economic environment, the full extent of wholesale price increases introduced by the brewers have not been passed on to retailers.

For the 2010 financial year, revenue from the sale of beer to retailers accounted for 58.56 per cent. of the Punch Group's total revenue from its estate and 69.49 per cent. of the Group's revenue from its sales of all drink products to retailers in the leased estate.

Warehousing and distribution services

The prices charged by the Punch Group for drink products supplied to retailers include delivery of the products to the retailers' pubs. Warehousing and distribution services in respect of drink products for the Punch Group are provided by Carlsberg UK pursuant to a warehousing and distribution agreement, which expires in September 2017.

Leisure machines

Most of the Punch Group's pubs offer customers use of gaming and vending machines, the majority of which are coin operated. The type of machine or machines in a given pub is generally determined by the target market of the pub. Retailers choose from a large variety of such machines, including fruit and casino machines, quiz and game machines, pool tables, music systems, internet kiosks and children's equipment. When negotiating or renewing a lease or tenancy agreement with a prospective or existing retailer, the Punch Group usually negotiates the share of leisure machine income it will receive. For the financial year ended 21 August 2010, revenue from leisure machines accounted for 2.56 per cent. of the Punch Group's total revenue from its estate.

Food

The Punch Group has made food supply and services available to its retailers through three of the UK's leading food providers, Brakes, 3663 and Woodward. These suppliers give retailers access to a comprehensive range of services and products that allow them to establish, refresh or extend a food offering to their customers. For the financial year ended 21 August 2010, revenue from food supply and services to retailers accounted for less than 1 per cent. of the Punch Group's total revenue from its estate (and less than 1 per cent. for the 28 weeks to 5 March 2011).

9. Matthew Clark

The Punch Group will retain its 50 per cent. shareholding in Matthew Clark (Holdings) Limited, a joint venture with Accolade Wines. While small compared with the rest of the Punch Group on a profitability basis, Matthew Clark has significant scale in its marketplace as a leading drinks wholesaler and distributor in the UK. Matthew Clark continues to perform satisfactorily in a very competitive market, providing a post-tax contribution of £2 million for the 28-week period ended 5 March 2011. The Punch Board will continually review the strategic fit of Matthew Clark within the Punch Group. However, Matthew Clark is currently performing well in a difficult market and does not take up significant management time.

10. Competition

The Punch Group views any provider of leisure facilities or services that could draw customers away from a pub as being in competition with its pubs (ranging from other pub companies to supermarkets to home entertainment suppliers). The competition facing the Punch Group's pubs therefore includes supermarkets, other pub operators for the provision of food and beverage services, other retail outlets for the sale of food and drink and restaurants, nightclubs and other destination leisure venues and activities in terms of attracting consumers. This competition is faced by the retailers in its leased pubs (which also affects the Punch Group in terms of the revenue it receives from its retailers for rent and the sale of drink products).

As at 15 June 2011, there were 60,085 licensed public houses in the United Kingdom, of which 28,179 were operated as leased and tenanted pubs, 9,236 were operated as managed pubs and 22,670 were independent public houses.

Pubs that are leased to retailers represented 46.9 per cent. of all the pubs in the United Kingdom as at 15 June 2011.

Further competition to on-trade sales comes from off-trade sales. Long-term trends in beer sales in the United Kingdom show an increase in the relative size of the off-trade, with off-trade sales accounting for 47 per cent. of all beer sales in the United Kingdom in the calendar year to 15 June 2011. Off-trade sales have increased as a result of, among other things, the pricing policies of the large supermarket groups, the impact of the smoking ban and increased entertainment options at home.

Section B: Description of the Spirit Group

1. Overview of Spirit

Upon Demerger, the Spirit Group will be one of the largest managed pub operators in the UK. The Spirit Group is currently divided into two main divisions: the managed pub business comprising 803 pubs and the leased pub business comprising 549 pubs.

The pubs comprising the Spirit Group's managed estate are directly operated by the Spirit Group. Since August 2008, the managed pub business has been focused on improving operating disciplines and revitalising and developing its brands and investing in its estate. This re-positioning of the managed pub business has resulted in recent improved operating performance, with growth in like-for-like sales of 5.7 per cent., over the 40 weeks to 28 May 2011.

As at 1 July 2011, of the 803 managed pubs, 644 were owned by a Spirit Group company which is subject to the Spirit Debenture and 159 were owned by a Spirit Group company which is not subject to the Spirit Debenture. The pubs which are held by the Spirit Group company which is not subject to the Spirit Debenture are primarily loss making pubs, which are not suitable for transfer into the Spirit Debenture and will, following the Demerger, require support from Spirit.

During the period covered by the historical financial information the Spirit Group's managed pub business derived its revenue primarily from the sale of drink and food to members of the public through its branded pub portfolio. For the financial years ended 23 August 2008, 22 August 2009 and 21 August 2010, and the 28 weeks to 5 March 2011 the revenue and operating profit of the managed pub business before non-underlying items as a percentage of the Spirit Group's revenue and operating profit were as follows:

Managed estate as a percentage of Spirit Group

	2008 Financial Period	2009 Financial Period	2010 Financial Period	2011 28 weeks to 5 March
Revenue	87	87	87	87
Operating profit before non-underlying items	61	54	58	55

While it is the Spirit Group's current strategy to become a solely managed pub business, upon Demerger Spirit will own a portfolio of 549 leased pubs which are owned by a company that is subject to the Spirit Debenture. These are pubs for which the Spirit Group has lease or tenancy agreement with retailers who operate a retail business within the pub premises owned by the Spirit Group. Retailers are required to pay a negotiated rent based on a proportion of the pub's predicted profit. Many of the pubs that constitute the Spirit Group's leased estate were previously managed pubs which have been converted to leased pubs. Therefore, they are usually good quality leased pubs as measured by revenue, profitability and operating cash flow per pub.

In line with the strategy for the Spirit Group to become a solely managed pub business, up to 100 of the pubs which constitute the Spirit Group's leased estate are expected to be converted to one of the Spirit Group's managed brands over the next few years. Those pubs in the leased estate which the Spirit Board does not believe to be suitable for conversion to managed pubs are expected to be sold over time.

During the period covered by the historical financial information, the leased pub business has derived its revenue primarily from rent and the sale of beer and other drinks to retailers. For the financial years ended 23 August 2008, 22 August 2009 and 21 August 2010 and the 28 weeks to 5 March 2011, the revenue and operating profit of the leased pub business before non-underlying items as a percentage of the Spirit Group's total were as follows:

Leased estate as a percentage of Spirit Group total

	2008 Financial Period	2009 Financial Period	2010 Financial Period	2011 28 weeks to 5 March
Revenue	13	13	13	13
Operating profit before non-underlying items	39	46	42	45

2. Strategy

The Spirit Group's objective is to maximise long-term value for Spirit Shareholders through a continued focus on operational excellence and a careful investment strategy in order to develop a high quality managed pub portfolio with a view to delivering sustainable growth. In recent years, the management in the managed pub business has made substantial progress in repositioning the business through the improvement of operating disciplines, the upgrading of talent, the revitalisation and development of brands and investment in the estate. The Board intends to continue with this repositioning and to invest in new brands and refurbishments across the managed estate. In addition, the Spirit Board intends, over the next few years, to convert certain pubs from the leased estate into managed pubs. It is intended that, over time, those leased pubs which the Spirit Board believes are not suitable for conversion to managed pubs will be sold, with the speed and timing of such disposals balanced against other factors such as the value which can be obtained by the Spirit Group. The current intention is that the Spirit Group will, over time, become a solely managed pub business.

Managed estate

The Spirit Group's current strategy for its managed estate is focused on:

- continuation of Spirit Group's investment programme throughout the managed estate;
- building the scale and footprint of the Spirit Group's brands;
- improving customer experience at each pub through the "Operational Excellence" programme with an increased emphasis on team recruitment, management and retention;
- maximising returns through a renewed focus on performance management and cost control; and
- expanding the estate in the long term.

Leased estate

The Spirit Group's current strategy for its leased estate is focused on:

- prior to conversion or disposal, maximising value of the pubs in its leased estate by stabilising performance and developing a business plan to create a platform for growth;
- converting up to 100 pubs within its leased estate, mostly those which were formerly managed, to branded managed pubs over the next few years; and
- disposing, over time, of the remaining pubs which management believe are not suitable for conversion to managed pubs over the short to medium term.

3. Key strengths

The Spirit Board believes that the Spirit Group's key strengths include the following:

- *A leading pub company positioned to exploit the growing eating-out market*

Consistent with market expectations, the Board expects long-term growth in the eating-out market and that, through the ongoing investment strategy, the Spirit Group is well positioned to exploit this growth. For the 28-week period ended 5 March 2011, food sales accounted for 39 per cent. of the Spirit Group's revenue, with approximately two-thirds of all revenue estimated to be from food-led visits. The Spirit Group is one of the leading managed pub operators in the UK and over the past two years there has been increased investment in the Spirit Group's pubs and brands, with 58 per cent. of the trading pubs in Spirit Group's managed estate having been refurbished. There has also been a focus on achieving operational excellence as well as the range and quality of the food offering throughout the estate.

- *A high quality pub estate*

The Spirit Group's leased and managed estate is a high quality and well located portfolio of pubs. The managed estate has a higher concentration of pubs in London, the South East and South West regions and in higher population densities than the market average. 31 per cent. of pubs in the managed estate are in areas with a population of over 300,000 within a 5 kilometre radius. This compares with a market average of 21 per cent.

- *Strong portfolio of brands*

Some of the leading pub brands in the UK are owned and operated by the Spirit Group. Each of the Spirit Group's brands has a distinct offering in order to cater for various pub and customer

profiles across different market segments, ranging from the premium quality pub restaurants operating under the “Chef & Brewer” brand to community pubs offering a wide choice of food and drink in an informal environment operating under the “Fayre & Square” brand and traditional pubs located in landmark venues providing food and drink in a cosmopolitan environment under the “Taylor Walker” brand.

- *Demonstrable ability to recruit, retain, train and develop management and pub level employees to build operating discipline and quality*

The Spirit Group is focused on attracting and training people with the skills and motivation to consistently deliver great customer experiences and to deliver the “Operational Excellence” programme. The calibre of the team has been, and is continuing to be, enhanced through the recently launched apprenticeship programme with those employees taking part working towards a nationally recognised qualification. The Spirit Group’s target is to have over 500 employees enrolled in the programme at any one time. This focus, has increased the calibre of the Spirit Group’s employees and pub teams, reduced employee turnover and improved customer experience. It has also resulted in the replacement of approximately 40 per cent. of the Spirit Group’s general, and business development, managers.

- *Experienced and motivated management team*

The Spirit Group has a strong and experienced management team with complementary skill-sets across the pub industry, retail, leisure facility and service markets and the eating-out market. The management team is appropriately incentivised to deliver returns to Spirit Shareholders. The Spirit Group’s management team has a strong track record including having delivered sales growth, sold certain non-core assets, refocused on the eating-out market and outperformed the competition. The Spirit Group has a competitive cost structure for a business of its scale.

- *Proven capital investment strategy*

The investment policy of the Spirit Group is focused on developing a strong brand portfolio, refurbishing and reinvigorating high quality sites. During the 28-week period ended 5 March 2011, the Spirit Group refurbished 135 of its pubs at a cost of £25.4 million, focusing on its most successful formats.

- *High quality leased estate*

The Spirit Group’s leased estate, the vast majority of which was originally managed pubs, is of a high commercial quality as measured by revenue, profitability and operating cash flow per pub. The leased estate also provides the Spirit Group with the opportunity to expand its managed estate through the conversion of certain leased pubs to managed pubs. In the 28-weeks to 5 March 2011, the leased estate generated 34 per cent. of the Spirit Group’s EBITDA and 45 per cent. of its operating margin.

- *Simple, adaptable, resilient business model*

No single pub accounts for a significant percentage of the Spirit Group’s turnover and small, locally managed businesses are also able to adapt quickly to local market conditions.

4. Managed Estate and brands

The Spirit Group directs all aspects of its branded managed estate’s operation and supports it with marketing, training and operational teams. While the managed pub business has higher fixed costs than the leased pub business, these are offset by the retention of all of the profit from the pubs’ commercial activities.

(A) Classification of estate

The Spirit Group’s managed estate can be divided into a number of classifications of pubs according to a combination of characteristics including location, customer profile and range of products sold. A description of each classification is set out below:

“Neighbourhood pubs”

Neighbourhood pubs play a large and increasingly important role in their communities, whether in town centres, the suburbs or rural areas. Offering food and drink with an emphasis on value, these local pubs, often operating under the “Flaming Grill”, “John Barras” or “Original Pub Company” brands, provide a community focus for families, teams, fundraising and events.

“Price-Led Pub Restaurants”

These pubs provide price led concepts, which include the “Fayre & Square” branded pubs, providing families with affordable, everyday dining with healthy choices for children. The award-winning Wacky Warehouse play barns aligned to the “Fayre & Square” concept offer an added incentive for families to visit these branded pubs.

“City & Urban Pubs”

City & Urban pubs have real British heritage and are in prime locations throughout London and other major cities. They deliver the traditional pub experience for local residents, tourists and business people. Generally located in landmark venues, these pubs, associated under the “Taylor Walker” brand, provide food and drink in a cosmopolitan environment, and stock award-winning cask ales.

“Premium Pub Restaurants”

These pub restaurants include the “Chef & Brewer” concept which provides a quality dining experience in distinctive surroundings. “Chef & Brewer” menus have been developed to deliver greater choice to consumers who want local options as well as fresh and healthy produce.

Non-Trading

This classification includes pubs that do not currently trade, the majority of which had previously been sold to third parties and have reverted to the Spirit Group but from which the Spirit Group was unable to trade profitably.

The following table indicates the division of the Spirit Group’s managed estate into the above classifications as at 1 July 2011:

Classification	Number of pubs	Percentage of total managed estate
Neighbourhood pubs	239	30
Price Led Pub Restaurants	186	23
City & Urban Pubs	201	25
Premium Pub Restaurants	135	17
Non-Trading	42	5
TOTAL	803	100

(B) Brands used in estate

The managed estate operates under a number of brands and the Spirit Group has continued to build the scale of its brands. The Spirit Board intends to continue to roll out the Spirit Group’s brands across the managed estate. The branding of a pub will be based upon its classification and which of the Spirit Group’s brands is most suitable for that pub. A description of each is set out below:

“Chef & Brewer”

Premium quality pub restaurants offering freshly prepared food and a wide range of drinks served in a relaxed and informal atmosphere by friendly and efficient teams. As at 1 July, there were 133 pubs nationwide operating under the Chef & Brewer brand.

“Fayre & Square”

Family-orientated pubs offering a wide choice of food and drink in an informal environment where children are made to feel welcome. Often attached to a ‘Wacky Warehouse’ these pubs are focused on offering competitively priced dishes to families. As at 1 July, there were 84 pubs operating under the Fayre & Square brand and two pubs that were operating under the “Roast Inn” brand (a brand the Spirit Group has decided to discontinue) that will be rebranded and commence operating under the “Fayre & Square” brand in the near future.

“Flaming Grill”

Community pubs offering char-grilled food, served on iron skillets, in a relaxed and informal atmosphere. As at 1 July, there were 28 pubs operating under the Flaming Grill brand.

“John Barras”

Local pubs at the heart of their community offering a wide range of drinks together with food, sport and entertainment tailored specifically to the community catchment. As at 1 July, there were 17 pubs operating under the John Barras brand.

“Taylor Walker”

Traditional metropolitan pubs that aim to deliver the British pub experience to those who live and work in the city as well as those just visiting. Taylor Walker pubs are often traditional, reputable, classic pubs steeped in history with many located in and around British landmark sites, such as the Punch & Judy in Covent Garden and The Audley in Mayfair.

As at 1 July, there were 108 pubs operating under the Taylor Walker name, which is considered to be a brand endorsement rather than a concept brand. This mark of quality appears in all of the Spirit Group’s London pubs.

“Original Pub Company”

Value pubs run by experienced “landlords” providing the friendly welcome of a local in their city/urban location, offering food, drink and sports. As at 1 July, there were 73 pubs operating under the Original Pub Company brand.

“Non-branded”

Not all of the pubs which form part of the managed estate operate under one of the brands set out above, though it is the intention of the Spirit Board that all trading pubs within the managed estate will eventually be branded. As at 1 July 2011, 309 pubs were not operating under any brand.

(C) Geographic spread of estate

The managed estate is a high quality estate: over 40 per cent. of the estate is in London, the South East and South West regions, compared with the market average of a third. The pubs within the estate are well located: 31 per cent. of the estate is located in areas with a population density of over 300,000 within a 5 kilometre radius compared with the market average of 21 per cent. The table below indicates the division of the Spirit Group’s managed estate by region as at 1 July 2011:

Region	Number of pubs	Percentage of total managed estate
South East	125	15.6
London	168	20.9
North West	130	16.2
East Midlands	81	10.1
Yorkshire/Humberside	59	7.3
West Midlands	72	9.0
East Anglia	59	7.3
South West	32	4.0
North East	35	4.4
Scotland	25	3.1
Wales	17	2.1
TOTAL	803	100.0

(D) Estate tenure

As at 1 July 2011, the Spirit Group had either a freehold interest or a leasehold interest of longer than, or equal to, 50 years, remaining duration in approximately 55 per cent. of the pubs in the

managed estate. As at 1 July 2011, the terms of, and rents payable by, the Spirit Group in respect of the head leases of the leasehold properties in the managed estate were as follows:

Remaining term (years)	Total pubs	Total group rent £ million (per annum)
0 – 19	142	17.7
20 – 49	218	28.7
50 – 99	37	4.5
100 – 999	20	2.4
> 999	—	—
TOTAL	417	53.3

(E) Products and services

Beer supply and other drink products

Following the acquisition by Punch of the Spirit Group in 2006, the majority of the drinks products purchased by the Spirit Group have been supplied to it through Punch's group-wide supply arrangements. As part of the process to separate the Spirit Business from the rest of the Punch Group, and in anticipation of the Demerger, the Spirit Group has entered into its own contracts with suppliers for the supply of drinks products as described below.

The Spirit Group has contracted on a group-wide basis with various suppliers of drink products, ranging from the national brewers being Heineken UK, Molson Coors (UK), AB InBev UK, Carlsberg UK and Diageo to regional brewers such as Adnams, Black Sheep, Fullers, Greene King, Marston's and Wells & Young's. Heineken UK, Molson Coors (UK), AB InBev UK, Carlsberg UK and Diageo provided 82 per cent. of the beer supplied to the Spirit Group's managed estate during the financial year ended 21 August 2010. The Spirit Group contracts with four main suppliers, being Constellation Europe, Matthew Clark, Pernot Ricard and Lanson-BCC, for wine and Champagne. Soft drinks are largely supplied to the Spirit Group by Britvic.

The current warehousing and distribution arrangements of drink products for the entire managed pub business are provided pursuant to an agreement with Carlsberg UK which expires in September 2017.

As a result of the Spirit Group's size, the Spirit Group is able to negotiate material discounts on drink products with its suppliers. The discounts obtained by the Spirit Group, and the resulting margin, constitute the largest component of its profit from sales of drink products to the customers of the pubs in the managed estate. Brewers and suppliers set a wholesale price for each of their products which the Spirit Group uses as the basis for setting its prices for the sale of beer and other products to the managed estate customers. The mechanics for wholesale price rises imposed by the brewers and suppliers on the Spirit Group are specified in the supply agreements between the relevant brewer or supplier and the Spirit Group. Generally, as brewers and suppliers change wholesale prices these changes are reflected in revised prices set by the Spirit Group. For the financial year ended 21 August 2010, revenue from the sale of drink products to customers accounted for 56 per cent. of the Spirit Group's total revenue from its managed estate (and 55 per cent. for the 28 weeks to 5 March 2011).

Food

The provision of food has become of increasing importance in the managed pub business. For the 2010 financial year ended 21 August 2010 revenue from sales of food to customers accounted for 39 per cent. of the Spirit Group's total revenue from its managed pub business (and 39 per cent. for the 28 weeks to 5 March 2011). However, the Spirit Board estimates that the proportion of total sales in the managed estate that derives from an eating-out occasion is approximately two-thirds.

The current food warehousing and distribution arrangements for the entire managed pub business are provided pursuant to an agreement with Wincanton, which expires in May 2016. Under the terms of the agreement, Wincanton acts as a distributor of food products sourced from an underlying network of authorised suppliers who contract directly with the Spirit Group. All major

suppliers of food to the Spirit Group are audited and accredited by NSF-CMi (the widely known food assurance brand, which seeks to protect consumers across the food supply chain).

The Spirit Group has a network of approximately 30 providers of bespoke food products, with whom it closely collaborates to continually develop existing and new products, review menus and look to mitigate costs to the Spirit Group. The managed pub business also has preferred suppliers for each of poultry, fish, scampi, beef, lamb and pork, chips, and fresh fruit and vegetables.

Leisure machines and other revenue

The Spirit Group also derives revenue from:

- gaming and vending machines which are used by customers of its managed pubs;
- 1,093 hotel rooms; and
- children's play facilities under the Wacky Warehouse brand.

For the financial year ended 21 August 2010, revenue from such other sources of revenue accounted for 5 per cent. of the Spirit Group's total revenue from its managed estate (and 6 per cent. for the 28 weeks to 5 March 2011).

5. Leased Estate

While the current strategy of the Spirit Group is to become a business wholly consisting of managed pubs, upon Demerger the Spirit Group will own 549 leased pubs, which are held by a company that is subject to the Spirit Debenture. The Spirit Group's leased estate is a high quality, well-located, portfolio of pubs, most of which were converted from managed to leased pubs. In the 28-weeks to 5 March 2011, the leased estate generated 34 per cent. of the Spirit Group's EBITDA with 45 per cent. operating margin.

The immediate business plan in relation to the leased pub business is to maximise value by stabilising performance and develop a business plan to create a platform for growth. As discussed above, in line with the strategy for the Spirit Group to become a solely managed pub business, over the next few years, up to 100 of its current 549 leased pubs are expected to be converted into branded managed pubs, with estimated costs in the region of £400,000 per pub. The Spirit Group is currently reviewing its leased estate to determine which pubs would be suitable for conversion. Each pub's location, demographic of surrounding population, facilities to offer food, distance to existing Spirit Group managed pubs and ability to achieve the Spirit Group's return on investment hurdle rate is being assessed in order to determine whether such leased pub would be suitable for conversion to one of the Spirit Group brands as a managed pub. It is intended that, over time, those leased pubs which the Spirit Board believes are not suitable for conversion to managed pubs will be sold, with the speed and timing of such disposals balanced against other factors such as the value which can be obtained by the Spirit Group. The current intention is that the Spirit Group will, over time, become a solely managed pub business.

As described further in section 9 of Part IX of this document, the Spirit Debenture contains certain operating covenants which, if not met, place certain restrictions on the companies which are subject to the Spirit Debenture. As a result of the operation of these covenants, there are currently restrictions on the number of pubs which can be disposed by these companies. The Spirit Debenture companies may currently dispose of no more than 5 per cent. of the total number of pubs within the Spirit Debenture or such number of pubs as represents 5 per cent. of the total value of the pubs within the Spirit Debenture, whichever is the lower. This restriction will cease to apply if the Spirit Group is able to comply with the relevant operating covenants or consent is obtained pursuant to the Issuer/Borrower Facility Agreement for the operating covenants to be amended.

Although the Spirit Board does not consider that such restrictions will materially impact on its ability to implement its strategy effectively, the Spirit Group's strategy to dispose, over time, of those leased pubs which are not suitable for conversion to managed pubs will need to be implemented in a manner which takes account of the operating covenants within the Spirit Debenture and the Spirit Group's compliance with them from time to time.

(A) Agreements with retailers

Within the leased estate, the Spirit Group has lease or tenancy agreements with retailers who operate a retail business within the pub premises owned by the Spirit Group. The Spirit Group does not directly manage the retail business in these pubs. As a result, the pubs which make up

the leased estate have lower fixed costs for the Spirit Group than those which make up the managed estate.

The relationship between the Spirit Group and its retailers is generally governed by the type and terms of the lease or tenancy agreement in place between them. The Spirit Group enters into one of three main categories of such lease or tenancy agreement with its retailers, under which the retailer operates the pub as either a lessee or a tenant and agrees to pay the rent specified in the relevant agreement. As part of the lease or tenancy agreement, the retailer agrees that the Spirit Group or the Spirit Group's designated supplier is to be the retailer's sole source of supply for certain products. These "tie" arrangements relate primarily to the retailer's purchase of beer and cider, sales of which generally constitute the majority of the retailer's revenue. The three main categories of tenancy agreement are the standard lease, the standard tenancy and the tenancy-at-will, each of which are described in Section 4 of Section A of this Part IV.

The use of a lease or tenancy agreement and its terms and conditions vary according to the profit expectations, risk assessment and plans which the Spirit Group and the retailer may have for the pub concerned.

The table below sets out the percentage of the Spirit Group's leased estate which operated under the various leases and tenancies as at 1 July 2011:

Type of agreement	Percentage of total leased estate
Standard leases	69
Tenancy agreements	16
Tenancy-at-will	13
Not trading	1
Other agreements	1
TOTAL	100

The profile of unexpired terms in lease and tenancy agreements with retailers within the leased estate as at 1 July 2011 is set out below:

Expiry (financial years)	Number of lease and tenancy agreements
0 to 2	15
2 to 5	105
5 to 10	204
10+	145
Open ended	74
No agreement	6
TOTAL	549

The average rental income derived from a pub in the Spirit Group's leased estate for each of the past three financial years and for the 28 weeks to 5 March 2011 is set out in the table below:

Financial period	Rental income
Financial year ended August 2008	£51,966
Financial year ended August 2009	£45,475
Financial year ended August 2010	£41,623
28 weeks to 5 March 2011	£21,872

The majority of pubs in the Spirit Group's leased estate are subject to rent reviews every five years and on the last day of the term and some rents are also adjusted annually by reference to the retail price index. Following a rent review, the rent payable under a lease or tenancy agreement may either increase or decrease. The table below shows the tenancy agreements that will be subject to a rent review in a given period as at 1 July 2011:

Year of review	Number of lease and tenancy agreements
Financial year ending August 2011	16
Financial year ending August 2012	222
Financial year ending August 2013	26
Financial year ending August 2014	39
Financial year ending August 2015	17
Financial year ending August 2016	22
No review, or renewal is post the financial year ending August 2016	207
TOTAL	549

Over the financial periods covered by the historical financial information set out in Part IV of this document, bad debt write-offs, expressed as a percentage of collectable debt (rent plus goods and services supplied) for the leased estate have averaged 0.8 per cent. in each period. Bad debts, when they arise, usually relate to forfeiture, bankruptcy or abandonment of pubs.

As at 1 July 2011, the Spirit Group had either a freehold interest or a leasehold interest of longer than, or equal to, 50 years' remaining duration in approximately 85 per cent. of the pubs in the leased estate. As at 1 July 2011, the terms of and rents payable by the Spirit Group in respect of the head leases of the leasehold properties in the leased estate are as follows:

Remaining term (years)	Total pubs	Total group rent £ million (per annum)
0 – 19	33	1.5
20 – 49	49	4.6
50 – 99	14	0.1
100 – 999	7	—
> 999	—	—
TOTAL	103	6.2

(B) Classification of leased estate

In its leased estate, the Spirit Group's pubs cover a broad range of markets in the United Kingdom, from local community pubs to premium dining venues, though at present the Spirit Group does not classify its leased pubs into such categories.

(C) Geographic spread of estate

The table below indicates the division of the Spirit Group's leased estate by region as at 1 July 2011:

Region	Number of pubs	Percentage of total leased estate
South East	124	22.6
London	32	5.8
North West	106	19.3
East Midlands	33	6.0
Yorkshire/Humberside	71	12.9
West Midlands	43	7.8
East Anglia	12	2.2
South West	28	5.1
North	39	7.1
Scotland	47	8.6
Wales	14	2.6
TOTAL	549	100

(D) Products and services

Beer supply and other drink products

Beer and other drink products sold through the leased estate are generally sourced under the same supplier contracts as those for the managed estate (as described above in this Section B). The discounts obtained by the Spirit Group, and the resulting margin, constitute the largest component of its profit from sales of drink products to retailers in the leased estate. Brewers and suppliers set a wholesale price for each of their products which the Spirit Group uses as the basis for setting its prices for the sale of beer and other products, to retailers in the leased estate. The mechanics for wholesale price rises imposed by the brewers and suppliers on the Spirit Group are specified in the supply agreements between the relevant brewer or supplier and the Spirit Group. Generally, as brewers and suppliers change wholesale prices these changes are reflected in revised prices set by the Spirit Group.

For the financial year ended 21 August 2010, revenue from the sale of drink products to retailers accounted for 70 per cent. of the Spirit Group's total revenue from its leased estate (and 71 per cent. for the 28 weeks to 5 March 2011).

Leisure machines

As with the managed pub business, most of the Spirit Group's leased pubs offer customers use of gaming and vending machines, the majority of which are coin-operated. Retailers choose from a large variety of such machines, including fruit and casino machines, quiz and game machines, pool tables, music systems, internet kiosks and children's equipment.

For the financial year ended 21 August 2010, revenue from gaming and vending machines accounted for 3 per cent. of the Spirit Group's total revenue from its leased estate (and 3 per cent. for the 28 weeks to 5 March 2011).

Food

Food supply and services have been made available to the Spirit Group's retailers in the leased estate through some of the UK's leading food providers, such as Brakes, 3663 and Woodwards. These suppliers give retailers access to a comprehensive range of services and products, which allow them to establish, refresh or extend a food offering to their customers. However, for the financial year ended 21 August 2010, revenue from food supply and services to retailers accounted for less than 1 per cent. of the Spirit Group's total revenue from its leased estate (and less than 1 per cent. for the 28 weeks to 5 March 2011).

PART V

FURTHER DETAILS OF THE DEMERGER

The Demerger is conditional, among other things, upon the passing of the Demerger Resolution to be proposed as an ordinary resolution at the Punch General Meeting and the approval of the payment of the Demerger Dividend by the Board. The Demerger is expected to become effective at 8.00 a.m. on 1 August 2011. The notice of the Punch General Meeting is set out at the end of this document.

1. Dividend Demerger

The Demerger will be effected by Punch declaring a special dividend on the Punch Ordinary Shares which will be satisfied by the transfer to Spirit of the entire issued share capital of Spirit Pub Company (Holdco) Limited, the current holding company of the Spirit Business. In consideration for that transfer, Spirit will allot and issue Spirit Ordinary Shares, credited as fully paid up, to the holders of Punch Ordinary Shares who are registered on the Punch Share Register at the Demerger Record Time on the basis of:

one Spirit Ordinary Share

for each Punch Ordinary Share

held by them at that time, save that the number of Spirit Ordinary Shares to be allotted and issued to each of Steve Dando and Ed Bashforth will be reduced by the number of Spirit Ordinary Shares already held by them so that, upon the Demerger becoming effective, all Punch Shareholders (including Steve Dando and Ed Bashforth) will hold one Spirit Ordinary Share for each Punch Ordinary Share held at the Demerger Record Time.

Punch Shareholders are being asked to approve the Demerger Dividend in accordance with the Articles of Association. The resolution approving the Demerger Dividend is set out in the notice of the Punch General Meeting.

Based on the number of Punch Ordinary Shares in issue on 6 July 2011 (the latest practicable date prior to the publication of this document), plus an estimate of the maximum number of additional Punch Ordinary Shares that may be issued prior to the Demerger Record Time, up to 665,000,000 Spirit Ordinary Shares will be in issue on Admission.

2. Conditions

The Demerger is conditional on the following matters:

- (a) the approval by the Punch Shareholders of the Demerger Resolution;
- (b) neither of the Punch Sponsor's Agreement nor the Spirit Sponsor's Agreement having terminated in accordance with their terms;
- (c) the Demerger Agreement having become unconditional and not having been terminated;
- (d) the UKLA having acknowledged to Spirit or its agent (and such acknowledgement not having been withdrawn) that the application for the admission of the Spirit Ordinary Shares to the Official List with a premium listing has been approved and (after satisfaction of any conditions to which such approval is expressed to be subject ("**listing conditions**")) will become effective as soon as a dealing notice has been issued by the FSA and any listing conditions having been satisfied; and
- (e) the London Stock Exchange having acknowledged to Spirit or its agent (and such acknowledgement not having been withdrawn) that the Spirit Ordinary Shares will be admitted to trading.

It should be noted that, although it is currently Punch's intention that the Demerger should be concluded, Punch is entitled to decide not to proceed with the Demerger at any time prior to the Demerger Effective Time if it determines that it would not be in the interests of Punch Shareholders. The Demerger is not conditional on Admission.

3. Admission, dealings, share certificates and CREST

3.1 Admission

Application will be made for the admission of the Spirit Ordinary Shares to the Official List and to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective and dealings for normal settlement in the Spirit Ordinary Shares will commence at 8.00 a.m. on 1 August 2011. The ISIN of the Spirit Ordinary Shares will be GB00B5NVFV695.

3.2 Dealings

For a transferee to be a registered holder of Punch Ordinary Shares by the Demerger Record Time, a transfer of Punch Ordinary Shares must be recorded on the Punch Share Register held by the Registrar by 6.00 p.m. on 29 July 2011. At 6.00 p.m. on 29 July 2011 settlement in the Punch Ordinary Shares through CREST will be disabled. Settlement in the Punch Ordinary Shares will be re-enabled following the Demerger Effective Time on 1 August 2011.

3.3 Share certificates

Holders of Punch Ordinary Shares on the Punch Share Register at the Demerger Record Time will constitute the opening register of members of Spirit. The entitlement to receive Spirit Ordinary Shares pursuant to the Demerger is not transferable save to satisfy valid market claims. It is expected that definitive certificates in respect of Spirit Ordinary Shares will be posted to entitled holders of Spirit Ordinary Shares (who hold their shares in certificated form) at their registered address on the register of members of Spirit after the Demerger becomes effective and, in any event, by no later than 16 August 2011.

Temporary documents of title will not be issued. Pending despatch of the certificates, transfers of the Spirit Ordinary Shares will be certified against the register of members of Spirit by Computershare. Share certificates will be despatched to Spirit's shareholders at their own risk.

3.4. CREST

CREST is a paperless settlement system enabling shares to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Articles of Association permit, and the Spirit Articles of Association will permit, the holding of Punch Ordinary Shares and Spirit Ordinary Shares respectively under the CREST system. Spirit has applied for its shares to be admitted to CREST with effect from Admission.

Holders of Punch Ordinary Shares on the Punch Share Register at the Demerger Record Time who hold their Punch Ordinary Shares in uncertificated form through CREST will receive uncertificated Spirit Ordinary Shares into the same CREST accounts immediately following Admission.

3.5 Dividend mandates

The Spirit Ordinary Shares to be issued on the Demerger Effective Time will each rank *pari passu* in all respects. Existing dividend mandates to bank or building society accounts given in relation to dividends paid by Punch will also be applied automatically to Spirit Ordinary Shares arising as a result of the Demerger, unless a Punch Shareholder gives a valid alternative notification (such notification shall only be valid if received by the Registrars no later than 5 business days prior to the Demerger Record Date).

4. Information for Overseas Shareholders

Overseas Shareholders may be affected by the laws of other jurisdictions in relation to the Demerger. Overseas Shareholders should inform themselves about and observe all applicable legal requirements.

It is the responsibility of any person into whose possession this document comes to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in which they reside or are otherwise located in connection with the allotment and issue of Spirit Ordinary Shares following the Demerger, including the obtaining of any governmental, exchange control or other consents which may be required and/or compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes or levies due in such jurisdiction.

This document has been prepared for the purpose of complying with English law and the rules of the UKLA and the information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside the UK.

THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITY.

Overseas Shareholders should consult their own legal and tax advisers with respect to the legal and tax consequences of the Demerger in their particular circumstances.

PART VI

HISTORICAL FINANCIAL INFORMATION

The financial information presented below relating to the Spirit Group has been extracted without material adjustment from the audited consolidated financial statements of the Spirit Group for the three financial years ended 23 August 2008, 22 August 2009, 21 August 2010 and the 28 weeks ended 5 March 2011 which have been prepared for the purpose of, and are included in, the Prospectus. The financial information in this Part VI has been prepared using the basis of preparation set out in the Prospectus.

Shareholders should read the whole of this document and not rely solely on the financial information contained in this Part VI.

Audited combined and consolidated income statement of the Spirit Group for the financial years ended 23 August 2008, 22 August 2009 and 21 August 2010 and the 28 weeks ended 5 March 2011

	23 August 2008 £000	22 August 2009 £000	21 August 2010 £000	5 March 2011 £000
Revenue	810,057	775,054	724,019	378,074
Operating costs before depreciation and amortisation ⁽²⁾	(623,148)	(623,403)	(592,983)	(310,595)
EBITDA⁽¹⁾⁽²⁾	186,909	151,651	131,036	67,479
Depreciation and amortisation	(43,198)	(42,472)	(32,827)	(18,643)
Operating profit/(loss)⁽²⁾	143,711	109,179	98,209	48,836
Finance income ⁽²⁾	26,936	24,286	21,890	12,295
Finance costs ⁽²⁾	(93,475)	(88,818)	(79,108)	(41,149)
Profit/(loss) before taxation⁽²⁾	77,172	44,647	40,991	19,982
UK income tax (charge)/credit ⁽²⁾	(22,698)	(12,734)	(11,610)	(5,630)
Non-underlying items ⁽³⁾	(274,634)	(312,681)	(172,342)	(69,766)
Profit/(loss) for the financial period attributable to owners of the parent company	(220,160)	(280,768)	(142,961)	(55,414)

(1) EBITDA represents earnings before depreciation and amortisation, impairment, goodwill charge, (loss) / profit on sale of non-current assets, finance income, finance costs, movement in fair value of interest rate swaps and tax of the Spirit Group.

(2) Before items described in footnote 3 below.

(3) Includes the redundancy costs, movements in property liabilities, impairments, goodwill charge, (loss) / profit on sale of non-current assets, profits on redemption of loan notes, subordinated loan interest, related party interest, movement in fair value of interest rate swaps and certain tax items.

Audited combined and consolidated balance sheet of the Spirit Group as at 21 August 2010 and as at 5 March 2011

	21 August 2010 £000	5 March 2011 £000
Assets		
Non-current assets		
Property, plant and equipment	1,718,012	1,686,037
Operating leases	73,832	64,171
Goodwill	241,400	231,300
Trade and other receivables	193,904	241,069
Retirement benefit assets	—	10,300
Deferred tax assets	16,771	48,651
	<u>2,243,919</u>	<u>2,281,528</u>
Current assets		
Inventories	7,755	6,704
Trade and other receivables	27,656	22,790
Non-current assets classified as held for sale	37,172	15,735
Cash and cash equivalents	37,855	48,604
	<u>110,438</u>	<u>93,833</u>
Total assets	<u>2,354,357</u>	<u>2,375,361</u>
Liabilities		
Current liabilities		
Trade and other payables	(147,915)	(138,875)
Short-term borrowings	(5,898)	(6,599)
Derivative financial instruments	(19,129)	(19,105)
Provisions	(20,008)	(22,083)
	<u>(192,950)</u>	<u>(186,662)</u>
Non-current liabilities		
Borrowings	(1,972,708)	(2,028,369)
Derivative financial instruments	(128,499)	(92,020)
Retirement benefit obligations	(13,915)	—
Provisions	(57,878)	(68,158)
Other liabilities	(501,579)	(557,490)
	<u>(2,674,579)</u>	<u>(2,746,037)</u>
Total liabilities	<u>(2,867,529)</u>	<u>(2,932,699)</u>
Net liabilities	<u>(513,172)</u>	<u>(557,338)</u>
Capital reserves	2,000	2,000
Retained earnings	(515,172)	(559,338)
Total equity attributable to owners of the parent company	<u>(513,172)</u>	<u>(557,338)</u>

PART VII

PUNCH PRO FORMA FINANCIAL INFORMATION

Pro forma financial information showing effect of Demerger on Punch

The unaudited pro forma statement of the consolidated net assets of the Company set out below has been prepared to illustrate how the Demerger might have affected the net assets of Punch presented on the basis of the accounting policies adopted by Punch in preparing the financial statements for the period ended 5 March 2011. The unaudited pro forma statement of consolidated net assets has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and, therefore, does not represent Punch's actual financial position or results.

The unaudited pro forma statement of consolidated net assets has been prepared on the basis set out in the accompanying notes below and in accordance with the requirements of Listing Rule 13.3.3R.

	Adjustments				Punch Taverns plc Pro forma 5 March 2011 £m
	Consolidated Punch Taverns plc 5 March 2011 £m (i)	Spirit Group 5 March 2011 £m (ii)	Reorganisation and Write Down of Intercompany Balances £m (iii)	Cash Transfer and Transaction Costs £m (iv)	
Assets					
Non-current assets					
Property, plant and equipment	4,333.6	(1,686.0)	—	—	2,647.6
Operating leases	69.4	(64.2)	—	—	5.2
Other intangible assets	4.5	—	—	—	4.5
Goodwill	414.4	(231.3)	—	—	183.1
Other receivables	—	(241.0)	241.0 ^(a)	—	—
Retirement benefit assets	10.3	(10.3)	—	—	—
Deferred tax assets	—	(48.7)	—	13.0 ^(d)	(35.7)
Investments in joint ventures	49.3	—	—	—	49.3
	4,881.5	(2,281.5)	241.0	13.0	2,854.0
Current assets					
Inventories	6.7	(6.7)	—	—	—
Trade and other receivables	62.2	(22.8)	4.7 ^(a)	6.0 ^(e)	50.1
Current income tax assets	2.9	—	—	—	2.9
Non-current assets classified as held for sale	111.3	(15.7)	—	—	95.6
Cash and cash equivalents	301.8	(48.6)	—	(110.0) ^(c,d,e,f)	143.2
	484.9	(93.8)	4.7	(104.0)	291.8
Total assets	5,366.4	(2,375.3)	245.7	(91.0)	3,145.8
Liabilities					
Current liabilities					
Trade and other payables	(255.7)	138.9	(6.4) ^(a)	—	(123.2)
Short-term borrowings	(65.9)	6.5	—	—	(59.4)
Derivative financial instruments	(57.8)	19.1	—	—	(38.7)
Provisions	(24.9)	22.1	—	—	(2.8)
	(404.3)	186.6	(6.4)	—	(224.1)
Non-current liabilities					
Borrowings	(3,421.4)	2,028.4	(1,137.0) ^(b)	—	(2,530.0)
Derivative financial instruments	(237.2)	92.0	—	—	(145.2)
Deferred tax liabilities	(9.4)	—	—	—	(9.4)
Retirement benefit obligations	(3.7)	—	—	—	(3.7)

	Adjustments				Punch Taverns plc Pro forma 5 March 2011 £m
	Consolidated Punch Taverns plc 5 March 2011 £m (i)	Spirit Group 5 March 2011 £m (ii)	Reorganisation and Write Down of Intercompany Balances £m (iii)	Cash Transfer and Transaction Costs £m (iv)	
Provisions	(72.2)	68.2	—	—	(4.0)
Other liabilities	(0.3)	557.5	(557.0) ^(a)	—	0.2
	(3,744.2)	2,746.1	(1,694.0)	—	(2,692.1)
Total liabilities	(4,148.5)	2,932.7	(1,700.4)	—	(2,916.2)
			(1,454.7)		
Net assets/(liabilities)	1,217.9	557.4		(91.0)	229.6

(i) The financial information in respect of Punch Taverns plc has been extracted, without material adjustment, from the published unaudited interim results of Punch.

(ii) The financial information in respect of the Spirit Group has been extracted, without material adjustment, from the financial information contained in Part VI of the Prospectus.

(iii) As set out in paragraph 4 of the letter from the Chairman of Punch Taverns in Part I and the further information on the Demerger in Part V, the Demerger is to be effected by Punch declaring a special dividend equal to the book value of Punch's shareholding in Spirit Pub Company (Holdco) Limited, the current holding company of the Spirit Group. This special dividend will be satisfied by the transfer by Punch to Spirit of the shares in Spirit Pub Company (Holdco) Limited. In return for this transfer, Spirit will then allot and issue Spirit Ordinary Shares to Punch Shareholders.

To declare the dividend and transfer the shares in Spirit Pub Company (Holdco) by Punch to Spirit, the subordinated loan between Punch and Spirit which represents the equity value of part of the Spirit Group (£1,137.0 million as at 5 March 2011) and other receivables and payables between companies in the Spirit Group (net £317.7 million) as at 5 March 2011) and the Continuing Group must be transferred at market value.

- a) Represents a reorganisation of receivables and payables between companies in the Spirit Group and the Continuing Group, whereby such receivables and payables were consolidated into two separate balances left outstanding between the Continuing Group and the Spirit Group. These balances were transferred to the Spirit Group at their market value, which involved a write down of their book value; and
- b) Represents the transfer of a loan representing the equity value of part of the Spirit Group which was transferred by the Continuing Group to the Spirit Group at its market value, which involved a write down of its book value.

(iv) Represents:

- c) the allocation of £61 million of cash and cash equivalents by Punch to Spirit Pub Company (Holdco) Limited on 1 July 2011 in consideration for the issue of shares by Spirit Pub Company (Holdco) Limited;
- d) the cash transfer by Punch to Spirit Pub Company (Holdco) Limited as a result of the surrender of group relief and reallocation of allowable capital losses between various companies in the Spirit Group and the Continuing Group at market value of £13.0 million; and
- e) £6.0 million cash reimbursement by Punch to Spirit Pub Company (Holdco) Limited of various prepayments made in respect of goods and services which, but for the Demerger, would have been provided by companies in the Continuing Group to companies in the Spirit Group.
- f) transaction costs of £30.0 million.

Accountant's report on pro forma financial information



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7 July 2011

Dear Sirs

Punch Taverns Plc

We report on the pro forma financial information (the '**Pro forma financial information**') set out in Part VII of the Class 1 circular dated 7 July 2011, which has been prepared on the basis described in the notes to such pro forma financial information, for illustrative purposes only, to provide information about how the Demerger might have affected the financial information presented on the basis of the accounting policies adopted by Punch Taverns plc in preparing the financial statements for the period ended 5 March 2011. This report is required by paragraph 13.3.3R of the Listing Rules of the Financial Services Authority and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

It is the responsibility of the directors of Punch Taverns plc to prepare the Pro forma financial information in accordance with paragraph 13.3.3R of the Listing Rules of the Financial Services Authority.

It is our responsibility to form an opinion, as required by paragraph 7 of Annex II to the Prospectus Directive Regulation, as to the proper compilation of the Pro forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to the shareholders of Punch Taverns plc as a result of the inclusion of this report in the Class 1 circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R(6), consenting to its inclusion in the Class 1 circular.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of Punch Taverns plc.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of Punch Taverns plc.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the Pro forma financial information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of Punch Taverns plc.

Yours faithfully

KPMG Audit Plc

PART VIII

TAXATION

Part A: Description of tax effect of Demerger for UK shareholders

The following statements do not constitute tax advice and are intended only as a general guide to current UK law and HMRC published practice (both of which are subject to change at any time, possibly with retrospective effect). They relate only to certain limited aspects of the UK taxation treatment of Shareholders and are intended to apply only, except to the extent stated below, to persons who are resident and, if individuals, ordinarily resident and domiciled in the United Kingdom for UK tax purposes, and who are absolute beneficial owners of Punch Ordinary Shares (otherwise than through an individual savings account or a self invested personal pension) and who hold them as investments (and not as securities to be realised in the course of a trade). They may not apply to certain Shareholders, such as dealers in securities, insurance companies and collective investment schemes, Shareholders who are exempt from taxation and Shareholders who have (or are deemed to have) acquired their Punch Ordinary Shares by virtue of an office or employment. Such persons may be subject to special rules.

Any person who is in any doubt as to their tax position, or who is subject to taxation in any jurisdiction other than the United Kingdom, should consult their own professional adviser without delay.

The Spirit Prospectus contains an explanation of certain UK tax consequences of holding, purchasing and disposing of Spirit Ordinary Shares.

1. Taxation of chargeable gains

Clearance has been obtained from HMRC under section 138(1) of the Taxation of Chargeable Gains Act 1992 that they are satisfied that the Demerger is being effected for *bona fide* commercial reasons and does not form part of a scheme or arrangements of which the main purpose, or one of the main purposes, is avoidance of a liability to capital gains tax or corporation tax. Accordingly, Shareholders should not be treated, by virtue of the receipt of Spirit Ordinary Shares under the Demerger, as making a disposal or part disposal of their Punch Ordinary Shares for the purposes of taxation of chargeable gains. The Spirit Ordinary Shares, issued to each holder of Punch Ordinary Shares who is registered on the Punch Share Register at the Demerger Record Time, should be treated as the same asset and as having been acquired at the same time as the Punch Ordinary Shares. On this basis, Shareholders should not incur a liability to taxation of chargeable gains in respect of the Demerger.

A Shareholder's aggregate base cost in his Punch Ordinary Shares and Spirit Ordinary Shares immediately after the Demerger should be the same as his base cost in his Punch Ordinary Shares immediately before the Demerger. A Shareholder's base cost should be apportioned between his Punch Ordinary Shares and Spirit Ordinary Shares by reference to their respective market values on the first day on which the market values or prices are quoted or published for such shares.

2. Taxation of income

HMRC has granted clearance under section 1091 of the Corporation Tax Act 2010 that they are satisfied that the Demerger will qualify as an exempt distribution within the meaning of section 1075 of that Act. Accordingly, Shareholders should neither incur any liability to tax on income nor should they be entitled to any tax credit in respect of the Demerger.

3. Stamp duty and SDRT

Except in relation to the issue of Spirit Ordinary Shares to persons providing clearance services or issuing depositary receipts (or, in either case, their nominee or agent), as referred to below, no stamp duty or SDRT will generally arise on the issue of Spirit Ordinary Shares pursuant to the Demerger.

Under applicable legislation, there would be a 1.5 per cent. SDRT charge on the issue of Spirit Ordinary Shares pursuant to the Demerger to certain other persons, being mainly persons providing clearance services or issuing depositary receipts (or, in either case, their nominee or agent). However, in October 2009 the European Court of Justice held that such a charge on the

issue of shares to a clearance service is contrary to Council Directive 69/335/EEC. HMRC have accepted that no such charge can be imposed where the clearance service is located in the EU. HMRC have also confirmed that they will not seek to levy a 1.5 per cent. SDRT charge on an issue of shares to a depositary receipt issuer located within the EU. HMRC do not, however, agree that the reasoning of the European Court of Justice extends to the issue of shares to a clearance service or a depositary receipt issuer located outside the EU, and maintain that a 1.5 per cent. SDRT charge on the issue price of the shares should apply in those circumstances. Any charge which arises would strictly be the liability of the clearance service or depositary receipt operator (or, in either case, their nominee or agent) but in practice will generally be reimbursed by the relevant Shareholder. It is recommended that, should this charge arise and Shareholders be responsible for it, they consult their own professional adviser without delay.

PART B: Description of tax effect of Demerger for US Shareholders

The following discussion summarises certain United States federal income taxation consequences of the Demerger and the ownership and disposition of Spirit Ordinary Shares received in the Demerger. This discussion is based on the Internal Revenue Code of 1986, as amended (the “Code”), the administrative pronouncements, judicial decisions and final, temporary and proposed US Treasury regulations thereunder, all as currently in effect. These laws and interpretations thereof are subject to change, possibly on a retrospective basis. They are intended only as a general guide and apply only to Spirit Ordinary Shareholders receiving Spirit Ordinary Shares in the Demerger who are subject to US federal income tax, who are the beneficial owners of Punch Ordinary Shares or Spirit Ordinary Shares and who hold those Punch Ordinary Shares or Spirit Ordinary Shares as capital assets for US federal income tax purposes. The following comments may not apply to special classes of persons such as dealers and traders, financial institutions, insurance companies, persons who acquired their holding by reason of their employment, persons actually or constructively holding 10% or more of Spirit’s shares, persons holding the Spirit Ordinary Shares as part of a hedge, straddle, conversion or other integrated financial transaction, persons resident or ordinarily resident in the United Kingdom, persons holding Spirit Ordinary Shares through a permanent establishment or fixed base outside of the United States and persons whose functional currency for US federal income tax purposes is not the US dollar. US Holders (as defined below) should consult their own tax advisors concerning the US federal, state, local and non-US tax consequences of the Demerger and the ownership and disposal of Spirit Ordinary Shares.

THE STATEMENTS ABOUT US FEDERAL INCOME TAX CONSIDERATIONS ARE MADE TO SUPPORT MARKETING OF THE DEMERGER AND THE SPIRIT ORDINARY SHARES. NO TAXPAYER CAN RELY ON THEM TO AVOID TAX PENALTIES. EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISER ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF PARTICIPATING IN THE DEMERGER AND THE ACQUISITION, OWNERSHIP AND DISPOSITION OF SPIRIT ORDINARY SHARES UNDER THE LAWS OF THE UNITED KINGDOM, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS AND ANY OTHER JURISDICTION WHERE THE PROSPECTIVE PURCHASER MAY BE SUBJECT TO TAXATION.

As used here, “US Holder” means a beneficial owner of Punch Ordinary Shares or Spirit Ordinary Shares that for US federal income tax purposes is (i) an individual citizen or resident of the United States, (ii) a corporation or other business entity treated as a corporation created or organized under the laws of the United States or its political subdivisions, (iii) a trust subject to the control of a US person and the primary supervision of a US court or (iv) an estate the income of which is subject to US federal income tax without regard to its source.

The tax consequences to a partner in a partnership (or other entity treated as a partnership for US federal income tax purposes) holding Punch Ordinary Shares or Spirit Ordinary Shares generally will depend on the status of the partner and the activities of the partnership. Partners of a partnership holding Punch Ordinary Shares or Spirit Ordinary Shares should consult their own tax advisers about the US federal income tax consequences to them of the partnership participating in the Demerger and acquiring, owning and disposing of Spirit Ordinary Shares.

Any Shareholder or Spirit Ordinary Shareholder who is in any doubt about their taxation position should consult their own professional advisers without delay.

1. Demerger

Subject to the discussion of the “passive foreign investment company” rules in the following paragraph, the receipt of Spirit Ordinary Shares by a US Holder in the Demerger should qualify as a tax-free distribution under Section 355(a)(1) of the Code. US Holders are advised that an advance ruling from the US Internal Revenue Service (“IRS”) regarding the Demerger has not been sought. Consequently the principal US federal income tax consequences of the receipt of Spirit Ordinary Shares for a US Holder should be as follows:

- (a) no gain or loss should be recognised by a US Holder upon the receipt of Spirit Ordinary Shares;

- (b) a US Holder should apportion its tax basis in the Punch Ordinary Shares between such shares and the Spirit Ordinary Shares received in proportion to the relative fair market value of the Punch Ordinary Shares and the Spirit Ordinary Shares on the date on which the Spirit Ordinary Shares are distributed;
- (c) a US Holder's holding period for the Spirit Ordinary Shares should include the period during which the US Holder held the Punch Ordinary Shares; and
- (d) a US Holder should be required to attach a statement to its US federal income tax return for the taxable year in which the Spirit Ordinary Shares are received setting forth information showing the applicability of Section 355 of the Code to the receipt of Spirit Ordinary Shares.

Alternatively, if Punch were classified as a "passive foreign investment company" or "PFIC" for the current taxable year or any prior taxable year in which a US person held Punch Ordinary Shares with respect to which such US person will receive Spirit Ordinary Shares in the Demerger, such US person generally would recognize their gain (but not loss) with respect to a proportionate part of the Punch Ordinary Shares as though such shares had been disposed of in a fully taxable transaction at their fair market value on the date of the Demerger. In addition, such gain recognised by such US Holder on a sale or other disposition of a Punch Ordinary Share would be allocated ratably over the US Holder's holding period for the Punch Ordinary Share. The amount allocated to the taxable year of the sale or other exchange and to any year before Punch became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, and an interest charge would be imposed on the amount allocated to such taxable year. Punch shareholders that are US persons are urged to consult their own tax advisers regarding the possible application of the PFIC rules to the receipt of Spirit Share in the Demerger in their particular circumstances. See "– Passive foreign investment company rules" below.

If the receipt of the Spirit Ordinary Shares in the Demerger is not considered to be received as a tax free distribution under Section 355(a)(1) of the Code, a US Holder receiving Spirit Ordinary Shares would, subject to the PFIC rules discussed below, be treated as receiving a dividend in an amount equal to the fair market value of such Spirit Ordinary Shares. If this characterization prevails, US Holders would have a basis in their Spirit Ordinary Shares equal to their fair market value at the time received. The amount of any dividend should be treated as foreign-source dividend income for US foreign tax credit limitation purposes and should not be eligible for the dividends-received deduction generally allowed to US corporations. Non-corporate US Holders who meet certain holding period and other requirements should be eligible for the reduced rate on qualified dividend income in respect of dividends received before 2013, if Punch qualifies for benefits under the income tax treaty between the United Kingdom and the United States. Punch currently expects to qualify for benefits under that treaty, provided that its shares are "regularly traded" on the London Stock Exchange within the meaning of the treaty. Non-corporate US Holders should consult their own tax advisers to determine whether they are subject to any special rules that limit their ability to be taxed at this favourable rate. Holders should treat the Punch Ordinary Shares in the same manner and as having the same attributes (including the same basis and holding period) as they had prior to the Demerger.

2. Taxation of distributions on Spirit Ordinary Shares

Subject to the PFIC rules discussed below, distributions paid on Spirit Ordinary Shares, other than certain *pro rata* distributions of ordinary shares, should be treated as dividends. Non-corporate US Holders who meet certain holding period and other requirements should be eligible for the reduced rate on qualified dividend income in respect of dividends received before 2013, provided that Spirit qualifies for benefits under the income tax treaty between the United Kingdom and the United States and is not a PFIC in either the current taxable year or 2012. Spirit currently expects to qualify for benefits under that treaty, provided that its shares are "regularly traded" on the London Stock Exchange within the meaning of the treaty. Non-corporate US Holders should consult their own tax advisers to determine whether they are subject to any special rules that limit their ability to be taxed at this favourable rate.

The amount of any dividend should be treated as foreign-source dividend income for US foreign tax credit limitation purposes and should not be eligible for the dividends-received deduction generally allowed to US corporations.

Dividends paid in pounds sterling should be included in income in a US dollar amount calculated by reference to the exchange rate in effect on the date of the US Holder's receipt of the dividend, regardless of whether the payment is in fact converted into US dollars. If the dividend is converted into US dollars on the date of receipt, a US Holder generally should not be required to recognize a foreign currency gain or loss in respect of the dividend. A US Holder's basis in any pounds sterling received should be equal to the US dollar amount included in income. A US Holder may have a foreign currency gain or loss on a later conversion of currency received if it does not convert such currency into US dollars on the date of its receipt.

3. Sale and other dispositions of Spirit Ordinary Shares

Subject to the PFIC rules discussed below, a US Holder should recognize a capital gain or loss for US federal income tax purposes on a sale or other disposition of Spirit Ordinary Shares in an amount equal to the difference between the US dollar value of the amount realized and the US Holder's tax basis, determined in US dollars. A US Holder's adjusted tax basis in the Spirit Ordinary Shares generally will be a *pro rata* portion of such holder's adjusted tax basis in the Punch Ordinary Shares held immediately prior to the Demerger, provided that the Demerger qualifies under Section 355(a)(1) and Punch was not a PFIC with respect to such holder. Any gain or loss generally will be treated as arising from US sources for foreign tax credit limitation purposes. Such capital gain or loss should be long term if the US Holder has held the Spirit Ordinary Shares for more than one year. For non-corporate US Holders, long-term capital gains are currently eligible for reduced rates of taxation. A US Holder's ability to deduct capital losses, if any, against ordinary income is subject to limitations.

A US Holder that receives non-US currency on the disposition of Spirit Ordinary Shares will realize an amount equal to the US dollar value of the currency received at the spot rate on the date of disposition (or, if the Spirit Ordinary Shares are traded on an "established securities market", and the US Holder is a cash basis or an electing accrual basis US Holder, the settlement date). The US Holder will recognize gain or loss if the US dollar value of the currency received at the spot rate on the settlement date differs from the amount realized. A US Holder will have a tax basis in the currency received equal to its value at the spot rate on the settlement date. Any gain or loss realized on the settlement date or on a subsequent conversion or other disposition of the currency for a different US dollar amount generally will be US source ordinary income or loss.

4. Passive foreign investment company rules

Punch

In general, a non-US corporation is a "passive foreign investment company" or "PFIC" for any taxable year in which either (i) at least 75% of its gross income is passive income or (ii) at least 50% of the average value of its assets is attributable to assets that produce or are held to produce passive income (in each case treating the corporation as earning a proportionate part of the gross income of and holding a proportionate part of the assets of each 25% or more owned subsidiary). Although Punch believe that it is not and has not been a PFIC for its current or prior taxable years, this is a factual determination and the US tax rules applicable to company's engaged in a leasing business are not entirely clear. Accordingly, it is possible that Punch may be or have been classified as a PFIC for its current or prior taxable years or that the IRS might take that position and a court might sustain it.

If Punch were classified as a PFIC for the current taxable year or any prior taxable year in which a US person held Punch Ordinary Shares with respect to which such US person will receive Spirit Ordinary Shares in the Demerger, such US person generally would recognize their gain (but not loss) with respect to a proportionate part of the Punch Ordinary Shares as though such shares had been disposed of in a fully taxable transaction at their fair market value on the date of the Demerger. In addition, such gain would not qualify for long-term capital gain rates, but instead would be deemed to have been earned ratably over the period such US person owned the Punch Ordinary Shares (or the first year that Punch was a PFIC while such US Person owned Punch Ordinary Shares, if shorter), would be taxed at the top ordinary income tax rates applicable to each such year, and would be subject to an interest charge for the deemed deferral in payment of the tax.

Spirit

Spirit believes that it will not be considered a “passive foreign investment company” (“**PFIC**”) for US federal income tax purposes for its current taxable year or in the foreseeable future. However, since PFIC status depends upon the composition of a company’s income and assets and the market value of its assets (including, among others, less than 25% owned equity investments) from time to time, there can be no assurance that Spirit will not be considered a PFIC for any taxable year. If Spirit were treated as a PFIC for any taxable year during which a US Holder held a Spirit Ordinary Share, certain adverse tax consequences could apply to the US Holder.

If Spirit were treated as a PFIC for any taxable year in which a US Holder owns or is treated as having owned Spirit Ordinary Shares, gains recognised by such US Holder on a sale or other disposition of a Spirit Ordinary Share would be allocated rateably over the US Holder’s holding period for the Spirit Ordinary Share. The amount allocated to the taxable year of the sale or other exchange and to any year before Spirit became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, and an interest charge would be imposed on the amount allocated to such taxable year. Further, any distribution in respect of a Spirit Ordinary Share in excess of 125% of the average of the annual distributions on Spirit Ordinary Shares received by the US Holder during the preceding three years or the US Holder’s holding period, whichever is shorter, would be subject to taxation as described above.

The tax consequences that would apply if Spirit were a PFIC would be different from those described above if a “mark-to-market” election is available and a US Holder validly makes such an election as of the beginning of such US Holder’s holding period for the Spirit Ordinary Shares. If such election is made, (i) such US Holder generally would be required to take into account, as ordinary income, the excess of the fair market value of its Spirit Ordinary Shares held at the end of the taxable year over the adjusted tax basis of such Spirit Ordinary Shares and (ii) deduct as a loss the excess of the adjusted tax basis of such Spirit Ordinary Shares over the fair market value of such Spirit Ordinary Shares held at the end of the taxable year, but only to the extent of the amount previously included in income as a result of the mark-to-market election. The US Holder’s basis in its Spirit Ordinary Shares would be adjusted to reflect any income or loss resulting from the mark-to-market election. Any gain from a sale, exchange or other disposition of the Spirit Ordinary Shares in any taxable year in which Spirit is a PFIC would be treated as ordinary income and any loss from such sale, exchange or other disposition would be treated first as ordinary loss (to the extent of any net mark-to-market gains previously included in income) and thereafter as capital loss. If a US Holder makes a mark-to-market election and the corporation ceases to be classified as a PFIC, the US Holder will not be required to take into account the gain or loss in the manner described above during any period that such corporation is not classified as a PFIC. A mark-to-market election is available to a US Holder only if the Spirit Ordinary Shares are considered “marketable stock”. The Spirit Ordinary Shares will be marketable stock for any year in which the Spirit Ordinary Shares are traded other than in de minimis quantities on the London Stock Exchange. A US Holder would not avoid the tax consequences described above by electing to treat Spirit as a qualifying electing fund (a “**QEF**”) because Spirit does not intend to provide the information that a US Holder would need in order to make a QEF election. Spirit shareholders that are US persons are urged to consult their own tax advisers regarding the possible application of the PFIC rules to the receipt of Spirit Share in the Demerger in their particular circumstances, including regarding the possibility of making a mark-to-market election as described above.

In addition, if Spirit were treated as a PFIC in a taxable year in which it pays a dividend or in the prior taxable year, the reduced rate on qualified dividend income, discussed above with respect to dividends paid to certain non-corporate US Holders, would not apply.

5. Information reporting and backup withholding

Payment of dividends on, and sales proceeds from the sale of, Spirit Ordinary Shares that are made within the United States or through certain US-related financial intermediaries generally are subject to information reporting and to backup withholding unless the US Holder is a corporation or other exempt recipient or, in the case of backup withholding, the US Holder provides a correct taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. The amount of any backup withholding from a payment to a US Holder will be allowed as a credit against the holder’s US federal income tax liability and may entitle such holder to a refund, provided that the required information is furnished to the Internal Revenue Service. If Spirit

is a PFIC with respect to any US Holder, that US holder must comply with certain additional information reporting requirements.

Recently enacted legislation requires certain non-corporate US Holders to report information with respect to their investment in financial instruments not held through an account with a financial institution to the Internal Revenue Service. Investors who fail to report required information could become subject to substantial penalties. Potential investors are encouraged to consult with their own tax advisers about reporting obligations arising from their investment in the Spirit Ordinary Shares.

PART IX

ADDITIONAL INFORMATION

1. Responsibility statement from Punch directors

The Directors and the Company, whose names are set out in section 3 below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Incorporation and registered office

The Company was incorporated and registered in England and Wales as a private company limited by shares on 15 April 1999 (registered number 03752645) with the name Bestfan Limited. On 8 July 1999, the Company's name was changed to Punch Group Limited. On 14 May 2002, the Company was re-registered as a public company limited by shares and its name was changed to Punch Taverns plc.

The Company is domiciled in England and Wales and its registered and head office is at Jubilee House, Second Avenue, Burton-upon-Trent, Staffordshire DE14 2WF.

3. Directors of the Company

Name	Position
Peter Cawdron	Non-Executive Chairman
Ian Dyson	Chief Executive Officer
Steve Dando	Finance Director
Roger Whiteside	Managing Director – Punch Partnerships (Leased)
Mike Tye	Managing Director – Punch Pub Company (Managed)
Tony Rice	Senior Independent Non-Executive Director
Ian Fraser	Independent Non-Executive Director
Mark Pain	Independent Non-Executive Director
Walker Boyd	Independent Non-Executive Director

(A) Biographies of Punch Directors following the Demerger

Peter Cawdron – Chairman

Peter Cawdron, 67, was appointed non-executive Chairman of the Company in January 2007, having joined Punch as a non-executive Director in May 2003. He retired from the board of Grand Metropolitan plc in 1997, where he had held the position of group strategy director for 10 years and group planning director for four years. Previously, he had spent six years in the United States as chief financial officer of D'Arcy MacManus & Masius Worldwide, Inc., the international advertising agency business based in New York and seven years at S.G.Warburg & Co. Ltd in London. Mr Cawdron qualified as a Chartered Accountant in 1966 at Peat, Marwick, Mitchell & Co. He is also a non-executive director of British United Provident Association Limited.

Roger Whiteside – Chief Executive Officer

Roger Whiteside, 53, was appointed to the Board of Punch in November 2008 as Managing Director of the leased business. Mr Whiteside has nearly 30 years' experience in retail, notably with Marks and Spencer plc (1979-2000), Ocado and Thresher. He has considerable experience in leadership roles having sat on the Marks and Spencer UK operating board as head of food and he was joint managing director at Ocado from 2000 to 2003. He joined the Thresher Group where he was chief executive officer from 2004 until 2007 during which time he led the strategic review culminating in the restructuring and subsequent sale of Thresher. In addition, Mr Whiteside is a non-executive director of Greggs plc.

Steve Dando – Finance Director

Steve Dando, 39, joined Punch in 2003 as Chief Accountant and was promoted to Finance Director in May 2011. During his time with Punch, Mr Dando has played a major role in the development of the group and has a wealth of experience, previously holding a number of senior

finance roles with Courtaulds Plc. He is a member of the Institute of Chartered Accountants in England and Wales, having started his career at PricewaterhouseCoopers.

Ian Fraser – Non-executive Director

Ian Fraser, 54, was appointed as an independent non-executive Director in September 2004. Mr Fraser started his professional career with Deloitte in Glasgow and Paris, qualifying as an accountant in 1981. From this he moved to hold various financial positions with Esmark, Schlumberger and ADT before joining Safeway Stores in the UK in 1989 as a member of the commercial team. Following several senior positions Mr Fraser was appointed as buying director of Safeway in 1994. In 2000 he joined Orange UK to lead the Retail and Distribution Division and was appointed chief operating officer of the UK group in 2003. In February 2005 he was appointed by CVC as chief executive officer of Kwik-Fit, a position he held until the successful sale to Itochu Corporation in June 2011. Mr Fraser is a graduate of the University of Glasgow, a member of the Institute of Chartered Accountants in Scotland and a Fellow of the Royal Society for the Encouragement of Arts, Manufactures and Commerce. He was also invited to become a Keeper of the Quaich in 1997.

Mark Pain – Non-executive Director

Mark Pain, 50, was appointed as an independent non-executive Director of Punch in December 2007. Following the Demerger, Mr Pain will continue as a non-executive Director of the Company for a transitional period. Mr Pain has a wealth of experience as a FTSE 100 main board director, covering a range of sectors, including: property, media, housebuilding, retail and wholesale banking, consumer finance, life assurance and general insurance. He served as chief financial officer of Barratt Developments Plc from 2006 to 2009. He was previously at Abbey National where he held a number of senior executive and group board positions, including: group finance director from 1998 to 2001 and customer sales director from 2002 to 2005. Mr Pain is a Fellow of the Institute of Chartered Accountants in England and Wales.

Ian Dyson – Non-executive Director

Please see the biography of Mr Dyson in section (B) below.

(B) Biographies of Spirit Directors following the Demerger

Walker Boyd – Chairman

Walker Boyd, 59, is the Non-Executive Chairman of Spirit. Mr Boyd is also currently non-executive chairman of WH Smith plc. He has substantial retail expertise in both the UK and the USA. He retired as group finance director of Signet Jewellers Limited in June 2010 (previously Signet Group Plc) having held this position since 1995. Prior to that Mr Boyd was finance director of Signet's UK Jewellery division from 1992. Mr Boyd was appointed a non-executive Director of Punch on 12 April 2011 and will step down from the Board of Directors of Punch upon completion of the Demerger.

Ian Dyson – Chief Executive Officer

Ian Dyson, 49, is the Chief Executive Officer of Spirit. Mr Dyson is currently Chief Executive Officer of Punch and will become a non-executive Director of Punch for a limited period following the Demerger. Mr Dyson was previously with Marks and Spencer plc where he was group finance and operations director and prior to that group finance director. He was formerly finance director of The Rank Group plc and financial controller of Hilton Group plc. Mr Dyson was appointed a non-executive director of the then Betfair Limited (now Betfair plc) in February 2010.

Mike Tye – Deputy Chief Executive Officer

Mike Tye, 57, is currently an executive Director of Punch, a position from which he will step down upon completion of the Demerger. Mr Tye has spent over 20 years working in many different areas of the leisure business, mainly with Whitbread, Forte and Aramark. In recent years, he has been managing director of Costa Coffee; managing director of Premier Travel Inn (where he led the acquisition and integration of Premier Lodge with Travel Inn); and managing director of David Lloyd Leisure, where he led the business turnaround and sale of the company. He has spent a number of years working in the retail pub and casual dining markets, after an early career in managing FMCG brands and running his own wine and spirit retail and wholesale business.

Russell Margerrison – Interim Finance Director

Russell Margerrison, 51, joined the Punch Group in January 2011 as group business planning director with responsibility for leading the operational demerger of the Spirit Group from the Punch Group. He was appointed interim finance director of the Spirit in June 2011. Mr Margerrison was

previously managing director trading and finance director for Tour Operations at Thomas Cook, finance director at Rank Holidays and has spent 15 years in various management positions with Bass.

Tony Rice – Non-executive Director

Tony Rice, 59, was appointed as an independent non-executive Director of Punch in December 2007, a position from which he will step down prior to Admission. Mr Rice spent 16 years with BAE Systems (formerly British Aerospace) where he had various roles from 1986 to 2002, culminating in the role of group managing director of Commercial Aircraft responsible for the UK Airbus and commercial aircraft business. He then spent three years at Tunstall plc as chief executive from 2002 until its sale to Bridgepoint in 2005. Mr Rice is chief executive officer of Cable and Wireless Communications where he is responsible for the international business consisting of 38 telecoms companies in various locations around the world. He was also a non-executive director and chairman of the audit committee at Cable & Wireless from 2003 to 2006 and at Telewest from 2000 to 2003.

Mark Pain – Non-executive Director

Please see the biography of Mr Pain in section (A) above.

Christopher Bell – Non-executive Director

Chris Bell, 53, will be appointed as a non-executive Director of Spirit with effect from the Demerger Effective Time. Mr Bell has been chairman of GAME Group plc since June 2011, having joined the board in 2003 as a non-executive director. He was chief executive officer of Ladbrokes plc between 2006 and 2010. Prior to that, he spent six years as managing director at Hilton Group and eight years as managing director at Ladbroke Group. Mr Bell is also currently senior independent director of Quintain Estates and Development. He has also been a board member of the Responsible Gambling Strategy Board (“**RGSB**”) since 2009. The RGSB advises the Government on gambling strategy and regulation and Mr Bell’s board membership has recently been renewed for a further two years.

4. Directors’ interests in the Company

As at 6 July 2011 (being the latest practicable date prior to the publication of this document), the interests of each Director in the share capital of the Company, including interests arising pursuant to any transaction notified to the Company pursuant to rule 3.1.2 of the Disclosure and Transparency Rules made by the FSA pursuant to FSMA, are:

Director	Number of Punch Ordinary Shares	Percentage of the issued Punch Ordinary Shares
Peter Cawdron	29,018	0.01
Ian Dyson	402,084	0.06
Roger Whiteside	27,969	0.00
Mike Tye	69,892	0.01
Tony Rice	503,013	0.08
Ian Fraser	29,177	0.01
Mark Pain	29,177	0.01
Walker Boyd	—	—
Steve Dando	24,064	0.00

Certain Directors have the following options that enable them to subscribe for Punch Ordinary Shares under a number of incentive plans:

Director	Number of options over Punch Ordinary Shares
Ian Dyson	4,737,814
Roger Whiteside	1,345,445
Mike Tye	1,640,647
Steve Dando	485,979

Mr Tye is the single participant in a special incentive scheme under which he may become entitled to a cash payment depending on the extent to which performance conditions are satisfied. Mr Tye's award will vest upon the completion of the Demerger, subject to the achievement of the applicable performance conditions at that time. A valuation will be undertaken as at the completion of the Demerger to assess the extent to which the performance conditions have been satisfied and the resulting amount of any payment due to Mr Tye under this scheme. Any such amount payable to Mr Tye under this scheme will be borne by the Spirit Group.

5. Directors' Service Contracts and Letters of Appointment

Details of the service contracts of the Directors, other than Walker Boyd, are set out on pages 46, 47 and 48 of Punch's Annual Report and Accounts for the year ended 21 August 2010, which is incorporated by reference into this document. The key terms of Walker Boyd's letter of appointment are identical to those of the other non-executive Directors but his appointment commenced on 6 April 2011.

With effect from the completion of the Demerger, and the changes to the Punch Board, there will be no service contracts between any Director and any member of the Punch Group except for the contracts and letters of appointment listed below:

Executive Director	Contract date	Notice period	Annual salary	Maximum bonus as percentage of basic salary
Roger Whiteside	14 October 2008	12 month rolling contract	£430,000	250
Steve Dando	10 May 2011	12 month rolling contract	£275,000	200

The executive Directors participate in a performance-related bonus scheme which, dependent on the financial performance of Punch Group during the financial year and each executive Director's achievement of their own personal objectives, may result in a payment of a percentage of their basic salary with one third of any amount payable being deferred for two years. The maximum bonus as a percentage of basic salary for each director for the financial year that will begin 21 August 2011 is set out above.

Non-executive Director	Date of letter of appointment	Unexpired term (years)	Notice period (months)	Fees
Peter Cawdron	18 June 2003	3	12	£155,000
Ian Fraser	22 September 2004	1	1	£52,000
Ian Dyson	3 May 2011	3	1	£42,000
Mark Pain	19 October 2007	1	1	£42,000

There are no agreements in existence between the Directors and the Company or any of its subsidiaries that provide for any payments or benefits upon termination of their service contracts other than accrued benefits as at the date of termination and payments in respect of notice periods.

6. Significant Shareholders

In so far as is known to the Company as at 6 July 2011 (being the latest practicable date prior to the publication of this document), the following persons are interested directly or indirectly in 3 per cent. or more of the Company's share capital, and the amount of such person's interest, is as follows:

Shareholder	Percentage of Share Capital
Glenview Capital Management	20.45
Alchemy Special Opportunities	6.30
Old Mutual Asset Managers	5.42
Schroders	5.05
GLG Partners LP	4.71
D. E. Shaw	4.50
Aberforth	4.44
Barclays plc	4.23
Norges Bank	4.07
Legal & General	3.97
Royal Bank of Canada	3.63

None of the major Shareholders in the Company has different voting rights.

As at 6 July 2011 (being the latest practicable date prior to publication of this document), the Company is not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company nor is it aware of any arrangements the operation of which may, at a subsequent date, result in a change in control of the Company.

7. Related party transactions

Details of related party transactions (which for these purposes are those set out in the standards adopted according to Regulation (EC) No 1606/2002), the Punch Group has entered into:

- (A) during the financial year ended 23 August 2008 are disclosed in accordance with the respective standard adopted according to Regulation (EC) No 1606/2002 in note 35 on page 101 of Punch's 2008 Annual Report and Accounts;
- (B) during the financial year ended 22 August 2009 are disclosed in accordance with the respective standard adopted according to Regulation (EC) No 1606/2002 in note 33 on pages 101 and 102 of Punch's 2009 Annual Report and Accounts;
- (C) during the financial year ended 21 August 2010 are disclosed in accordance with the respective standard adopted according to Regulation (EC) No 1606/2002 in note 31 on pages 103 and 104 of Punch's 2010 Annual Report and Accounts; and
- (D) during the 28 weeks ended 5 March 2011 are disclosed in accordance with the respective standard adopted according to Regulation (EC) No 1606/2002 in note 10 on page 23 of Punch's Interim Results for the 28 weeks ended 5 March 2011; and
- (E) during the period from 5 March 2011 up to 6 July 2011 (being the latest practicable date prior to the publication of this document), are disclosed in accordance with the respective standard adopted according to Regulation (EC) No 1606/2002 and are as follows:
 - (i) On 1 July 2011, an amount of £61,000,000 was transferred to Spirit Pub Company (Holdco) Limited by Punch as part of the cash allocation described in Section 6 of Part I of this document in consideration for a further issue of shares by Spirit Pub Company (Holdco) Limited to Punch.

- (ii) On 30 June 2011, it was agreed that certain tax reliefs and allowable capital losses would be reallocated between various members of the Accounts Group and the Continuing Group and on 5 July 2011 a net amount of £13,021,901 was transferred in respect of that reallocation to members of the Accounts Group by members of the Continuing Group.
- (iii) In addition, on 5 July 2011, members of the Accounts Group received an aggregate amount of £6,000,000 from members of the Continuing Group in respect of the reimbursement of certain prepayments made by members of the Accounts Group for goods and services which but for the Demerger would have been provided by members of the Continuing Group to members of the Accounts Group.

8. Summary of material contracts of Punch

The following contracts (not being contracts entered into in the ordinary course of business) are contracts which have been entered into by members of the Punch Group (a) within the two years immediately preceding the date of this document which are, or may be, material to the Continuing Group or (b) at any time and which contain provisions under which any member of the Continuing Group has any obligations or entitlements which are, or may be, material to the Continuing Group as at the date of this document:

Demerger Agreement

The Demerger Agreement was entered into on 7 July 2011 between Punch and Spirit to effect the Demerger and to govern the relationship between the Punch Group and the Spirit Group following the Demerger. The Demerger Agreement is conditional upon the passing of the Demerger Resolution, the approval by the Board of Punch of the Demerger Dividend, the UKLA having acknowledged (and such acknowledgement not having been withdrawn) that the application for Admission has been approved and will become effective as soon as a dealing notice has been issued, the London Stock Exchange having acknowledged (and such acknowledgement not having been withdrawn) that the Spirit Ordinary Shares will be admitted to trading and the Spirit Sponsor's Agreement not having terminated in accordance with its terms.

Punch and Spirit have agreed pursuant to the Demerger Agreement that:

- (A) upon the Demerger Dividend being declared by the Punch Board, Punch shall transfer the entire issued share capital of Spirit Pub Company (Holdco) Limited to Spirit, and Spirit shall issue the Spirit Ordinary Shares to any member on the Punch Share Register as at the Demerger Record Time;
- (B) upon the transfer of the shares in Spirit Pub Company (Holdco) Limited to Spirit, Punch shall grant Spirit a power of attorney over those shares pending registration of Spirit's holding; and
- (C) any amounts outstanding between any member of the Punch Group and any member of the Spirit Group shall be settled by payment to the relevant company in the normal course, except for amounts that relate to intra-group financing or similar arrangements or in respect of which no payment terms have previously been agreed which shall be repaid or settled as soon as reasonably practicable following completion of the Demerger Agreement.

The Demerger Agreement contains mutual indemnities under which Spirit indemnifies the Punch Group against liabilities arising in respect of the Spirit Business and Punch indemnifies the Spirit Group against liabilities arising in respect of the business carried on by the Punch Group other than the Spirit Business. These mutual indemnities are unlimited in terms of amount and duration and are customary for an agreement of this type.

The Demerger Agreement sets out how guarantees, indemnities or other assurances given by Continuing Group companies for the benefit of Spirit Group companies (or vice versa) will be dealt with following the Demerger. In terms of the Demerger Agreement, the beneficiary of such a guarantee must generally seek to obtain the guarantor's release from the guarantor's obligations thereunder and, pending release, indemnify the guarantor against all amounts paid by it under the guarantee and ensure that the guarantor's exposure under the guarantee is not increased.

Both the Continuing Group and the Spirit Group will be permitted access to each other's records for a period of six years following the Demerger. In addition, Spirit has agreed to provide Punch with such information as Punch may reasonably require in order to prepare its monthly management accounts for the period ending on 23 July 2011 and its full year audited accounts for the year ending 20 August 2011. Punch has agreed to provide Spirit with such information as may

reasonably be required by Spirit to prepare its solus and consolidated audited accounts for its first financial period ending 20 August 2011, as well as any information reasonably required by any other member of the Spirit Group to prepare its solus statutory accounts for the year ending 20 August 2011.

To the extent not achieved prior to completion of the Demerger Agreement, reasonable endeavours are to be used to ensure that contracts in the name of one group member whereby a member of the other group is deriving the benefit of that contract are novated to the relevant member of the other group, pending which the contracting party shall hold the benefit of that contract on trust for the relevant member of the other group. If there are any contracts which have been entered into by one group member in relation to matters which affect both the Punch Business and the Spirit Business or have been entered into by both the Punch Group and the Spirit Group each in respect of its respective business then Punch and Spirit shall co-operate fully to procure that the relevant contract is either split or replicated, as appropriate.

The parties have covenanted for a period of one year not to employ, solicit or contact with a view to employing certain senior employees (as set out in the Demerger Agreement) of the other.

Both groups have agreed to keep certain information on the other group confidential, subject to certain customary exemptions.

The Demerger Agreement will terminate if the conditions set out above have not been satisfied by 1 August 2011 (or such other date as the parties may agree). Punch is entitled to terminate the Demerger Agreement at any time prior to completion of the Demerger.

Demerger Tax Deed

The Demerger Agreement also requires Punch and Spirit to enter into a deed of tax covenant (the “**Demerger Tax Deed**”). The Demerger Tax Deed contains indemnities relating to taxation. Subject to certain exceptions, Punch indemnifies the Spirit Group against tax liabilities arising as a result of the Demerger or certain pre-Demerger reorganisation steps. Punch also indemnifies the Spirit Group against certain tax liabilities which are properly liabilities of the Punch Group being imposed on a member of the Spirit Group and against tax liabilities arising as a result of a member of the Punch Group making a chargeable payment within the meaning of section 1088 of the Corporation Tax Act 2010 (a “**Chargeable Payment**”) and Spirit indemnifies the Punch Group against certain tax liabilities which are properly liabilities of the Spirit Group being imposed on a member of the Punch Group and against tax liabilities arising as a result of a member of the Spirit Group making a Chargeable Payment or taking any other action after the Demerger which prevents the transfer of the shares in Spirit Pub Company (Holdco) Limited and the issue of Spirit Ordinary Shares by Spirit pursuant to the Demerger Agreement from being an exempt distribution for the purposes of section 1075 of the Corporation Tax Act 2010. All of these indemnities are subject to a de minimis of £100,000 but are otherwise unlimited in terms of amount. They do not cover liabilities which have not been notified by the indemnified party to the indemnifying party within eleven years and 30 days after the end of the accounting period in which the Demerger occurs.

Various members of the Punch Group were required, under the terms of each of the three securitisations, to enter into deeds of tax covenant. Each deed of tax covenant contains various restrictions and requirements on certain members of the Punch Group where the effect of breaching such restrictions and requirements could lead to a liability to tax of a company within the relevant securitisation net. Certain members of the Spirit Group are parties to the deed of tax covenant relating to the Punch A Securitisation, and certain companies that will be members of the Punch Group after the demerger are parties to the deed of tax covenant relating to the Spirit Debenture.

The Demerger Tax Deed contains indemnities relating to the Punch A and Punch B deeds of tax covenant under which, broadly: Punch indemnifies the Spirit Group against its liabilities under those deeds of tax covenant save where they arise as a result of a member of the Spirit Group either not discharging its own liabilities to tax or breaching any of its obligations under those deeds; and Spirit indemnifies the Punch Group against its liabilities under those deeds of tax covenant where they arise as a result of a member of the Spirit Group either not discharging its own liabilities to tax or breaching any of its obligations under those deeds. Similarly, the Demerger Tax Deed contains indemnities relating to the Spirit Debenture deed of tax covenant under which, broadly: Spirit indemnifies the Punch Group against its liabilities under that deed of tax covenant save where they arise as a result of a member of the Punch Group either not discharging its own liabilities to tax or breaching any of its obligations under that deed; and Punch indemnifies the

Spirit Group against its liabilities under that deed of tax covenant where they arise as a result of a member of the Punch Group either not discharging its own liabilities to tax or breaching any of its obligations under that deed. The indemnities described in this paragraph are unlimited in terms of amount or duration.

The Demerger Tax Deed also contains certain administrative requirements on each of Spirit and Punch which have the aim of maximising the likelihood of members of the Spirit Group being able to surrender around £55.2m of group relief to members of the Punch Group in respect of the period up to Demerger.

Punch Sponsor's Agreement

Punch and the Sponsor have entered into a sponsor's agreement dated 7 July 2011 which sets out the terms on which Punch has appointed Goldman Sachs International to act as sponsor in relation to the publication of this Circular. The agreement contains warranties and undertakings given by Punch that are customary for an agreement of this kind. In addition, it contains indemnities from Punch in favour of the Sponsor in respect of certain liabilities connected with the Demerger and the publication of this Circular, which, again, are customary for an agreement of this kind. These warranties and indemnities are not capped and do not have any contractual time limits. Pursuant to the Punch Sponsor's Agreement, the Sponsor may terminate the agreement in certain limited circumstances.

Punch has agreed to bear all fees, costs, charges and expenses of, or incidental to, the Demerger and Admission, including without limitation, the fees and expenses of its and Spirit's professional advisors, the costs of preparation, printing and distribution of this document and all other documents connected with the Demerger and Admission, the listing fees of the UKLA, any charges by CREST and the fees of the London Stock Exchange.

Securitisations

The Punch Group has raised cash by issuing listed notes from three separate securitisation structures, the repayment obligations relating to which are secured over various assets of the Punch Group. Under the Punch A Securitisation, Punch Taverns Finance plc has issued nine currently outstanding series of fixed and floating rate notes with an aggregate principal value of £1,591 million as at 5 March 2011 and maturity dates from 2020 to 2033. Under the Punch B Securitisation, Punch Taverns Finance B Limited has issued seven currently outstanding series of fixed and floating rate notes, with an aggregate principal value of £965.9 million as at 5 March 2011 and maturity dates from 2022 to 2035. Under the Spirit Debenture, Spirit Issuer plc has issued five currently outstanding series of debenture bonds, with an aggregate principal value of £885.2 million as at 5 March 2011 and maturity dates from 2021 to 2034.

Under the terms of the securitisations, amounts outstanding in respect of the notes have been loaned by the relevant issuer to the pub-owning companies in each securitisation (the "**Issuer/Borrower Facility Agreements**") and are secured by way of fixed and floating charges over all of the assets and undertakings in the group of companies to which each securitisation relates. As at 5 March 2011, approximately 3,003 pubs are within the Punch A Securitisation, approximately 2,113 pubs are within the Punch B Securitisation and approximately 1,198 pubs are within the Spirit Debenture.

The indebtedness owing in respect of the securitisations is required to be repaid in accordance with agreed amortisation schedules up to, and including, the final maturity of the respective notes.

The interest payable on the floating rate notes (or notes that convert to floating rate notes) has been hedged to fixed rates. The securitisations include provisions that set out the payments to be made under the relevant issuer/borrower facility agreement and under the relevant notes on each interest payment date using available cash at the relevant time. The use of available cash for making payments and distributions to other members of the Punch Group and engaging in other activities, such as acquisitions, is only permitted after the payment or allocation of funds to pay fees, interest and principal repayments in respect of the securitisations and is further subject to the covenants discussed below.

Under the terms of the contractual documentation governing the securitisations, the operating companies in each securitisation are subject to certain financial and other covenants that restrict their business and operations and, indirectly, those of the Punch Group. A summary of such covenants in respect of the Punch A Securitisation and the Punch B Securitisation is set out

below. For information on the covenants relating to the Spirit Debenture, please see the section entitled "Spirit Debenture" in paragraph 9 below.

It should be noted that following the completion of the Demerger, the companies which are part of the Spirit Debenture and, accordingly, the Spirit Debenture itself, will no longer form part of the Punch Group but will, instead, form part of the Spirit Group.

Restricted payment conditions

The transaction documents governing the Punch A Securitisation and the Punch B Securitisation contain performance tests which restrict cash generated by the operating companies within a securitisation structure being paid to members of the Punch Group outside of the relevant securitisation unless, among other things, the DSCR is above a prescribed minimum. If the DSCR is not above such minimum, members of the relevant securitisation group will not be entitled to make upstream payments, subject to certain limited exceptions.

Acquisition conditions

The transaction documents governing the Punch A Securitisation and the Punch B Securitisation contain acquisition conditions which restrict each securitisation from making acquisitions other than acquisitions of pubs and similar businesses out of: (i) cash received by the relevant operating company from sales of pubs; (ii) the proceeds of a further note issuance; or (iii) cash that would otherwise be available to be paid upstream in accordance with the performance tests referred to above. In addition, where such acquisitions are made out of cash received from sales of pubs, the DSCR must be above a prescribed minimum, certain yield conditions in respect of the pubs proposed to be purchased must be met and the EBITDA of all pubs acquired since a certain date divided by the aggregate purchase price of such pubs, plus capital expenditure expended on such pubs, must be above a prescribed minimum.

Disposal conditions

The transaction documents governing the Punch A Securitisation and the Punch B Securitisation contain disposal conditions which restrict the ability of those securitisations to dispose of pubs except where the EBITDA of the pub to be disposed of together with the EBITDA of all pubs disposed of in that financial year do not exceed 7.5 per cent. (in the case of the Punch A Securitisation) or 10 per cent. (in the case of the Punch B Securitisation) of the total EBITDA of the pubs in the relevant securitisation for the financial year immediately preceding that in which the proposed disposal date falls. In addition, the securitisations are restricted to disposing of pubs where the EBITDA of the pub to be disposed of, when aggregated with the EBITDA of all pubs disposed of since 5 July 2007 (in the case of the Punch A Securitisation) or 1 August 2005 (in the case of the Punch B Securitisation), does not exceed 25 per cent. of the total EBITDA of the pubs in the relevant securitisation for the financial year immediately preceding that in which the proposed disposal date falls.

Financial covenants

The transaction documents governing the Punch A Securitisation and the Punch B Securitisation contain financial covenants which require the relevant securitisation to maintain: (i) the DSCR at or above prescribed minimums; (ii) a specified minimum net worth; and (iii) in the case of the Punch B Securitisation, a free cash flow (being EBITDA-adjusted to exclude the aggregate of (x) provisions released during the period, (y) the required minimum maintenance capital expenditure (to the extent not already deducted) and (z) any net taxes payable in the period (excluding deferred tax) and to include any provisions charged during the period) to debt service ratio above a prescribed minimum.

Joint Venture Agreement in relation to Matthew Clark Holdings Limited

Pursuant to a joint venture agreement dated 17 April 2007, Punch Taverns (PGE) Limited ("**PT**") (a subsidiary of the Company) and Hertford Cellars Limited ("**Hertford**") established a 50/50 joint venture entity, Matthew Clark Holdings Limited ("**MCHL**"). Hertford Cellars Limited was a subsidiary of Constellation Brands Inc. ("**Constellation**"). Following Constellation's sale of its Australian and UK business in February 2011, its 50 per cent. holding in MCHL is now held by a subsidiary of Accolade Wines. Accolade Wines is 80 per cent. owned by funds advised by CHAMP Private Equity and 20 per cent. owned by Constellation.

MCHL was established to acquire from Constellation all the issued shares in the capital of Matthew Clark Wholesale Limited, Forth Wines Limited and The Wine Studio Limited (together, the "**Matthew Clark Business**"). The joint venture agreement contains customary provisions regulating

the relationship between PT and Hertford and the conduct of the Matthew Clark Business, including certain restrictive covenants. The joint venture agreement entitles each of PT and Hertford to acquire the other's shares in MCHL in the event of: (i) unresolved deadlock (following the conclusion of a competitive process whereby each party is entitled to submit an offer for the other's shares); (ii) material default by the other; or (iii) insolvency of the other.

9. Summary of material contracts of Spirit

The following contracts (not being contracts entered into in the ordinary course of business) are contracts which have been entered into by Spirit or by members of the Spirit Group (a) within the two years immediately preceding the date of this document which are, or may be, material to Spirit or the Spirit Group or (b) at any time and which contain provisions under which any member of the Spirit Group has any obligations or entitlements which are, or may be, material to Spirit or the Spirit Group as at the date of this document:

Demerger Agreement

Please see the summary of the Demerger Agreement above, in section 8 of this Part IX.

Spirit Sponsor's Agreement

Spirit and the Sponsor have entered into a sponsor's agreement dated 7 July 2011 which sets out the terms on which Spirit has appointed Goldman Sachs International to act as sponsor in relation to its application for Admission. The agreement contains warranties and undertakings given by Spirit that are customary for an agreement of this kind. In addition, it contains indemnities from Spirit in favour of the Sponsor in respect of certain liabilities connected with the Demerger and Admission, which, again, are customary for an agreement of this kind. These warranties and indemnities are not capped and do not have any contractual time limits. Pursuant to the Spirit Sponsor's Agreement, the Sponsor may terminate the agreement in certain limited circumstances.

Punch has agreed to bear all fees, costs, charges and expenses of, or incidental to, the Demerger and Admission, including without limitation, the fees and expenses of its and Spirit's professional advisors, the costs of preparation, printing and distribution of this document and all other documents connected with the Demerger and Admission, the listing fees of the UKLA, any charges by CREST and the fees of the London Stock Exchange.

MSA

Under the terms of the MSA, Punch Partnerships (PTL) Limited ("**PTL**") in its capacity as service provider provides certain management and central operational services to a number of businesses within the current Punch Group. By deeds of adherence entered into on 7 July 2006, Spirit Pub Company (Leased) Limited ("**Leased Debco**", the company which owns the leased pub business within the Spirit Group) and Spirit Pub Company (Services) Limited ("**Adminco**", the administrative services provider for the managed pub business within the Spirit Group) each became service recipients under the MSA. Following the Demerger, both Leased Debco and Adminco will continue to receive certain services from PTL pursuant to the MSA and in accordance with the Demerger Agreement, each of Leased Debco and Adminco will enter into a letter agreement with PTL upon completion of the Demerger specifying the relevant services which will continue to be provided following Demerger and recording the expectation (subject to the termination rights of each party under the MSA) that the relevant services (other than the accounting support in respect of statutory accounts to be produced in respect of the financial year ended 23 August 2011 which is a discrete one-off task) will be provided for a period of up to 9 months following Demerger. Leased Debco will continue to outsource the majority of the operation and maintenance of the leased and tenanted pubs within the Spirit Group to PTL, whereas Adminco will be provided only with the one-off accounting support referred to above together with a telephony and email forwarding service during such period. Under the terms of the MSA the service recipients are charged on a four weekly basis for the services provided by PTL. Each four weekly charge is based on an agreed budget for PTL's out of pocket expenses and incidental fees of third parties incurred in the provision of its services to the relevant service recipient and a fair and reasonable proportion of PTL's total costs in providing its services (including employment costs) to all its customers, having regard to the level of usage of the relevant service recipient. Alternatively, under the Leased Debco letter agreement and in accordance with the MSA, PTL may charge on the basis of actual costs incurred on a four weekly basis, provided such actual costs do not when aggregated on a year to date basis exceed the budgeted year to date total. The budgeted charges are periodically reconciled to actual costs in accordance with a procedure set out in the MSA. The services to be

provided will be, in terms of performance levels and efficiency, of similar quality to those that are currently provided by PTL as at the date of this document. Under the MSA, PTL or the relevant service recipient may terminate the MSA in respect of its respective rights and obligations upon 60 days' written notice. Under the Demerger Agreement Spirit and Punch have respectively agreed to procure the compliance by the relevant members of their respective Group's party to the MSA and to determine any dispute arising under the MSA in accordance with the dispute resolution procedure set out in the Demerger Agreement.

Spirit Debenture

The Spirit Group has previously raised cash through the issuance of listed debenture bonds by Spirit Issuer plc, which are secured over various assets of the Spirit Group pursuant to the provisions of the Spirit Debenture, including all of the freehold and leasehold pubs owned by companies within the securitisation group. Under the Spirit Debenture, Spirit Issuer plc has issued five currently outstanding series of debenture bonds, with an aggregate nominal value of £885.2 million as at 1 July 2011 and maturity dates from 2021 to 2034. Certain of the debenture bonds issued under the Spirit Debenture have the benefit of an Ambac guarantee as to the payment of scheduled interest and scheduled principal.

Under the terms of the Spirit Debenture, amounts outstanding in respect of the debenture bonds have been loaned by Spirit Issuer plc to the pub owning companies in the Spirit Debenture under a loan facility agreement (the "**Issuer/Borrower Facility Agreement**"), with the repayment of such amounts being secured by way of fixed and floating charges over all of the assets and undertakings of the companies which are subject to the Spirit Debenture. As at 1 July 2011, 1,193 pubs are within the Spirit Debenture.

The indebtedness owed under the Spirit Debenture is required to be repaid in accordance with agreed amortisation schedules beginning in 2014 and continuing until the final maturity of the respective debenture bonds.

The interest payable on the floating rate debenture bonds issued by Spirit Issuer plc (or debenture bonds that convert to floating rate debenture bonds) has been hedged to fixed rates. The Spirit Debenture includes provisions which set out the payments to be made under the Issuer/Borrower Facility Agreement and under the debenture bonds on each interest payment date and at any other relevant times. The use of surplus cash for making payments and distributions to other members of the Spirit Group and engaging in other activities, such as acquisitions, is only permitted after the payment or allocation of funds for the purposes of making mandatory payments (including in respect of interest and principal repayments and fees) under the terms of the Spirit Debenture and is further subject to the covenants discussed below.

Under the Spirit Debenture, the operating companies subject to the Spirit Debenture are subject to certain financial and operating covenants that restrict their business and operations. The key financial and operating covenants are summarised below.

Financial covenants

The financial covenants contained in the contractual documentation governing the Spirit Debenture requires the operating companies subject to the Spirit Debenture to maintain: (i) the DSCR above 1.30:1 and Adjusted DSCR (adjusted to exclude EBITDA represented by pubs acquired for less than market value by the operating companies subject to the Spirit Debenture in the preceding two years) at or above 1.10:1; and (ii) in circumstances where the DSCR is 1.50:1, a loan to value ratio no higher than 67 per cent. As the operating companies within the Spirit Debenture are currently maintaining, and have always maintained, the DSCR above the specified level (the DSCR for the period of the past two financial quarters ending on 5 March 2011 was 1.88:1), the loan to value ratio covenant does not currently apply.

The DSCR, Adjusted DSCR and, if it were to apply, the loan to value ratio are tested quarterly at the end of each quarter by reference to the unaudited aggregated quarterly interim management accounts of the Spirit Group.

Operating covenants

Restrictions on paying dividends/making loans to Spirit Group companies outside the Spirit Debenture (the "**restricted payment conditions**")

The operating companies subject to the Spirit Debenture are permitted to make payments (including dividends and intra-group loans) to Spirit Group companies that are not subject to the

Spirit Debenture only in circumstances where no event of default or potential event of default has occurred and is continuing under the terms of the Spirit Debenture, a minimum DSCR (which is a different test and calculated differently to the DSCR default ratio) is being satisfied and certain other limitations are complied with. Such payments are not currently permitted because the minimum DSCR of 1.70:1 was not satisfied at the last testing date (for the four financial quarters ending 5 March 2011 such DSCR was 1.64:1).

Restrictions on acquisitions

The operating companies in the Spirit Debenture are only permitted to acquire pubs where no event of default or potential event of default has occurred and is continuing under the terms of the Spirit Debenture, a minimum DSCR of 1.80:1 (which is a different test and calculated differently to the DSCR default level) is being satisfied and where such acquisition is made on arm's length terms.

However, if the required minimum DSCR cannot be satisfied, then the relevant operating companies are entitled to make acquisitions if they (i) can satisfy a lower minimum DSCR of 1.65:1 (which is a different test and calculated differently to the DSCR default level) and (ii) meet an additional weighted average interest rate test (as set out in the Issuer/Borrower Facility Agreement).

Neither of these acquisition conditions is currently being satisfied because for the four financial quarters ending 5 March 2011 the applicable DSCR was 1.64:1.

Restrictions on disposals

The operating companies within the Spirit Debenture are permitted to dispose of pubs beyond certain thresholds only where no event of default or potential event of default has occurred and is continuing and provided that either: (i) the loan to value ratio is below 60 per cent. and DSCR is above a prescribed minimum ratio of 1.65:1 (which is a different test and calculated differently to the DSCR default level); or (ii) if the DSCR is not above the prescribed minimum, the value or number (as the case may be) of disposals made since the DSCR was last above such minimum does not exceed 5 per cent. of the value or number (as the case may be) of the pubs in the Spirit Debenture at the proposed disposal date.

Disposals are currently only permitted under the second limb of these restrictions because for the four financial quarters ending 5 March 2011 such DSCR was 1.64:1.

10. Summary of material litigation for Punch and Spirit

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the period covering at least the 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on the Company's and/or the Continuing Group's financial position or profitability.

Save as set out below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the period covering at least the 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on Spirit's and/or the Spirit Group's financial position or profitability.

At 21 August 2010 a contingent asset of £18.8m existed in relation to the Accounts Group's outstanding gaming machine VAT claim. A decision was released during 2010 in respect of The Rank Group plc's gaming claim, and this latest ruling fell in the taxpayer's favour. As a result, the Accounts Group was able to further pursue its own gaming claim and during the period to 5 March 2011, the Accounts Group's claim was repaid by HMRC. HMRC agreed to make the repayment of the existing claim, subject to the Accounts Group providing a guarantee to HMRC that, in the event that the existing decision in The Rank Group plc is overturned in a higher court, the amount will be repayable in full. The decision in relation to The Rank Group plc's claim has been referred to the Court of Justice of the European Union. The Accounts Group has therefore recognised the repayment amount as a provision, until The Rank Group plc case has reached its final conclusion.

11. Significant change statement

Continuing Group

Save as set out below, there has been no significant change in the trading or financial position of the Continuing Group since 5 March 2011 (the date to which the latest published interim financial information of the Punch Group was prepared).

On 1 July 2011, an amount of £61,000,000 was transferred to Spirit Pub Company (Holdco) Limited by Punch as part of the cash allocation described in Section 6 of Part I of this document in consideration for a further issue of shares by Spirit Pub Company (Holdco) Limited to Punch.

Spirit Group

Save as set out below, there has been no significant change to the financial or trading position of Spirit since 8 June 2011 (the date on which Spirit was incorporated). On 27 June 2011, Spirit received a gift of £50,000 from Punch, which was used by the Company to redeem 50,000 redeemable preference shares on 4 July 2011.

Save as set out below, there has been no significant change to the financial or trading position of Spirit Pub Company (Holdco) Limited or Spirit Pub Company (SGE) Limited since 8 June 2011 (the date on which such companies were incorporated). Spirit Pub Company (Holdco) Limited and Spirit Pub Company (SGE) Limited will form part of the Spirit Group following the Demerger but do not form part of the Accounts Group.

On 30 June 2011, the companies that form the Accounts Group were transferred to Spirit Pub Company (Holdco) Limited by Punch in consideration for a further issue of shares by Spirit Pub Company (Holdco) Limited to Punch. On the same day, and immediately following such transfers, the companies that form the Accounts Group were transferred to Spirit Pub Company (SGE) Limited by Spirit Pub Company (Holdco) Limited for a further issue of shares by Spirit Pub Company (SGE) Limited to Spirit Pub Company (Holdco) Limited.

On 1 July 2011, an amount of £61,000,000 was transferred to Spirit Pub Company (Holdco) Limited by Punch as part of the cash allocation described in Section 6 of Part I of this document in consideration for a further issue of shares by Spirit Pub Company (Holdco) Limited to Punch.

There has been no significant change to the financial or trading position of the Accounts Group since 5 March 2011 (the date to which the audited interim financial information in Part IV: "Historical Financial Information" has been prepared).

12. Working capital statement for Punch

The Company is of the opinion that the Continuing Group has sufficient working capital available to it for its present requirements, that is, for at least the next 12 months from the date of publication of this document.

13. Information incorporated by reference

Information from the following documents has been incorporated into this document by reference:

Documents containing information incorporated by reference	Paragraph of this document which refers to the document containing information incorporated by reference
Punch's 2008 Annual Report and Accounts	Part IX, section 7
Punch's 2009 Annual Report and Accounts	Part IX, section 7
Punch's 2010 Annual Report and Accounts	Part IX, sections 5 and 7
Punch's Interim Results for the 28 weeks ended 5 March 2011	Part IX, section 7

A copy of each of the documents listed above can be accessed by Punch Shareholders online (<http://www.punchtaverns.com/Punch/Corporate/Investor+Centre/Company+reports>) and is also available for inspection in accordance with paragraph 14 below.

14. Group reorganisation

Prior to the date of this document, Punch undertook a group reorganisation in order to ensure that the subsidiaries which comprise the Spirit Group were appropriately located within the Punch Group in order for the Demerger to be effected. This included a reorganisation of certain

outstanding payables owed by the companies in the Spirit Group to companies in the Continuing Group and certain receivables due to companies in the Spirit Group from companies in the Continuing Group, which was effected in order to ensure that, following the Demerger, no such financial linkages remain between the Continuing Group and the Spirit Group.

15. General

- 15.1 Goldman Sachs International is registered in England and Wales (registered number 02263951) and has its registered office at Peterborough Court, 133 Fleet Street, London EC4A 2BB.
- 15.2 Goldman Sachs International has given and has not withdrawn its consent to the inclusion in this document of its name and the references to it in the form and context in which it is included.
- 15.3 KPMG Audit Plc, a member firm of, and regulated by, the Institute of Chartered Accountants in England and Wales, has given and has not withdrawn its written consent to the inclusion of its accountants' reports concerning the unaudited pro forma financial information in Part VII: "Pro Forma Financial Information" in the form and context in which it appears.
- 15.4 The auditor of the Company for each of the financial years ended 23 August 2008 and 22 August 2009 was Ernst & Young LLP, of No 1 Colmore Square, Birmingham B4 6HQ and for the financial year ended 21 August 2010 was KPMG Audit Plc, both of which are registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.
- 15.5 The Registrar of the Company is Computershare Investor Services PLC of The Pavilions, Bridgwater Road, Bristol BS99 6ZZ.
- 15.6 The total costs, charges and expenses of the Demerger are estimated to amount to approximately £30 million (excluding any amounts in respect of VAT thereon).
- 15.7 Documents to be sent to Punch Shareholders will be posted to their registered addresses and, in the case of joint holders, will be posted to the registered address of the first-named holder. In addition, appropriate public announcements and advertisements will be made in accordance with the Listing Rules.
- 15.8 Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Company at Jubilee House, Second Avenue, Burton-upon-Trent, Staffordshire DE14 2WF, and at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY, up to and including the date of the Punch General Meeting:
 - (A) the Articles of Association of the Company;
 - (B) the audited consolidated accounts of the Company for the three financial years ended 23 August 2008, 22 August 2009 and 21 August 2010, respectively;
 - (C) the interim financial information published by the Company in respect of the 28-week period ended 5 March 2011;
 - (D) the report prepared by KPMG Audit Plc on the unaudited pro forma financial information set out in Part VII (Unaudited Pro Forma Financial Information) of this document;
 - (E) the Demerger Agreement;
 - (F) the Spirit Prospectus; and
 - (G) this document.

DEFINITIONS

The definitions set out below apply throughout this document, unless the context requires otherwise.

“Accounts Group”	Spirit (Redwood Bidco) Limited and its subsidiaries and subsidiary undertakings in the periods ended 23 August 2008, 22 August 2009 and 6 March 2010 and Spirit (Redwood Bidco) Limited and its subsidiaries and Spirit Pub Company (Trent) Limited in the periods ended 21 August 2010 and 5 March 2011, together with Spirit Pub Company (Trent) Limited;
“Adjusted DSCR”	debt service cover ratio adjusted to exclude EBITDA represented by pubs acquired for less than market value by the operating companies subject to the Spirit Debenture in the preceding two years;
“Admission”	admission of the Spirit Ordinary Shares to the Official List and to trading on the main market for listed securities of the London Stock Exchange;
“Annual Report and Accounts”	the audited and consolidated annual report and financial statements (including relevant accounting policies and notes) of the Punch Group and audit reports thereon for the financial years ended 23 August 2008, 22 August 2009 and 21 August 2010 as the case may be;
“Articles of Association”	the articles of association of the Company in force at the date of this document;
“Board” or “Punch Board”	the board of directors of the Company from time to time;
“certificated” or “in certificated form”	refers to a share or other security which is not in uncertificated form (that is, not in CREST);
“Circular” or “this document”	this document dated 7 July 2011, comprising a circular relating to the Demerger (together with any supplements or amendments thereto);
“Companies Act”	the Companies Act of England and Wales 2006, as amended;
“Computershare”	Computershare Investor Services PLC;
“Continuing Group”	the Punch Group and its subsidiaries and subsidiary undertakings, excluding those companies which form part of the Spirit Group;
“CREST”	the system for the paperless settlement of trades in securities and the holding of uncertificated securities in accordance with the CREST Regulations operated by Euroclear UK;
“CREST Manual”	the rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST International Manual, CREST Central Counterparty Service Manual, CREST Rules, Registrars Service Standards, Settlement Discipline Rules, CCSS Operations Manual, Daily Timetable, CREST Application Procedure and CREST Glossary of Terms (all as defined in the CREST Glossary of Terms promulgated by Euroclear UK on 15 July 1996, as amended);
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended from time to time;
“Demerger”	the proposed demerger of the Spirit Business from the Punch Group to be effected by way of an indirect dividend demerger on the terms and subject to the conditions set out in the Demerger Agreement;
“Demerger Agreement”	the agreement between Punch and Spirit relating to the demerger of the Spirit Business from the Punch Group entered into on 7 July

	2011, a summary of the principal terms of which is set out in section 8 of Part IX of this document;
“Demerger Dividend”	the proposed dividend to be declared by Punch in connection with the Demerger, the amount of which is to be equal to the book value of the Company’s interest in Spirit Pub Company (Holdco) Limited, as set out in the Demerger Resolution;
“Demerger Effective Time”	the time at which the Demerger becomes effective, expected to be 8.00 a.m. on 1 August 2011;
“Demerger Record Time”	7.00 a.m. on 1 August 2011;
“Demerger Resolution”	the resolution numbered 1 set out in the Notice of Meeting;
“Directors”	the directors of the Company at the date of this document, and “Director” means any one of them;
“Disclosure and Transparency Rules”	the disclosure rules and transparency rules made under Part VI of FSMA (as set out in the FSA Handbook), as amended;
“DSCR”	debt service cover ratio;
“EBITDA”	earnings before interest, taxation, net financing costs, depreciation and amortisation (except when used in relation to the Group’s securitisations which separately define EBITDA);
“EU”	the European Union first established by the treaty made at Maastricht on 7 February 1992;
“Euroclear UK”	Euroclear UK & Ireland Limited (formerly named CRESTCo Limited), the operator of CREST;
“Form of Proxy”	the form of proxy for use at the Punch General Meeting which accompanies this document;
“FSA” or “Financial Services Authority”	the Financial Services Authority of the United Kingdom;
“FSMA”	the Financial Services and Markets Act 2000, as amended;
“Goldman Sachs International”	Goldman Sachs International of Peterborough Court, 133 Fleet Street, London EC4A 2BB;
“HMRC”	HM Revenue and Customs;
“Listing Rules”	the listing rules made under Part VI of FSMA (as set out in the FSA Handbook), as amended;
“London Stock Exchange”	London Stock Exchange Group plc or its successor(s);
“MSA”	a management services agreement dated 3 November 2003 (as amended on 31 December 2004 and amended and restated on 1 August 2005) between Punch Taverns (PTL) Limited (as service provider thereunder), Punch Taverns (PGE) Limited and the various service recipients (as defined thereunder);
“Notice of Meeting”	the notice convening the Punch General Meeting, set out at the end of this document;
“Official List”	the official list of the UK Listing Authority;
“Overseas Shareholders”	Shareholders with registered addresses outside the UK or who are incorporated in, registered in or otherwise resident or located in, countries outside the UK;
“Overseas Spirit Shareholders”	Spirit Shareholders with registered addresses outside the UK or who are incorporated in, registered in or otherwise resident or located in, countries outside the UK;
“£”, “pounds sterling” or “pence”	the lawful currency of the United Kingdom;
“Punch” or “the Company”	Punch Taverns plc, a company incorporated in England and Wales with registered number 03752645, whose registered office

	is at Jubilee House, Second Avenue, Burton-upon-Trent, Staffordshire DE14 2WF;
“Punch A Securitisation”	the securitisation of the whole business of Punch Taverns Holdings Limited and certain of its subsidiaries through the issue of fixed and floating rate notes by Punch Taverns Finance plc;
“Punch B Securitisation”	the securitisation of the whole business of Punch Taverns (PMH) Limited and certain of its subsidiaries through the issue of fixed and floating rate notes by Punch Taverns Finance B Limited;
“Punch General Meeting”	the general meeting of the Company to be convened pursuant to the Notice of Meeting set out at the end of this document;
“Punch Group” or “Group”	in respect of any period prior to the Demerger Effective Time, Punch and its subsidiaries and subsidiary undertakings including those companies which form part of the Spirit Group, and, in respect of any period following the Demerger Effective Time, the Continuing Group;
“Punch Ordinary Shares”	the ordinary shares of 0.04786 pence each in the capital of the Company;
“Punch Securitisations”	the Punch A Securitisation and the Punch B Securitisation;
“Punch Share Register”	the register of members of the Company;
“Punch Share Schemes”	the Punch Taverns plc Long-Term Incentive Plan 2008 and the Punch Taverns plc Share Bonus Plan;
“Punch Sponsor’s Agreement”	the agreement dated 7 July 2011 entered into between Punch and the Sponsor, as further described in section 8 of Part IX of this document;
“Registrars”	Computershare Investor Services PLC;
“Resolutions”	each of the resolutions which are set out in the Notice of Meeting;
“SDRT”	stamp duty reserve tax;
“Shareholder(s)” or “Punch Shareholder(s)”	the holder(s) of Punch Ordinary Shares from time to time;
“Spirit”	Spirit Pub Company plc, a public limited company incorporated in England and Wales under the Companies Act with registered number 07662835 and whose registered office is at Sunrise House, Ninth Avenue, Burton-upon-Trent, Staffordshire DE14 3JZ;
“Spirit Articles of Association”	the articles of association of Spirit;
“Spirit Board”	the board of directors of Spirit from time to time;
“Spirit Business”	the managed pub business and the leased pub business comprising 803 managed pubs and 549 leased pubs as at 1 July 2011 which is currently carried on within the Punch Group by Spirit Pub Company (Holdco) Limited and its subsidiaries and which is proposed to be demerged in accordance with the Demerger Agreement and which will be owned by Spirit following the Demerger Effective Time;
“Spirit Debenture”	the issue by Spirit Issuer plc of an aggregate principal amount of approximately £1.25 billion fixed and floating rate secured debenture bonds due between 2021 and 2034, the proceeds of which were lent to the relevant borrowers within the Spirit Group under the Spirit Issuer/Borrower Facility Agreement;
“Spirit Directors”	directors of Spirit at the date of this document whose names are set out section 1 of Part I of this document, and “Spirit Director” means any one of them;

“Spirit Group”	the companies operating the Spirit Business from time to time which will include Spirit and its subsidiaries and subsidiary undertakings from the Demerger Effective Time;
“Spirit Ordinary Shares”	the ordinary shares of penny each in the capital of Spirit;
“Spirit Prospectus”	the document dated 7 July 2011, comprising a prospectus relating to Spirit for the purpose of the Admission of Spirit Ordinary Shares (together with any supplements or amendments thereto);
“Spirit Shareholders”	holders of Spirit Ordinary Shares, from time to time;
“Spirit Sponsor’s Agreement”	the agreement dated 7 July 2011 entered into between Spirit and the Sponsor, as further described in section 9 of Part IX of this document;
“Sponsor”	Goldman Sachs International acting in its capacity as sponsor to Spirit pursuant to chapter 8 of the Listing Rules;
“subsidiary”	a subsidiary as that term is defined in section 1160 of the Companies Act;
“subsidiary undertaking”	a subsidiary undertaking as that term is defined in section 1162 of the Companies Act;
“UK Listing Authority” or “UKLA”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of FSMA;
“uncertificated” or “in uncertificated form”	refers to a share or other security recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST;
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland;
“United States” or “US”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia;
“US dollars” or “US\$”	the lawful currency of the United States;
“US Securities Act”	the United States Securities Act of 1933, as amended;
“US Securities and Exchange Commission” or “SEC”	the US government agency having primary responsibility for enforcing the federal securities laws and regulating the securities industry/stock market;
“US Shareholder”	a Punch Shareholder (i) whose address appears on the register of members of the Company as being in the United States, or (ii) any other Shareholder to the extent such Shareholder holds Existing Ordinary Shares on behalf of a person located within the United States; and
“VAT”	value added tax.

All references to time in this document are references to the time in London, United Kingdom.

PUNCH TAVERNS PLC

Registered in England and Wales No. 003752645

NOTICE OF GENERAL MEETING

Notice is hereby given that a General Meeting of Punch Taverns plc (the “**Company**”) will be held at 9.30 a.m. on 26 July 2011 at One Bunhill Row, London EC1Y 8YY for the purpose of considering and, if thought fit, passing each of the following resolutions as ordinary resolutions.

Resolution

- 1. THAT:** (i) upon the recommendation and conditional on the approval of the directors of the Company and immediately prior to the ordinary shares (“**Spirit Ordinary Shares**”) of Spirit Pub Company plc (“**Spirit**”) (which are issued and to be issued to holders of ordinary shares of the Company (“**Punch Ordinary Shares**”) in connection with the Demerger (as defined below)) being admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange’s market for listed securities (“**Admission**”), a dividend on the Punch Ordinary Shares, equal to the aggregate book value of the Company’s interest in its wholly owned subsidiary, Spirit Pub Company (Holdco) Limited, be and is hereby declared payable to holders of Punch Ordinary Shares on the register of members of the Company at 7.00 a.m. (London time) on 1 August 2011 (or such other time or date as the Directors may determine) (the “**Demerger Record Time**”), such dividend to be satisfied by the transfer immediately prior to Admission by the Company to Spirit of the entire issued share capital of Spirit Pub Company (Holdco) Limited in consideration for which Spirit has agreed to allot and issue the Spirit Ordinary Shares, effective immediately prior to Admission and credited as fully paid, to such shareholders in the proportion of one Spirit Ordinary Share for each Punch Ordinary Share then held by such shareholders (save that, in respect of Ed Bashforth and Steve Dando, the number of Spirit Ordinary Shares to be allotted and issued to each of them will be reduced by the number of Spirit Ordinary Shares already held by them at the Demerger Record Time) so that immediately prior to Admission all holders of Punch Ordinary Shares (including Ed Bashforth and Steve Dando) will hold one Spirit Ordinary Share for each Punch Ordinary Share held at the Demerger Record Time; and (ii) the Demerger (as defined in the circular to shareholders published by the Company and dated 7 July 2011 (the “**Circular**”)) is hereby approved for the purposes of Chapter 10 of the Listing Rules of the Financial Services Authority and generally, each and any of the directors of the Company be and are hereby authorised to conclude and implement the Demerger and to do or procure to be done all such acts and things on behalf of the Company and any of its subsidiaries as they consider necessary or expedient for the purpose of giving effect to the Demerger with such amendments, modifications, variations or revisions thereto as are not of a material nature.
- 2. THAT,** if resolution 1 is passed, the rules of Punch Tavern plc’s Long-Term Incentive Plan 2008 and Share Bonus Plan be amended in the manner described in section 10 of Part I of the Circular and that any director of the Company be and is hereby authorised to do all acts and things necessary to carry into effect such amendments.

By order of the Board

7 July 2011

Ed Bashforth
Company Secretary

Registered Office:
Jubilee House
Second Avenue
Burton-upon-Trent
Staffordshire DE14 2WF

Notes:

- 1.** A member of the Company who is unable or does not wish to attend the meeting is entitled to appoint a proxy to exercise all or any of his/her rights to attend and to speak and vote on his/her behalf at the meeting. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares (so a member must have more than one share to be able to appoint more than one proxy). A proxy need not be a member of the Company but must attend the meeting to represent his/her appointing member. Appointing a proxy will not prevent a member from attending in person and voting at

the meeting. A proxy must vote in accordance with any instructions given by the member by whom the proxy is appointed. A form of proxy which may be used to make such appointment and give proxy instructions accompanies this notice. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.

2. To be valid, any form of proxy, and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated, must be received by hand or by post at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, no later than 9.30 a.m. on 22 July 2011.
3. If you would like to submit your proxy vote via the internet, you can do so by accessing the Company's registrar's website (www.eproxyappointment.com). You will require the control number, your unique PIN (which will expire at the end of the voting period) and your Shareholder Reference Number ("SRN"), printed on the proxy card, in order to log in and submit your proxy vote electronically. You can access this site from any internet enabled computer.
4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
5. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (CREST ID 3RA50) by the latest time for receipt of proxy appointments specified in note 2 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
6. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his/her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
7. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).
8. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
9. If you submit more than one valid proxy appointment in respect of the same shares, the appointment received last before the latest time for the receipt of proxies will take precedence.

10. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which properly comes before the meeting.
11. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 (the "Act") to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
12. The statement of the rights of shareholders in relation to the appointment of proxies above does not apply to Nominated Persons. These rights can only be exercised by shareholders of the Company.
13. Pursuant to Part 13 of the Act and Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), the Company specifies that only those shareholders registered in the register of members of the Company at close of business on 22 July 2011 shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. If the meeting is adjourned, the Company specifies that only shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting shall be entitled to attend and vote at the meeting.
14. Except as provided above, Shareholders who have general queries about the general meeting should contact the Company's registrars, Computershare, on 0870 707 1248. Calls may be recorded and randomly monitored for security and training purposes. This helpline cannot provide any financial, legal or tax advice.
15. As at 1 July 2011 (being the last practicable date prior to the publication of this notice) the Company's issued share capital consists of 643,208,722 ordinary shares carrying one vote each. Therefore the total voting rights in the Company as at 1 July 2011 are 643,208,722.
16. You may not use any electronic address provided either in this notice of meeting or any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly stated.
17. A member that is a company or other organisation not having a physical presence cannot attend in person but can appoint someone to represent it. This can be done in one of two ways: either by the appointment of a proxy (as described in the notes above) or of a corporate representative. Members considering the appointment of a corporate representative should check their own legal position, the Company's articles of association and the relevant provisions of the Act.
18. In the case of a member that is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

