

PUNCH TAVERNS PLC

(“Punch” or “the Group”)

Preliminary Results for the 52 weeks ended 19 August 2006

Further enhanced estate quality, strong performance, continued growth

Punch Taverns plc, the UK’s leading operator of over 9,200 pubs, today announces preliminary results for the 52 weeks ended 19 August 2006.

Highlights

Financial Results (before non-recurring and exceptional items)

- Group revenue up 101% to £1.5 billion (2005: £770 million)
- EBITDA increased by 47% to £606 million (2005: £414 million)
- Profit before tax up 21% to £250 million (2005: £207 million)
- Basic earnings per share up 13% to 74.9p (2005: 66.4p)
- Proposed final dividend of 9.0p, bringing the total dividend for the year to 13.4p, representing an increase of 19% (2005: 11.3p)

Financial Results (after non-recurring and exceptional items)

- Profit before tax up 48% to £281 million (2005: £191 million)
- Basic earnings per share up 63% to 94.9p (2005: 58.1p)

Operational

- Continued growth in the leased estate (7,846 pubs as at 19 August 2006)
 - Like for like revenue growth +1.0%
 - 96 quality pubs acquired, 551 non core pubs sold
 - Investment continued with £78 million spent on enhancing over 950 pubs
- 32 week contribution from the Spirit managed estate (1,410 pubs as at 19 August 2006)
 - Like for like revenue growth +3.6%, core estate +6.0%
- Creation of managed estate of the highest quality
 - Disposal plans largely complete – 389 pubs now sold
 - Transfer to lease programme on track with 155 conversions completed and a further 175 agreed
 - Acquisition of 82 pubs from Mill House Inns for £164 million (completed 14 September 2006)
- Trading in the current year is in line with expectations

Giles Thorley, Chief Executive of Punch Taverns plc, commented:

"This has been a year of excellent progress for the Group in which we have consolidated further our position as the UK's premier pub company whilst maintaining the flexibility to maximise future returns for shareholders.

"The shape and quality of our leased and managed estates has never been better. We continue to see further opportunities to both invest in and add to our estates whilst at the same time managing our programmes of conversion and disposal.

"The results for the twelve months showed strong growth and trading in the current year has started well."

9 November 2006

ENQUIRIES:

Punch Taverns plc

Giles Thorley, *Chief Executive*

Robert McDonald, *Finance Director*

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College Hill

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Preliminary Results for the 52 Weeks to 19 August 2006

The financial year to 19 August 2006 was another successful period of progress and strong growth for Punch Taverns. Our core pub business has continued to perform well, whilst the acquisition of Spirit Group in January and various pub disposals have further improved the quality of our estate, enhanced our infrastructure and provided capacity for further growth.

Key results for the year, excluding non-recurring and exceptional items, were as follows:

- Revenue of £1,546m, up 101%
- EBITDA of £606m, up 47%
- Profit before tax of £250m, up 21%
- Basic earnings per share of 74.9p, up 13%

In recognition of these strong results the Board is recommending a final dividend of 9.0p per ordinary share, taking the full year dividend to 13.4p, an increase of 19% on last year. The final dividend will be payable on 26 January 2007 to shareholders on the register on 29 December 2006.

Our strategy continues to focus on enhancing our pub estate to provide sustainable growth through the quality of our pubs and support for our retailers and managers. Our business model revolves around recruitment and extensive training of the best people, selection and development of the best pubs, and creating the best conditions for growth. Through this, and our efficient financing structure, we are creating the best quality leased and managed estates and consolidating our position as the UK's premier pub company, whilst retaining the flexibility to maximise future returns for shareholders.

The excellent results announced today, and the substantial advance in our business that has driven these results, are testament to the hard work and commitment of all those people connected with Punch Taverns. We would particularly like to congratulate and thank our pub tenants, lessees and managers, and all our colleagues, for their support during the year.

Development of our pub estate

A key focus of the year has been significant further enhancement in the quality of our pub estate.

On 19 August 2006 Punch owned and operated 9,256 pubs across the UK, an increase of 12.5% in the year. Of these, 7,846 were operated under lease agreements by independent retailers, with 1,410 operated under direct management. 94% of our pubs are owned on a freehold or long leasehold basis.

On 5 January 2006 we completed the acquisition of Spirit Group for £2.7bn, comprising 1,830 directly managed pubs with a skilled workforce and supporting infrastructure. Our strategy is to rationalise the Spirit estate to focus on the highest quality large outlets, by selling selected non-core pubs and converting smaller pubs onto lease agreements with independent retailers.

The disposal process is now largely complete. By the year end 351 Spirit pubs had been sold for £690m in cash, including a major package of 290 pubs to GI Partners. A further 38 pubs have been sold or contracted for sale since, including 31 Old Orleans pub restaurants to Regent Inns.

The lease conversion programme is also progressing well. By year end 74 pubs had converted; that number has now increased to 155 with a further 175 at the legal contract stage. The terms agreed for the lettings are in line with our expectations. We have recently released the third and final phase, comprising 266 pubs, and we are on course to complete the programme next summer.

Meanwhile we have restructured the managed house operation to focus on the highest quality core estate, and since the year end we have added 82 further excellent pubs through the acquisition of Mill House Inns for £164m.

During the year we have also further enhanced our leased estate, acquiring 96 high quality individual pubs whilst selling 551 smaller pubs which we believe have less sustainable prospects particularly in view of the smoking ban. The prior year acquisitions of InnSpired and Avebury are now fully integrated into the leased estate. In June, we sold our subsidiary GRS Inns, which primarily ran smaller pubs under temporary management.

The overall impact of these changes has been to increase the average annualised profit per pub by 30% during the year.

Organic growth

The leased estate continues to trade well; with like for like revenue growth of 1.0% and increasing rent leading to pub profit growth of 1.9%. Average profit per pub across the leased estate rose by 3.8%. Lessee profitability is also strong, and continues to increase.

The retailer recruitment pipeline is solid, with an average of 129 applications a week being received. We have 2,300 screened applicants on our database, and in total let over 1,000 pubs onto substantive agreements in the reporting period.

We continue to work in partnership with our independent pub retailers to enhance the business, successfully introducing the new licensing changes and preparing for a smoking ban. During the year almost 5,000 retailers attended our training programmes, and over 950 benefited from joint development schemes with Punch investment totalling £78m. We are grateful to the Publican newspaper for once again recognising our efforts through the award of Leased Pub Company of the Year.

The Spirit managed house estate has also performed well, with like for like sales up 3.6% in the whole estate in the 32 weeks since acquisition. Within the core managed estate, like for like sales growth has been stronger at 6.0%, and outlet profit growth of 4.6% was achieved despite cost increases, notably in energy costs and labour.

In line with our plan at the time of acquisition, we have made real progress in simplifying the Spirit business. Having sold the pubs with weaker long term prospects, we have now restructured the operation to focus on the core estate whilst retaining a separate and dedicated team to manage the transition of selected pubs to lease. The core estate is now simplified into three divisions of Value Food, Quality Dining and Quality Locals, and we have made excellent progress with rationalising menus and support activities, and moving the business forward.

Whilst the leased and managed estates are operated separately we are able to take advantage of synergy benefits across the Group such as enhanced supply agreements, information, management development, and a combined approach to corporate governance and industry issues.

Financial

These are the first annual results to be prepared under IFRS. A detailed statement of our revised accounting policies, differences from UK GAAP and the impact on recently reported results was issued in April 2006 and is available on our website.

The acquisition of Spirit, with a headline price of £2,679m, resulted in goodwill of £235m after incorporating fixed assets valued at £3,061m. Fair values on acquisition reflect the net disposal values of pubs sold since acquisition; hence there is no profit or loss arising on disposal.

The acquisition was funded through the retention of long term secured debt of £1.25bn, new short term banking facilities of £1.25bn, a convertible bond issue of £275m and the issue of £75m new equity. Our strong cash generation, together with pub disposals, enabled us to reduce the short term element of this funding to £621m by year end, and subsequently to £502m, with new debt used to fund the £164m acquisition of Mill House Inns.

Overall net debt at year end of £4,878m was £675m lower than at the interim stage, and included cash of £562m. Debt held is entirely at rates of interest which are effectively fixed, and on average was covered 1.94x by EBITDA in the year.

A net exceptional credit of £52m was recorded in the year. Actual expenditure of £8m was incurred on licensing and the reorganisation of Spirit, but significant credits totalling £40m were recognised on the mark to market of certain interest rate swaps. The tax effect of these items, together with the release of various tax provisions which are no longer required, gave rise to an exceptional £21m tax credit.

The effective tax charge in the year before non-recurring and exceptional items was 22%, compared to 19% in the previous year, and included the benefit of ongoing indexation allowance taxation credits. Tax paid in the year was £32m, an effective rate of 13%.

Overall profit before tax before non-recurring and exceptional items was £250m which gave rise to basic earnings per share of 74.9p on the enlarged share register, a growth of 13%.

Industry issues

Punch Taverns is well placed to actively respond to market driven and legislative challenges and harness the experience of over 9,200 individual leased, tenanted and managed pub operators.

We fully supported the introduction of the new Licensing Act which has provided greater flexibility of opening hours for our pubs and their customers. As expected, extended hours have had little impact on overall trading, but by relieving the pressure point at closing time, they have helped reduce the number of alcohol related crime incidents.

As the largest operator of pubs in the UK we recognise our responsibility to lead on issues such as anti-social behaviour and under-age drinking and we continue to work alongside industry trade bodies to bring about positive change. For example, the Challenge 21 initiative from the British Beer and Pub Association is being actively promoted to our licensees as a means of combating the threat of under aged drinking. We have been recognised for our efforts with the accolade of Responsible Retailer of the Year from the Morning Advertiser.

The forthcoming smoking ban in England and Wales will further evolve the pub experience, and we have the benefit of learning from the extensive knowledge gained from our 493 strong Scottish pub estate. In Scotland we found that by planning and preparing for the ban we were able to minimise any adverse impact by providing smoking solutions in our pubs. The introduction of outside smoking areas and better pub amenities, often including a quality food offer, can not only negate the impact of the ban, but create new trading opportunities.

Since the ban in Scotland was introduced, overall sales have been little changed, and whilst we remain cautious on the initial impact until a full year has elapsed, we are confident that overall quality of trading will ultimately improve.

We are well advanced in our preparations for the extension of the smoking ban into England and Wales, where planning regulations are simpler and the market primed to a greater degree. 95% of our pubs have usable outside space, awareness is high, and we have an action plan for each pub. A specific smoking solutions capital fund of £18m has been created. Moreover our ongoing investment programme will continue to improve the overall quality of the Punch pub estate for the benefit of all our customers.

Board composition

We are today announcing a number of changes to the composition of the Board, which are planned to take effect from after the AGM on 24 January 2007.

Phil Cox, Chairman, has decided to retire. Phil has overseen the Group through a phenomenal period of growth, first as deputy Chairman, then as Chairman since January 2003. We wish Phil all the best in the future. We are pleased to announce that Phil's position will be taken by Peter Cawdron. Peter has been a Non-Executive director since May 2003 and brings a wealth of experience from an executive career including Grand Metropolitan and SG Warburg, and non-executive positions including Compass Group, Capita Group, Arla and the chairmanship of GCap Media plc.

Following the successful acquisition of Spirit, we have decided to appoint Andrew Knight to the Board. Andrew has worked closely with the senior management on the refocusing of Spirit and was appointed Managing Director of the Spirit business in February 2006. No information is required to be disclosed in respect of Andrew Knight pursuant to Listing Rule 9.6.13R (1) to (6).

Finally, Martin Glenn has decided to step down as Non-Executive director following his appointment as Chief Executive of Igloo-Birds Eye. We wish him well in his new role. We will announce a successor to Martin shortly.

Current trading and outlook

The new year has started well and the positive trends are continuing, with solid performance across all areas.

We have a very high quality pub estate and a talented management team, and we continue to see good opportunities to develop the business further both organically and via selective transactions. Our extensive experience means we are well prepared to benefit from the evolution of pub trading, which will accelerate on the introduction of further smoking legislation, and we remain confident about the prospects for rest of the year.

CONSOLIDATED INCOME STATEMENT

for the 52 weeks ended 19 August 2006

	52 weeks to 19 August 2006				52 weeks to 20 August 2005		
	Notes	Total £m	Non- recurring and exceptional items (note 3) £m	Before non- recurring and exceptional items £m	Total £m	Non- recurring and exceptional items (note 3) £m	Before non- recurring and exceptional items £m
Revenue							
Ongoing operations		801.5	-	801.5	782.9	12.8	770.1
Acquisitions ¹		744.6	-	744.6	-	-	-
Revenue	2	1,546.1	-	1,546.1	782.9	12.8	770.1
Operating costs before depreciation and amortisation		(948.0)	(8.2)	(939.8)	(372.2)	(15.6)	(356.6)
EBITDA²							
Ongoing operations		431.3	(3.4)	434.7	410.7	(2.8)	413.5
Acquisitions ¹		166.8	(4.8)	171.6	-	-	-
EBITDA	2	598.1	(8.2)	606.3	410.7	(2.8)	413.5
Depreciation and amortisation		(46.1)	-	(46.1)	(13.5)	-	(13.5)
Operating profit							
Ongoing operations		416.0	(3.4)	419.4	397.2	(2.8)	400.0
Acquisitions ¹		136.0	(4.8)	140.8	-	-	-
Operating profit		552.0	(8.2)	560.2	397.2	(2.8)	400.0
Profit on sale of non-current assets		1.4	-	1.4	-	-	-
Finance income		19.1	-	19.1	11.1	0.3	10.8
Finance costs		(331.2)	(0.1)	(331.1)	(217.8)	(13.8)	(204.0)
Movement in fair value of interest rate swaps	3	39.7	39.7	-	-	-	-
Profit before taxation		281.0	31.4	249.6	190.5	(16.3)	206.8
UK income tax (charge) / credit	4	(34.2)	20.6	(54.8)	(44.2)	(4.6)	(39.6)
Profit for the financial period attributable to equity shareholders		246.8	52.0	194.8	146.3	(20.9)	167.2
Earnings per share							
	5						
Basic (pence)		94.9		74.9	58.1		66.4
Diluted (pence)		92.4		73.6	56.9		65.1
Dividend per share paid or proposed in respect of the period (pence)							
	6	13.4			11.3		
Total dividend paid or proposed in respect of the period (£m)							
	6	35.3			29.4		

¹ Relates to the acquisition of Spirit Group Holdings Limited, ultimate parent of the Spirit trading companies. The income statement in the current period includes 32 weeks of results relating to the acquired Spirit companies.

² EBITDA represents earnings before depreciation and amortisation, profit on sale of non-current assets, finance income, finance costs, movement in fair value of interest rate swaps and UK income tax.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the 52 weeks ended 19 August 2006

	52 weeks to 19 August 2006 £m	52 weeks to 20 August 2005 £m
Income and expense recognised directly in equity:		
Actuarial gains on defined benefit pension schemes	33.8	1.5
Gains on cash flow hedges	48.8	-
Tax on equity component of convertible bond	(9.0)	-
Tax credit related to indexation on revalued properties	5.9	2.4
	79.5	3.9
Transfers to the income statement:		
On cash flow hedges	(13.3)	-
	66.2	3.9
Tax on items taken directly to equity	(20.8)	(0.5)
Net gain recognised directly in equity	45.4	3.4
Profit attributable to shareholders	246.8	146.3
Total recognised income for the period attributable to equity shareholders	292.2	149.7
Effects of changes in accounting policy attributable to equity shareholders:		
Net loss on recognition of derivative financial instruments at fair value on first-time application of IAS 39	(68.6)	-
	(68.6)	-

CONSOLIDATED BALANCE SHEET

at 19 August 2006

	Notes	19 August 2006 £m	20 August 2005 £m
Assets			
Non-current assets			
Property, plant and equipment		6,506.0	4,293.8
Goodwill		503.4	268.8
Intangible assets		163.3	27.5
Receivables		1.4	11.7
Deferred tax assets		175.4	66.2
Derivative financial instruments		5.8	-
		7,355.3	4,668.0
Current assets			
Inventories		12.2	-
Trade and other receivables		107.4	78.5
Cash deposits used as security for loan notes		15.8	202.8
Cash and cash equivalents		562.4	245.7
		697.8	527.0
Non-current assets classified as held for sale		28.5	6.4
Total assets		8,081.6	5,201.4
Liabilities			
Current liabilities			
Trade and other payables		(444.9)	(206.3)
Obligations under finance leases		(6.5)	(1.1)
Interest-bearing loans and borrowings		(78.6)	(247.5)
Current income tax liabilities		(15.8)	(38.3)
Provisions		(22.5)	(7.0)
		(568.3)	(500.2)
Non-current liabilities			
Obligations under finance leases		(20.3)	(9.3)
Interest-bearing loans and borrowings		(5,108.2)	(3,203.3)
Convertible bonds		(242.5)	-
Derivative financial instruments		(189.8)	-
Deferred tax liabilities		(428.8)	(321.3)
Retirement benefit obligations		(24.7)	(7.6)
Provisions		(60.6)	(25.7)
Other liabilities		(11.8)	(11.3)
		(6,086.7)	(3,578.5)
Total liabilities		(6,655.0)	(4,078.7)
Net assets		1,426.6	1,122.7
Shareholders' equity			
Called up share capital		0.1	0.1
Share premium		452.4	373.0
Equity component of convertible bonds		21.0	-
Hedge reserve		(37.6)	-
Other reserve		4.3	1.9
Retained earnings		986.4	747.7
Total shareholders' equity	7	1,426.6	1,122.7

CONSOLIDATED CASH FLOW STATEMENT

for the 52 weeks ended 19 August 2006

Notes	52 weeks to 19 August 2006 £m	52 weeks to 20 August 2005 £m
Cash flows from operating activities		
Operating profit	552.0	397.2
Depreciation and amortisation	46.1	13.5
Decrease in inventories	0.9	-
Decrease in trade and other receivables	47.2	0.6
(Decrease) / increase in trade and other payables	(32.8)	0.4
Difference between pension contributions paid and amounts recognised in the income statement	(34.0)	(0.6)
Decrease in provisions and other liabilities	(12.0)	(9.0)
Cash generated from operations	567.4	402.1
Income tax paid	(32.3)	(13.5)
Net cash from operating activities	535.1	388.6
Cash flows from investing activities		
Acquisition of subsidiary, net of cash acquired	(205.5)	(69.2)
Purchase of property, plant and equipment		
- acquisitions	(65.1)	(65.1)
- investments	(139.0)	(74.0)
Proceeds from sale of property, plant and equipment	348.7	29.0
Proceeds from sale of other non-current assets	479.5	170.6
Purchase of intangible assets	(2.0)	(0.8)
Proceeds from sale of joint venture	6.8	-
Net cash generated from / (used in) investing activities	423.4	(9.5)
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	79.4	6.3
Proceeds from issue of new loans and borrowings	1,216.0	1,063.9
Issue costs paid	(20.9)	(11.0)
Proceeds from issue of convertible bonds	275.0	-
Costs of issuing convertible bonds	(9.3)	-
Net proceeds from issue of derivative financial instruments	50.0	-
Repayment of borrowings	(1,966.5)	(974.3)
Interest paid	(319.1)	(211.5)
Interest received	19.4	9.0
Repayments of obligations under finance leases	(4.6)	(0.4)
Interest element of finance lease rental payments	(1.6)	(0.7)
Costs of terminating financing arrangements ¹	(115.1)	(25.5)
Decrease / (increase) in cash deposits used as security for loan notes	187.0	(129.8)
Dividends paid	(31.5)	(24.7)
Net cash used in financing activities	(641.8)	(298.7)
Net increase in cash and cash equivalents	316.7	80.4
Cash and cash equivalents at beginning of period	245.7	165.3
Cash and cash equivalents at end of period	562.4	245.7

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

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

NOTES TO THE ACCOUNTS

For the 52 weeks ended 19 August 2006

1. BASIS OF PREPARATION

The figures for the 52 weeks ended 19 August 2006 have been extracted from the audited financial statements of Punch Taverns plc which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The summary of results does not constitute the full financial statements within the meaning of s240 of the Companies Act 1985.

The Group's financial statements were previously prepared under UK Generally Accepted Accounting Principles ("UK GAAP"), which differs in a number of areas from IFRS. Therefore it has been necessary to amend certain presentation, accounting, valuation and consolidation methods previously applied under UK GAAP, in order to comply with IFRS for these financial statements. The Group has previously prepared a separate, detailed description of the transition to IFRS and the nature of reconciling items from UK GAAP at the date of transition (being 22 August 2004), and this is available on the website at www.punchtaverns.com. All comparative figures have been restated to reflect these changes, except for the adoption of IAS 32 and IAS 39, which only applied from 21 August 2005. The effect of adopting IAS 32 and IAS 39 is shown in the analysis of changes in shareholders' equity (see note 7).

2. SEGMENTAL ANALYSIS

The primary segmental reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services provided.

The Group operates in two business segments; a leased estate and a managed estate. The managed estate was acquired on 5 January 2006, through the acquisition of the Spirit group of companies. Between 5 January 2006 and 19 August 2006, 74 pubs with a fair value of £93.2m have transferred from the managed to the leased estate.

The Group operates solely in the United Kingdom and therefore has only one geographical segment.

Business segment analysis

	2006				2005
	Leased	Managed	Unallocated	Total	Leased
	£m	£m	£m	£m	£m
Revenue ¹	803.3	742.8	-	1,546.1	770.1
Operating costs ¹	(367.6)	(572.2)	-	(939.8)	(356.6)
EBITDA ¹	435.7	170.6	-	606.3	413.5
Depreciation and amortisation	(15.3)	(30.8)	-	(46.1)	(13.5)
Operating profit before non-recurring and exceptional items	420.4	139.8	-	560.2	400.0
Non-recurring and exceptional items	(3.4)	(4.8)	-	(8.2)	(2.8)
Operating profit	417.0	135.0	-	552.0	397.2
(Loss) / profit on sale of property, plant and equipment	(0.1)	2.4	-	2.3	-
Segment result	416.9	137.4	-	554.3	397.2
Loss on disposal of subsidiaries and joint ventures	-	-	(0.9)	(0.9)	-
Net finance costs	-	-	(312.1)	(312.1)	(206.7)
Movement in fair value of interest rate swaps	-	-	39.7	39.7	-
UK income tax expense	-	-	(34.2)	(34.2)	(44.2)
Profit attributable to shareholders	416.9	137.4	(307.5)	246.8	146.3

Assets and liabilities

Segment assets	4,735.9	2,586.4	-	7,322.3	4,686.7
Unallocated assets	-	-	759.3	759.3	514.7
Total assets	4,735.9	2,586.4	759.3	8,081.6	5,201.4
Segment liabilities	(179.7)	(320.0)	-	(499.7)	(212.9)
Unallocated liabilities	-	-	(6,155.3)	(6,155.3)	(3,865.8)
Total liabilities	(179.7)	(320.0)	(6,155.3)	(6,655.0)	(4,078.7)
Net assets	4,556.2	2,266.4	(5,396.0)	1,426.6	1,122.7

¹ Pre non-recurring and exceptional items.

Capital expenditure

	2006			2005
	Leased	Managed	Total	Leased
	£m	£m	£m	£m
Acquisition spend ²	65.4	2,484.1	2,549.5	506.1
Investment spend	103.2	41.3	144.5	71.3
Total capital expenditure	168.6	2,525.4	2,694.0	577.4

² Excludes the transfer of pubs from the managed segment to the leased segment.

With the exception of the transfer of pubs, there are immaterial sales between the business segments. In the prior year there was only one segment, being the leased estate. In the current year, segment assets include property, plant and equipment, goodwill, intangible assets, inventories and receivables, and exclude cash, while segment liabilities comprise operating liabilities and exclude taxation and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

In the period from the acquisition of the Spirit group to 19 August 2006, 351 managed pubs have been disposed. These contributed £121m to revenue and £30m to EBITDA in the period.

3. NON-RECURRING AND EXCEPTIONAL ITEMS

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

	52 weeks to 19 August 2006 £m	52 weeks to 20 August 2005 £m
Operating		
Profits generated from pubs identified for disposal ¹	-	4.7
Licensing reform costs, redundancy, costs to integrate acquisition of subsidiary and other related one-off costs	(8.2)	(7.5)
	(8.2)	(2.8)
Finance income		
Other ²	-	0.3
Finance costs		
Secured loan interest ³	(0.1)	(1.3)
Bank loan interest ⁴	-	(3.2)
Cost of terminating financing arrangements ⁵	-	(9.3)
	(0.1)	(13.8)
Movement in fair value of interest rate swaps⁶	39.7	-
Total non-recurring and exceptional items before tax	31.4	(16.3)
Tax		
Tax impact of exceptional items	(9.4)	6.2
Adjustments to tax in respect of prior periods ⁷	15.0	-
Tax charge on terminating financing arrangements ⁸	-	(10.8)
Release of tax provision ⁹	15.0	-
	20.6	(4.6)
Total non-recurring and exceptional items after tax	52.0	(20.9)

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

² Funds were held in an escrow account to fund the cost of acquisition of InnSpired Group Limited. The exceptional interest receivable relates to the proportion of funding relating to the 545 pubs of the total 1,064 pubs acquired on 10 September 2004 that were subsequently disposed of on 28 January 2005.

³ In the current period interest represents break costs incurred on the redemption of bank loans which were required to be repaid following the acquisition of the Spirit group. In the comparative period interest was incurred on the secured loan notes acquired through the acquisition of InnSpired Group Limited, from the date of acquisition to their subsequent redemption on 21 October 2004. The exceptional secured loan note interest charge represents the portion of the loan relating to the 545 of the total 1,064 pubs acquired that were subsequently disposed of on 28 January 2005.

⁴ A bank facility was drawn down to fund the acquisition of InnSpired Group Limited. 545 of the 1,064 pubs acquired were subsequently sold on 28 January 2005 with the receipts used to repay a portion of the facility drawn down. The exceptional bank loan interest represents the interest and fees incurred on the portion of the loan relating to the 545 pubs from acquisition to 28 January 2005 when that portion was repaid.

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

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

⁷ Adjustments to tax in respect of prior periods represent adjustments to current tax of £8.6m and deferred tax of £6.4m.

⁸ The creation of deferred tax assets on the fair value of swaps and loans acquired on the acquisition of InnSpired Group Limited was reversed on the termination of these financing arrangements, resulting in a non-recurring tax charge of £10.8m in the prior period.

⁹ During the period the tax treatment of an onerous contract has been clarified and the associated tax provision has been released.

4. TAXATION

(a) Tax on profit on ordinary activities

Tax charged in the income statement

	52 weeks to 19 August 2006 £m	52 weeks to 20 August 2005 £m
Current tax		
UK corporation tax – current year	33.9	28.6
UK corporation tax – adjustments in respect of prior years	(23.6)	(6.3)
	10.3	22.3
Deferred tax		
Origination and reversal of temporary differences	23.9	21.9
	34.2	44.2

Tax on items charged to equity

In addition to the amount charged to the income statement, tax movements recognised directly in equity were as follows:

	52 weeks to 19 August 2006 £m	52 weeks to 20 August 2005 £m
Deferred tax		
Gain on actuarial valuation of pension liability	10.1	0.5
Deferred tax on effective element of cash flow hedges	10.7	-
Deferred tax on equity component of convertible bond	9.0	-
Tax credit related to indexation on revalued properties	(5.9)	(2.4)
Deferred tax charge / (credit) recognised directly in equity	23.9	(1.9)
	(29.4)	-

(b) Reconciliation of the total tax charge

The effective rate of tax is lower than the full rate of corporation tax. The differences are explained below:

	52 weeks to 19 August 2006 £m	52 weeks to 20 August 2005 £m
Profit on ordinary activities before tax	281.0	190.5
Tax at current UK tax rate of 30% (2005: 30%)	84.3	57.2
Effects of:		
Adjustments to tax in respect of prior periods	(0.2)	(6.3)
Net effect of expenses not deductible for tax purposes and non-taxable income	(0.5)	(8.1)
Deferred tax credit on indexation of properties	(20.1)	(10.8)
Short-term temporary differences upon which deferred tax is not recognised	0.7	1.4
Exceptional tax (credits) / charges	(30.0)	10.8
Total tax expense reported in the income statement	34.2	44.2

Details of the exceptional tax credits and debits are included in note 3.

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.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has two types of dilutive ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year and the contingently issuable shares under the Group's incentive plans. At 19 August 2006, the performance criteria for the vesting of the awards under the incentive schemes had been met and hence the shares have been included in the diluted EPS calculation.

The equity portion of the convertible bond has been assessed and its impact is dilutive on basic earnings and anti-dilutive on adjusted earnings.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	52 weeks to 19 August 2006			52 weeks to 20 August 2005		
	Earnings £m	Weighted average number of shares m	Per share amount pence	Earnings £m	Weighted average number of shares m	Per share amount pence
Continuing operations						
Basic earnings per share	246.8	260.0	94.9	146.3	251.6	58.1
Effect of dilutive options	-	4.6		-	5.4	
Effect of dilutive convertible bonds	12.3	15.9		-	-	
Diluted earnings per share	259.1	280.5	92.4	146.3	257.0	56.9
Supplementary earnings per share figures:						
Basic earnings per share	246.8	260.0	94.9	146.3	251.6	58.1
Effect of:						
Non-recurring and exceptional items	(52.0)	-		20.9	-	
Basic earnings per share before non-recurring and exceptional items	194.8	260.0	74.9	167.2	251.6	66.4
Diluted earnings per share	259.1	280.5	92.4	146.3	257.0	56.9
Effect of:						
Non-recurring and exceptional items	(52.0)	-		20.9	-	
Reverse impact of convertible bonds	(12.3)	(15.9)		-	-	
Diluted earnings per share before non-recurring and exceptional items	194.8	264.6	73.6	167.2	257.0	65.1

6. DIVIDENDS

	52 weeks to 19 August 2006 £m	52 weeks to 20 August 2005 £m
Declared and paid during the year:		
Final dividend for 2005 for the 52 weeks ended 20 August 2005 of 7.6p (2004: 6.1p)	20.0	15.3
Interim dividend for the 52 weeks ended 19 August 2006 of 4.4p (2005: 3.7p)	11.5	9.4
	31.5	24.7

In addition, the Directors are proposing a final dividend in respect of the financial year ended 19 August 2006 of 9.0p per share which will absorb an estimated £23.8m of shareholders' funds. Subject to approval at the AGM, it will be paid on 26 January 2007 to shareholders who are on the register of members on 29 December 2006. These financial statements do not reflect this dividend payable, which has still to be approved by the Company's shareholders.

7. ANALYSIS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 21 August 2004	0.1	366.7	0.9	622.7	990.4
Total recognised income and expense for the period	-	-	-	149.7	149.7
Exercise of share options	-	6.3	-	-	6.3
Share based payments	-	-	1.0	-	1.0
Equity dividends	-	-	-	(24.7)	(24.7)
At 20 August 2005	0.1	373.0	1.9	747.7	1,122.7
Effect of implementing IAS 32 / 39	-	-	(62.5)	(6.1)	(68.6)
At 21 August 2005	0.1	373.0	(60.6)	741.6	1,054.1
Total recognised income and expense for the period	-	-	15.9	276.3	292.2
Shares issued	-	74.1	-	-	74.1
Exercise of share options	-	5.3	-	-	5.3
Share based payments	-	-	2.4	-	2.4
Equity dividends	-	-	-	(31.5)	(31.5)
Equity component of convertible bond	-	-	30.0	-	30.0
At 19 August 2006	0.1	452.4	(12.3)	986.4	1,426.6

8. CHANGES IN NET DEBT

	At 20 August 2005 £m	Acquisitions £m	Cash flow £m	Non-cash movements £m	At 19 August 2006 £m
Current assets					
Cash at bank and in hand	245.7	234.1	82.6	-	562.4
Cash deposits	202.8	-	(187.0)	-	15.8
Cash and cash deposits	448.5	234.1	(104.4)	-	578.2
Debt					
Bank loans	(1.4)	(850.0)	250.4	(11.9)	(612.9)
Secured loans	(3,418.7)	(1,360.9)	211.9	9.6	(4,558.1)
Guaranteed loan notes	(30.7)	-	14.9	-	(15.8)
Vendor loan notes	-	(294.2)	294.2	-	-
Debt component of convertible bonds	-	-	(265.7)	23.2	(242.5)
	(3,450.8)	(2,505.1)	505.7	20.9	(5,429.3)
Obligations under finance leases	(10.4)	(17.3)	4.6	(3.7)	(26.8)
Net debt per balance sheet	(3,012.7)	(2,288.3)	405.9	17.2	(4,877.9)

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

9. BUSINESS COMBINATIONS

On 5 January 2006 the Group acquired the entire share capital of Spirit Group Holdings Limited, on a cash and debt free basis for £2,695.3m, including acquisition costs of £16.3m resulting in a total consideration paid of £439.6m. The Spirit group operated a managed estate of 1,830 pubs at the date of acquisition.

From the date of acquisition to the year end, the Spirit group contributed £744.6m to Group revenues and £171.6m to EBITDA. If the acquisition had been completed on the first day of the financial year, Group revenues for the year would have been £480m higher and Group EBITDA would have been £106m higher. All intangible assets were recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill in the financial statements.

The provisional adjustments applied to the book values of the assets and liabilities of the Spirit group in order to present the net assets at fair values in accordance with Group accounting principles were £421.1m, details of which are as follows:

			2006 ¹	2005 ²
	Pre-acquisition IFRS values £m	Provisional fair value adjustments £m	Provisional fair values £m	Fair values £m
Goodwill	65.7	(65.7)	-	-
Intangible fixed assets	147.6	1.0	148.6	5.5
Property, plant and equipment	2,277.7	57.8	2,335.5	430.8
Assets held for resale	-	569.8	569.8	170.7
Investments in joint ventures	6.8	-	6.8	-
Inventories	15.9	-	15.9	-
Taxation				
- Current	0.6	-	0.6	(0.9)
- Deferred	14.6	(13.7)	0.9	(5.3)
Receivables	80.8	-	80.8	7.1
Cash and cash equivalents	234.1	-	234.1	72.2
Payables and provisions	(434.8)	(21.6)	(456.4)	(51.6)
Loans	(2,398.6)	(106.5)	(2,505.1)	(484.5)
Derivative financial instruments: interest rate swaps	(226.5)	-	(226.5)	(16.7)
Net assets acquired	(216.1)	421.1	205.0	127.3
Goodwill			234.6	34.0
Consideration			439.6	161.3
Consideration satisfied by:				
Cash			439.6	145.6
Loan notes issued			-	15.7
Total consideration			439.6	161.3

¹ 2006 fair values relate to the acquisition of Spirit Group Holdings Limited on 5 January 2006.

² 2005 fair values relate to the acquisitions of InnSpired Group Limited on 10 September 2004 and Avebury Holdings Limited on 8 August 2005.

In the current year, the provisional fair value adjustments primarily relate to the revaluation of freehold and leasehold trading properties, the mark to market valuation of derivative financial instruments, the recognition of deferred tax liabilities on revalued properties, which gives the opportunity to roll over taxable gains on the acquisition of properties, and the revaluation of pension scheme liabilities at the date of acquisition.

Fair values are provisional at 19 August 2006 to enable the final assessment of potential tax and other liabilities.

The fair values presented in the interim statements were provisional due to the proximity of the acquisition to the interim date. The fair values have been adjusted from those provisional fair values disclosed in the interim statements due to the disposal of 290 pubs on 25 June 2006, which has given better information on the fair value of those pubs on their initial acquisition.

Included in the £234.6m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include infrastructure, an assembled workforce and operating synergies.