



# Driving quality Delivering value

Punch Taverns plc  
Interim Report and Financial Statements  
3 March 2007

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## Financial Results (before exceptional items)

- EBITDA increased by 26% to £340 million (2006: £269 million)
- Profit before tax and asset sales up 12% to £130 million (2006: £116 million)
- Basic earnings per share up 10% to 38.5p (2006: 35.1p)
- Interim dividend up 16% to 5.1p (2006: 4.4p)

## Statutory Results (after exceptional items)

- Profit before tax up 28% to £138 million (2006: £108 million)
- Basic earnings per share up 11% to 42.9p (2006: 38.8p)

## Operational

- Unprecedented levels of activity in the leased estate
    - EBITDA increased 7% to £249 million, average profit per pub up 8%
    - 50 pubs acquired, 260 pubs transferred from managed and 37 sold
    - £46 million invested at 571 pubs, 308 rent reviews and 818 new lettings
    - Post the period end 869 pubs agreed to be sold to Admiral Taverns further enhancing overall estate profit per pub and quality
    - Recently announced Matthew Clark joint venture to increase product range and expertise
  - Portfolio of high quality managed pubs performing well
    - Core estate outlet EBITDA increased 2% to £83 million with like for like revenue growth up 5%
    - Focused estate structure with food sales up 7%
    - Complementary acquisition of Mill House Inns with 82 quality managed pubs
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“This is an excellent set of results in what has been an extremely active period for Punch. Both our leased and managed estates continue to perform well and will be further enhanced by the completion of the transfer to lease process and recently announced corporate transactions. We now have in place an estate of the highest quality.”

Giles Thorley, Chief Executive

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### Overview

This has been another successful period of growth for Punch Taverns. Our operating businesses have performed well and we have continued to actively develop our estate to make best use of our portfolio of property assets.

The interim period comprises 28 weeks to 3 March 2007, during which time, before exceptional items, we have generated EBITDA of £340m, an increase of 26%, and profit before tax and fixed asset sales of £130m, an increase of 12%. Basic earnings per share before exceptional items have risen 10% to 38.5p. In view of this continued growth we will make an interim dividend payment of 5.1 pence per ordinary share, an increase of 16% on last year.

The acquisition of Spirit Group in January 2006 has contributed well to this profit growth. We have made good progress with our strategy to refocus the acquired estate into a core group of top quality managed pubs. In particular the programme to transfer smaller managed pubs to lease has progressed well, with terms now agreed for 519 pubs, and the transfer programme is on track to complete by August 2007. During the period we have also bolstered the managed pub operation with the acquisition of Mill House Inns.

As at 3 March 2007 we owned 9,304 pubs across the UK, of which 8,119 were operated on a leased basis and 1,185 under direct management. Since

the period end we have announced a further disposal of 869 smaller leased pubs, which do not fit our growth model, to Admiral Taverns. Coupled with the transfers from the managed estate, this significantly increases the average profitability and resilience of our leased estate.

### Leased estate

This has been a period of intense activity in our leased estate, as we have continued to further improve the quality of our portfolio and to help our retailers build their businesses, particularly in preparation for the imminent smoking ban.

During the 28 weeks we acquired 50 new pubs, transferred 260 in from the managed estate, and sold 37. We completed capital developments at 571 pubs, investing £46m, agreed 308 rent reviews, and formalised 818 new lettings. These are unprecedented levels of activity.

Overall EBITDA in the leased estate improved by 7% to £249m EBITDA, with average profit per pub rising 8% over prior year. Average profitability will rise further as the transfer to lease and the disposal programmes are completed. Underlying like for like profit growth in the core leased estate (excluding announced disposals) increased by 3.1%.

Our strategy is to assist and support our leased retailers whilst recognising their independence as entrepreneurial business people. Our recently

updated Retailer Charter has been accredited by the British Institute of Innkeepers Benchmarking and Accreditation Services and sets out our commitment to high standards of professional conduct. In addition, we work closely with retailers in offering training, investment, and other support that might be appropriate for their business. We are particularly pleased by evidence that our retailers are increasingly profitable, as they continue to adapt well to change as the pub market evolves.

Our ability to support our retailers will be further enhanced by the 50% Joint Venture ownership of Matthew Clark, the leading independent drinks distributor in the UK, which was announced after the period end. This Joint Venture, in which we have invested £35m, will be profitable in its own right and will supplement our existing supplier base, adding significant product range and expertise to our retailers across a much wider spectrum of drinks.

### Managed estate

Our managed estate was acquired with the Spirit Group in January 2006 and continues to perform well through transition which has seen significant changes in the estate and a refocus on a smaller core business.

In September we completed the disposal of 31 Old Orleans pub restaurants to Regent Inns, as well as the acquisition of Mill House Inns with 82 pubs which closely complement our core estate. During the period, other pubs remained in transition, as the lease transfer programme progressed. With terms now agreed for the transfer of 519 pubs, we will complete the lease transfer programme this summer, with any remaining transition handled through the normal course of business. Meanwhile the core estate has been focused onto four segments comprising Value Food, Quality Food, City and Locals, enabling us to further streamline operations, menus and pub services.

Overall EBITDA from the managed estate was £91m in the period, with nearly 70% derived from the core estate at outlet level. The core estate of 684 pubs has performed particularly well, with like for like sales revenue up 4.9% year on year and profit

growth of 2.2%. Within this we have seen further growth of food sales (up 7%) but somewhat offset by increased costs, especially utilities.

Our strategy to focus the managed estate on a smaller core portfolio of food driven pubs or top quality locals will complete later this year and position the estate to take advantage of the evolution of the pub market in the light of the smoking ban. The core estate already earns 39% of sales from food, and is able to capitalise on a growing market for informal dining.

### Industry issues

These interim results reflect the effects of the more liberal licensing regime introduced in November 2005. The ongoing effects of the licensing changes on individual pub profitability have been modest, but we share the Government's commitment to tackle irresponsible drinking and we are pleased that the increased flexibility in opening hours has helped to reduce alcohol related disorder. We continue to work in partnership with our individual licensees and with national and local government to promote responsible retailing and sensible drinking, including through the Alcohol Misuse Enforcement Campaign. Our retailers are encouraged to tackle specific instances of underage drinking and antisocial behaviour.

The ban on smoking in enclosed public places took effect in Wales on 2 April 2007 and will take effect in England on 1 July 2007. It is too early to assess the effect on our pubs in Wales; however, we have continued to learn from our experience in Scotland, where a ban on smoking was introduced in March 2006. The Scottish market differs markedly from both England and Wales, but experience has shown that pubs which were well prepared for the ban, as well as those that have developed their food offering, have subsequently performed well. Overall, we are confident that the significant investment made in our estate both by ourselves and by our licensees, in the provision of outside facilities for smokers and in increasing the overall appeal of our pubs for the majority who are non-smokers, will improve future prospects for our pubs.

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## Financial

Profit for the period totalled £114m post tax which included a net exceptional credit of £12m. This net exceptional credit represented one-off expenditure of £15m primarily associated with the transfer of pubs to lease, offset by a reduction in property liabilities in the acquired Spirit business, and some tax adjustments.

The effective tax charge in the period of 23% remains below the standard rate due to indexation of acquired asset base costs, and is expected to be at this level for the full year. Cash tax paid in the period was £11m.

Basic earnings per share, after exceptional items, were 42.9 pence and up 11% on prior year, whilst diluted earnings of 42.4 pence also rose 11%. It should be noted that the convertible bond was not dilutive in this period.

Net debt at 3 March 2007 was £5,284m, £222m higher than last year end principally due to the acquisition of Mill House Inns for £164m in September 2006 and further investment in the estate. Our debt is all at fixed rates of interest and predominantly long term investment grade securitised debt, an excellent match for our steady income streams. We have recently commenced a refinancing project which includes proposals to redeem the Avebury securitised debt structure which, together with disposal proceeds, will lead to a reduction in our short term bank debt which totalled £674m at the interim date.

## Outlook

Trading in the second half has continued to follow established trends and we are confident that results will be in line with our expectations.

Both estates have continued to perform well, and activity in the business remains high as we prepare for the ban on smoking. Whilst this will undoubtedly have some impact on trading levels in some pubs, we are well prepared to optimise this and ultimately to benefit from changes in consumption patterns.

The value of our property and the opportunity it presents is now better recognised by the investment markets and we consider actively

all ideas that may add further value, including the new opportunity presented by REITs. At present our view remains that best long term returns for shareholders are provided by our current business structure, but we continue to keep all options under review.

The first half has been a particularly active period for Punch Taverns. Our business has continued to be successful and produce excellent results. We are well prepared to take advantage of operational opportunities, in particular the growth in casual dining, and continue to review promising opportunities to invest. We believe our business is well placed to grow further to the benefit of our shareholders.



**Giles Thorley**  
Chief Executive

## Consolidated income statement

for the 28 weeks ended 3 March 2007

	28 weeks to 3 March 2007		
	Before exceptional items £m	Exceptional items (note 3) £m	Total £m
<b>Revenue</b>	<b>921.1</b>	–	<b>921.1</b>
Operating costs before depreciation and amortisation	(581.5)	7.0	(574.5)
<b>EBITDA<sup>1</sup></b>	<b>339.6</b>	<b>7.0</b>	<b>346.6</b>
Depreciation and amortisation	(29.4)	–	(29.4)
<b>Operating profit</b>	<b>310.2</b>	<b>7.0</b>	<b>317.2</b>
Profit on sale of non-current assets	2.0	–	2.0
Finance income	13.2	–	13.2
Finance costs	(193.6)	–	(193.6)
Movement in fair value of interest rate swaps	–	(0.7)	(0.7)
Share of post-tax loss from joint ventures	–	–	–
<b>Profit before taxation</b>	<b>131.8</b>	<b>6.3</b>	<b>138.1</b>
UK income tax (charge) / credit (note 4)	(29.9)	5.6	(24.3)
<b>Profit for the financial period attributable to equity shareholders</b>	<b>101.9</b>	<b>11.9</b>	<b>113.8</b>
<b>Earnings per share (note 5)</b>			
Basic (pence)	38.5		42.9
Diluted (pence)	38.0		42.4
<b>Dividend per share paid or declared in respect of the period (pence)</b>			<b>5.1</b>
<b>Total dividend paid or declared in respect of the period (£m)</b>			<b>13.5</b>

<sup>1</sup> EBITDA represents earnings before finance income, finance costs, movement in fair value of interest rate swaps, tax, depreciation, amortisation, profit on sale of non-current assets and share of post-tax loss from joint ventures.

28 weeks to 4 March 2006			52 weeks to 19 August 2006		
Before exceptional items £m	Exceptional items (note 3) £m	Total £m	Before exceptional items £m	Exceptional items (note 3) £m	Total £m
618.9	–	618.9	1,546.1	–	1,546.1
(350.2)	(3.5)	(353.7)	(939.8)	(8.2)	(948.0)
268.7	(3.5)	265.2	606.3	(8.2)	598.1
(15.1)	–	(15.1)	(46.1)	–	(46.1)
253.6	(3.5)	250.1	560.2	(8.2)	552.0
0.4	–	0.4	1.4	–	1.4
9.0	–	9.0	19.1	–	19.1
(146.6)	(0.1)	(146.7)	(331.1)	(0.1)	(331.2)
–	(4.4)	(4.4)	–	39.7	39.7
(0.1)	–	(0.1)	–	–	–
116.3	(8.0)	108.3	249.6	31.4	281.0
(25.9)	17.4	(8.5)	(54.8)	20.6	(34.2)
90.4	9.4	99.8	194.8	52.0	246.8
35.1		38.8	74.9		94.9
34.5		38.1	73.6		92.4
		4.4			13.4
		11.6			35.3

## Consolidated statement of recognised income and expense

for the 28 weeks ended 3 March 2007

	28 weeks to 3 March 2007 £m	28 weeks to 4 March 2006 £m	52 weeks to 19 August 2006 £m
<b>Income and expense recognised directly in equity:</b>			
Actuarial gains on defined benefit pension schemes	16.5	15.0	33.8
Gains / (losses) on cash flow hedges	12.7	(4.8)	48.8
Tax on equity component of convertible bonds	–	(9.0)	(9.0)
Tax credit related to indexation on revalued properties	3.6	2.0	5.9
	<b>32.8</b>	3.2	79.5
<b>Transfers to the income statement:</b>			
On cash flow hedges	(3.8)	(6.6)	(13.3)
	<b>29.0</b>	(3.4)	66.2
Tax on items taken directly to equity	(7.7)	(1.1)	(20.8)
Net gain / (loss) recognised directly in equity	21.3	(4.5)	45.4
Profit attributable to shareholders	113.8	99.8	246.8
<b>Total recognised income for the period attributable to equity shareholders</b>	<b>135.1</b>	95.3	292.2
<b>Effects of changes in accounting policy attributable to equity shareholders:</b>			
Net loss on recognition of derivative financial instruments at fair value on first-time application of IAS 39	–	(68.6)	(68.6)
	–	(68.6)	(68.6)

## Consolidated balance sheet

at 3 March 2007

	3 March 2007 £m	4 March 2006 £m	19 August 2006 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6,750.7	6,983.6	6,506.0
Goodwill	557.5	516.8	503.4
Intangible assets	166.1	229.6	163.3
Receivables	0.7	6.1	1.4
Retirement benefit assets	4.5	–	–
Deferred tax assets	180.2	157.5	175.4
Investments in joint ventures	–	5.3	–
Derivative financial instruments	6.2	1.6	5.8
	<b>7,665.9</b>	<b>7,900.5</b>	<b>7,355.3</b>
<b>Current assets</b>			
Inventories	9.1	16.7	12.2
Trade and other receivables	104.4	130.3	107.4
Cash deposits used as security for loan notes	27.1	31.8	15.8
Cash and cash equivalents	365.0	448.1	562.4
	<b>505.6</b>	<b>626.9</b>	<b>697.8</b>
Non-current assets classified as held for sale	10.6	8.1	28.5
<b>Total assets</b>	<b>8,182.1</b>	<b>8,535.5</b>	<b>8,081.6</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	(349.4)	(395.7)	(444.9)
Short-term borrowings	(552.6)	(644.8)	(85.1)
Current income tax liabilities	(9.9)	(19.0)	(15.8)
Provisions	(20.2)	(7.2)	(22.5)
	<b>(932.1)</b>	<b>(1,066.7)</b>	<b>(568.3)</b>
<b>Non-current liabilities</b>			
Borrowings	(4,702.6)	(5,150.4)	(5,128.5)
Convertible bonds	(248.1)	(237.9)	(242.5)
Derivative financial instruments	(178.8)	(279.6)	(189.8)
Deferred tax liabilities	(495.2)	(400.6)	(428.8)
Retirement benefit obligations	(10.2)	(76.2)	(24.7)
Provisions	(61.4)	(80.9)	(60.6)
Other liabilities	(13.8)	(6.8)	(11.8)
	<b>(5,710.1)</b>	<b>(6,232.4)</b>	<b>(6,086.7)</b>
<b>Total liabilities</b>	<b>(6,642.2)</b>	<b>(7,299.1)</b>	<b>(6,655.0)</b>
<b>Net assets</b>	<b>1,539.9</b>	<b>1,236.4</b>	<b>1,426.6</b>
<b>Shareholders' equity</b>			
Called up share capital	0.1	0.1	0.1
Share premium	453.4	448.4	452.4
Equity component of convertible bonds	21.0	21.0	21.0
Hedge reserve	(31.3)	(70.5)	(37.6)
Other reserves	5.5	3.5	4.3
Retained earnings	1,091.2	833.9	986.4
<b>Total shareholders' equity</b>	<b>1,539.9</b>	<b>1,236.4</b>	<b>1,426.6</b>

## Consolidated cash flow statement

for the 28 weeks ended 3 March 2007

	28 weeks to 3 March 2007 £m	28 weeks to 4 March 2006 £m	52 weeks to 19 August 2006 £m
<b>Cash flows from operating activities</b>			
Operating profit	317.2	250.1	552.0
Depreciation and amortisation	29.4	15.1	46.1
Decrease / (increase) in inventories	3.3	(0.8)	0.9
Decrease in trade and other receivables	5.3	24.2	47.2
Decrease in trade and other payables	(110.6)	(94.8)	(32.8)
Difference between pension contributions paid and amounts recognised in the income statement	(0.4)	(0.4)	(34.0)
Decrease in provisions and other liabilities	(3.9)	(8.1)	(12.0)
<b>Cash generated from operations</b>	<b>240.3</b>	<b>185.3</b>	<b>567.4</b>
Income tax paid	(10.9)	(21.1)	(32.3)
<b>Net cash from operating activities</b>	<b>229.4</b>	<b>164.2</b>	<b>535.1</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary, net of cash acquired	(21.1)	(205.3)	(205.5)
Purchase of property, plant and equipment			
– acquisitions	(54.3)	(35.5)	(65.1)
– investments	(97.6)	(57.5)	(139.0)
Proceeds from sale of property, plant and equipment	31.9	215.5	348.7
Proceeds from sale of other non-current assets	27.6	2.2	479.5
Purchase of intangible assets	(3.6)	(0.5)	(2.0)
Proceeds from sale of joint venture	–	–	6.8
<b>Net cash (used in) / generated from investing activities</b>	<b>(117.1)</b>	<b>(81.1)</b>	<b>423.4</b>
<b>Cash flows from financing activities</b>			
Net proceeds from issue of ordinary share capital	1.0	75.4	79.4
Proceeds from issue of new borrowings	350.0	1,201.1	1,216.0
Issue costs paid	(0.3)	(20.9)	(20.9)
Proceeds from issue of convertible bonds	–	275.0	275.0
Costs of issuing convertible bonds	–	(9.3)	(9.3)
Net proceeds from issue of derivative financial instruments	–	50.0	50.0
Repayment of borrowings	(448.6)	(1,368.2)	(1,966.5)
Interest paid	(183.7)	(127.7)	(319.1)
Interest received	10.8	9.7	19.4
Repayments of obligations under finance leases	(2.7)	(1.2)	(4.6)
Interest element of finance lease rental payments	(0.8)	(0.6)	(1.6)
Costs of terminating financing arrangements <sup>1</sup>	(0.2)	(115.0)	(115.1)
(Increase) / decrease in cash deposits used as security for loan notes	(11.3)	171.0	187.0
Dividends paid	(23.9)	(20.0)	(31.5)
<b>Net cash (used in) / generated from financing activities</b>	<b>(309.7)</b>	<b>119.3</b>	<b>(641.8)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(197.4)</b>	<b>202.4</b>	<b>316.7</b>
Cash and cash equivalents at beginning of period	562.4	245.7	245.7
<b>Cash and cash equivalents at end of period</b>	<b>365.0</b>	<b>448.1</b>	<b>562.4</b>

<sup>1</sup> In the prior period, costs of terminating financing arrangements include outflows of £114.6m on the redemption of swaps following the repayment of £525.0m of bank loans on the acquisition of the Spirit group.

## Notes to the financial statements

for the 28 weeks ended 3 March 2007

### 1. Accounting policies

#### Basis of preparation

These interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" using, on a consistent basis, the accounting policies set out in the Group's Annual Report and Financial Statements 2006, and which are expected to apply at 18 August 2007.

These interim financial statements are unaudited but have been reviewed by the auditors. The figures for the period ended 19 August 2006 have been extracted from the Annual Report and Financial Statements 2006, which have been filed with the Registrar of Companies and on which the auditors gave an unqualified opinion and did not make any statement under sections 237 (2) or (3) of the Companies Act 1985.

The interim report, which was approved by the Board of Directors on 1 May 2007, does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.

### 2. Segmental analysis

The Group operates in two business segments; a leased estate and a managed estate. Between 19 August 2006 and 3 March 2007, 260 pubs with a fair value of £360.1m have transferred from the managed to the leased estate.

	Leased £m	Managed £m	Total £m
<b>28 weeks to 3 March 2007<sup>1</sup>:</b>			
Revenue	<b>440.0</b>	<b>481.1</b>	<b>921.1</b>
Operating costs before depreciation and amortisation	<b>(191.5)</b>	<b>(390.0)</b>	<b>(581.5)</b>
EBITDA	<b>248.5</b>	<b>91.1</b>	<b>339.6</b>
Depreciation and amortisation	<b>(9.4)</b>	<b>(20.0)</b>	<b>(29.4)</b>
Operating profit before exceptional items	<b>239.1</b>	<b>71.1</b>	<b>310.2</b>
<b>28 weeks to 4 March 2006<sup>1</sup>:</b>			
Revenue	430.4	188.5	618.9
Operating costs before depreciation and amortisation	(198.8)	(151.4)	(350.2)
EBITDA	231.6	37.1	268.7
Depreciation and amortisation	(7.9)	(7.2)	(15.1)
Operating profit before exceptional items	223.7	29.9	253.6
<b>52 weeks to 19 August 2006<sup>1</sup>:</b>			
Revenue	803.3	742.8	1,546.1
Operating costs before depreciation and amortisation	(367.6)	(572.2)	(939.8)
EBITDA	435.7	170.6	606.3
Depreciation and amortisation	(15.3)	(30.8)	(46.1)
Operating profit before exceptional items	420.4	139.8	560.2

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

## Notes to the financial statements *continued*

for the 28 weeks ended 3 March 2007

### 3. Exceptional items

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

	28 weeks ended 3 March 2007 £m	28 weeks ended 4 March 2006 £m	52 weeks ended 19 August 2006 £m
<b>Operating</b>			
Licensing reform costs, redundancy, costs to integrate acquisition of subsidiaries and other related one-off costs	(14.5)	(3.5)	(8.2)
Movement on liabilities <sup>1</sup>	21.5	–	–
	7.0	(3.5)	(8.2)
<b>Finance costs</b>			
Secured loan interest	–	(0.1)	(0.1)
	–	(0.1)	(0.1)
<b>Movement in fair value of interest rate swaps<sup>2</sup></b>	<b>(0.7)</b>	<b>(4.4)</b>	<b>39.7</b>
	<b>(0.7)</b>	<b>(4.4)</b>	<b>39.7</b>
<b>Total exceptional items before tax</b>	<b>6.3</b>	<b>(8.0)</b>	<b>31.4</b>
<b>Tax</b>			
Tax impact of exceptional items	6.5	2.4	(9.4)
Adjustments to tax in respect of prior periods	(0.9)	–	15.0
Release of tax provision	–	15.0	15.0
	5.6	17.4	20.6
<b>Total exceptional items after tax</b>	<b>11.9</b>	<b>9.4</b>	<b>52.0</b>

<sup>1</sup> Represents the movement in property liabilities in respect of which the relevant statutory limitation period has expired and the reversion of onerous leases to the Group.

<sup>2</sup> Represents the movement in the fair value of interest rate swaps which do not qualify for hedge accounting. Whilst the interest rate swaps are considered to be effective in matching the amortising profile of existing or planned floating rate borrowings, they do not meet the definition of an effective hedge due to the relative size of the mark to market difference of the swap at the date of acquisition or inception.

### 4. Taxation

The effective taxation charge applied in these interim results of 23.0%, before profit on sale of non-current assets, exceptional items and share of post-tax earnings from joint ventures, reflects the estimated tax rate for the 52 weeks ending 18 August 2007. The effective rate of taxation for the comparative period was 22.3%.

The total tax charge of £24.3m (March 2006: £8.5m; August 2006: £34.2m) includes an exceptional tax credit of £5.6m (March 2006: £17.4m; August 2006: £20.6m).

## 5. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in the employee share trust, which are treated as cancelled.

Diluted earnings per share is calculated by dividing the earnings attributable to ordinary shareholders (after adding back interest on dilutive convertible bonds) by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive options and dilutive convertible bonds).

The equity portion of the convertible bond has been assessed and its impact is not dilutive on both basic earnings and adjusted earnings at 3 March 2007 and 4 March 2006. At 19 August 2006 its impact was dilutive on basic earnings and not dilutive on adjusted earnings.

Reconciliations of the earnings used in the calculations are set out below:

	28 weeks to 3 March 2007		28 weeks to 4 March 2006		52 weeks to 19 August 2006	
	Earnings £m	Per share amount p	Earnings £m	Per share amount p	Earnings £m	Per share amount p
Basic earnings per share	113.8	42.9	99.8	38.8	246.8	94.9
Effect of dilutive options	–	(0.5)	–	(0.7)	–	(1.6)
Effect of dilutive convertible bonds	–	–	–	–	12.3	(0.9)
Diluted earnings per share	113.8	42.4	99.8	38.1	259.1	92.4
<b>Supplementary earnings per share figures:</b>						
Basic earnings per share	113.8	42.9	99.8	38.8	246.8	94.9
Effect of:						
Exceptional items	(11.9)	(4.4)	(9.4)	(3.7)	(52.0)	(20.0)
Basic earnings per share before exceptional items	101.9	38.5	90.4	35.1	194.8	74.9
Diluted earnings per share	113.8	42.4	99.8	38.1	259.1	92.4
Effect of:						
Exceptional items	(11.9)	(4.4)	(9.4)	(3.6)	(52.0)	(19.7)
Reverse impact of convertible bonds	–	–	–	–	(12.3)	0.9
Diluted earnings per share before exceptional items	101.9	38.0	90.4	34.5	194.8	73.6

The impact of dilutive ordinary shares is to increase weighted average shares by 3.3 million (March 2006: 4.6 million; August 2006: 4.6 million) for employee share options and nil (March 2006: nil; August 2006: 15.9 million) for convertible bonds.

	28 weeks to 3 March 2007 No. (000)	28 weeks to 4 March 2006 No. (000)	52 weeks to 19 August 2006 No. (000)
Basic weighted average number of shares	264,965	257,312	259,953
Discretionary Share Plan and SAYE scheme	2,282	3,826	3,816
Long Term Incentive Plan	858	790	687
Deferred Bonus Shares	103	70	77
Potential dilutive impact of convertible bonds	–	–	15,902
<b>Diluted weighted average number of shares</b>	<b>268,208</b>	261,998	280,435

## Notes to the financial statements *continued*

for the 28 weeks ended 3 March 2007

### 6. Net debt

#### (a) Analysis of net debt

	3 March 2007 £m	4 March 2006 £m	19 August 2006 £m
Secured loan notes	<b>(4,347.3)</b>	(4,380.8)	(4,364.6)
Other bank loans	<b>(674.1)</b>	(1,173.1)	(621.9)
Convertible bonds	<b>(275.0)</b>	(275.0)	(275.0)
Gross debt	<b>(5,296.4)</b>	(5,828.9)	(5,261.5)
Cash and cash equivalents	<b>365.0</b>	448.1	562.4
<b>Nominal value of net debt</b>	<b>(4,931.4)</b>	(5,380.8)	(4,699.1)
Capitalised debt issue costs	<b>31.2</b>	49.4	37.5
Fair value adjustments on acquisition of secured loan notes	<b>(205.6)</b>	(220.9)	(213.8)
Fair value of interest rate swaps	<b>(172.6)</b>	(278.0)	(184.0)
Equity component of convertible bonds	<b>18.7</b>	28.2	24.3
Finance lease obligations	<b>(24.1)</b>	(29.1)	(26.8)
<b>Net debt</b>	<b>(5,283.8)</b>	(5,831.2)	(5,061.9)
<b>Balance sheet:</b>			
Borrowings	<b>(5,255.2)</b>	(5,795.2)	(5,213.6)
Convertible bonds	<b>(248.1)</b>	(237.9)	(242.5)
Derivative financial instruments	<b>(172.6)</b>	(278.0)	(184.0)
Cash deposits used as security for loan notes	<b>27.1</b>	31.8	15.8
Cash and cash equivalents	<b>365.0</b>	448.1	562.4
<b>Net debt</b>	<b>(5,283.8)</b>	(5,831.2)	(5,061.9)

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

	At 19 August 2006 £m	Acquisitions £m	Cash flow £m	Non-cash movements £m	At 3 March 2007 £m
<b>Current assets</b>					
Cash at bank and in hand	562.4	4.8	(202.2)	–	<b>365.0</b>
Cash deposits	15.8	–	11.3	–	<b>27.1</b>
Cash and cash deposits	578.2	4.8	(190.9)	–	<b>392.1</b>
<b>Debt</b>					
Borrowings	(5,197.8)	(132.5)	100.5	1.7	<b>(5,228.1)</b>
Guaranteed loan notes	(15.8)	–	(11.3)	–	<b>(27.1)</b>
Derivative financial instruments	(184.0)	(0.1)	5.2	6.3	<b>(172.6)</b>
Debt component of convertible bonds	(242.5)	–	–	(5.6)	<b>(248.1)</b>
	(5,640.1)	(132.6)	94.4	2.4	<b>(5,675.9)</b>
<b>Net debt per balance sheet</b>	(5,061.9)	(127.8)	(96.5)	2.4	<b>(5,283.8)</b>

Net debt incorporates the Group's borrowings, bank overdrafts, derivative financial instruments and obligations under finance leases, less cash and cash equivalents and cash deposits. The cash deposits are used as security for loan notes.

Non-cash movements relate to amortisation of deferred issue costs and premium on loan notes and convertible bonds, the equity component of convertible bonds and fair value movement in derivative financial instruments.

## 7. Reconciliation of movements in equity

	<b>28 weeks ended 3 March 2007 £m</b>	28 weeks ended 4 March 2006 £m	52 weeks ended 19 August 2006 £m
<b>At beginning of period</b>	<b>1,426.6</b>	1,122.7	1,122.7
Effect of implementing IAS 32 / 39	–	(68.6)	(68.6)
	<b>1,426.6</b>	1,054.1	1,054.1
Total recognised income and expense for the period	<b>135.1</b>	95.3	292.2
Shares issued	–	74.1	74.1
Exercise of share options	<b>1.0</b>	1.3	5.3
Share based payments	<b>1.1</b>	1.6	2.4
Equity dividends	<b>(23.9)</b>	(20.0)	(31.5)
Equity component of convertible bonds	–	30.0	30.0
<b>Total equity at end of period</b>	<b>1,539.9</b>	1,236.4	1,426.6

## 8. Business combinations

### Acquisition of subsidiaries in the current period: Mill House

On 14 September 2006 the Group acquired the entire share capital of Broomco (3708) Limited, the holding company of the Mill House group which operated a managed estate of 82 pubs at the date of acquisition.

From the date of acquisition to the interim date, the Mill House group contributed £22.0m of Group revenues and £4.8m of EBITDA. If the acquisition had been completed on the first day of the financial year, Group revenues for the interim period would have been £3.4m higher and EBITDA would have been £0.8m higher.

The acquisition is summarised as follows:

	Provisional fair value £m
Intangible fixed assets	11.6
Property, plant and equipment	138.4
Assets held for resale	12.0
Inventories	0.6
Deferred taxation	(3.7)
Receivables	2.9
Cash and cash equivalents	4.8
Payables and provisions	(15.1)
Loans and swaps	(132.6)
<b>Net assets acquired</b>	<b>18.9</b>
Provisional goodwill arising on acquisition	19.9
<b>Total consideration</b>	<b>38.8</b>
<b>Consideration satisfied by:</b>	
Cash	26.4
Loan notes issued	12.4
<b>Total consideration</b>	<b>38.8</b>

The provisional fair value adjustments primarily relate to the revaluation of freehold and leasehold trading properties and the recognition of deferred tax liabilities on revalued properties. Fair values are provisional at 3 March 2007 to enable the final assessment of potential tax and other liabilities.

## Notes to the financial statements continued

for the 28 weeks ended 3 March 2007

### 8. Business combinations continued

#### Acquisition of subsidiaries in the prior period: Spirit Group

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

Fair values have been finalised at 5 January 2007 and the acquisition is summarised as follows:

	Fair value £m
Intangible fixed assets	148.6
Property, plant and equipment	2,335.5
Assets held for resale	569.8
Investments in joint ventures	6.8
Inventories	15.9
Taxation	
– current	0.6
– deferred	(33.5)
Receivables	80.8
Cash and cash equivalents	234.1
Payables and provisions	(456.4)
Loans and swaps	(2,731.6)
Net assets acquired	170.6
Goodwill arising on acquisition	269.0
Total consideration	439.6
<b>Consideration satisfied by:</b>	
Cash	439.6

The provisional fair values that were disclosed in the Group accounts for the year ending 19 August 2006 have been reduced by £34.4m due to the recognition of additional deferred tax liabilities on properties following the finalisation of tax base costs.

### 9. Dividends

An interim dividend of 5.1 pence per share (2006 interim: 4.4 pence; 2006 final: 9.0 pence) was declared by the directors on 1 May 2007 and will be payable on 29 June 2007 to shareholders on the register of members on 8 June 2007. These financial statements do not reflect this dividend payable.

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## 10. Related party transactions

### Balances arising from transactions with joint ventures

During the period the Group has paid invoices and raised sales invoices on behalf of Allied Kunick Entertainments Limited which have been recharged via an intercompany account. At the period end, the following balances were outstanding from Allied Kunick Entertainments Limited.

	At 3 March 2007 £m	At 4 March 2006 £m	At 19 August 2006 £m
Unsecured loan stock receivable	8.3	7.5	7.9
Amounts owed from / (to) joint ventures	–	0.1	(0.2)
Total amounts due from joint ventures	8.3	7.6	7.7

## 11. Post balance sheet events

On 17 April 2007, Punch Taverns (PGE) Limited, a wholly owned subsidiary of the Company, completed the acquisition of fifty percent of the entire issued share capital of Dubwath Limited, the holding company of the Matthew Clark group of companies. Under the terms of the arrangement, Punch and Constellation Europe have each become fifty percent owners of Matthew Clark. The consideration for the acquisition was £35.0m in cash from existing resources.

On 19 April 2007, the Company exchanged contracts for the sale of 869 pubs from the leased estate for a total consideration of £326.0m. For the year ended 19 August 2006 the pubs being disposed of generated EBITDA of £30.1m. The sale is expected to complete in mid May 2007.

### Introduction

We have been instructed by the Company to review the financial information for the 28 weeks ended 3 March 2007 which comprises Consolidated income statement, Consolidated statement of recognised income and expense, Consolidated balance sheet, Consolidated cash flow statement and the related notes 1 to 11. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with guidance contained in Bulletin 1999 / 4 "Review of interim financial information" issued by the Auditing Practices Board. To the fullest extent permitted by the law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

### Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority, which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

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

### Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999 / 4 "Review of interim financial information" issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

### Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the 28 weeks ended 3 March 2007.

### Ernst & Young LLP

Birmingham  
1 May 2007

## Company information

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### Financial calendar

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Interim dividend	29 June 2007
Year end	18 August 2007
Preliminary results announcement	November 2007
Final dividend	January 2008

### Directors of the Company

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Peter Cawdron	Chairman
Phil Dutton	Non-executive Director
Mike Foster	Non-executive Director
Ian Fraser	Non-executive Director
Andrew Knight	Managing Director – the Spirit Group
Robert McDonald	Finance Director
Jonathan Paveley	Commercial Director
Randl Shure	Non-executive Director
Fritz Ternofsky	Non-executive Director
Giles Thorley	Chief Executive

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