



SPIRIT ISSUER
PUNCH PUB COMPANY (PUBS) LIMITED AND PUNCH PARTNERSHIPS (PUBS)
LIMITED

FINANCIAL REPORT – QUARTER 1 (DECEMBER 2009)

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Introduction

The Borrower Group Estate (defined below) in respect of the Spirit Issuer debenture bond issued in November 2004, ended its first quarter of the 2009/10 financial year on 12 December 2009. This report covers the 16 week period to that date.

This report is prepared under UK Generally Accepted Accounting Principles ("UK GAAP") and excludes any impact of International Financial Reporting Standards ("IFRS").

The pubs operated under the lease style of operation are owned by Punch Partnerships (Pubs) Limited, the pubs operated under the managed style of operation are owned by Punch Pub Company (Pubs), together they form the "Borrower Group Estate".

Revised Debt Structure

During the quarter, the Borrower Group cancelled loan notes with a principal value of £49.8m.

Profit Commentary

Trading results for the first quarter were as follows:

- **Sales**

Net sales for the 16 weeks to 12 December 2009 totalled £167.3m for the managed division, which comprised 683 pubs at the quarter end and £29.3m for the leased division, which comprised 578 pubs at the quarter end, as reported.

Average turnover per pub for the first financial quarter of the 2009/10 financial year was £242k for the managed division, up from £240k in the equivalent quarter in the prior year.

- **EBITDA**

Managed EBITDA amounted to £24.3m and leased EBITDA to £14.1m for the quarter, after divisional overheads.



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Estate Portfolio

- During the quarter, within the managed estate, 14 pubs were disposed of for net proceeds of £9.0m. Within the leased estate, 26 pubs were disposed of for net proceeds of £12.1m.
- One pub has been transferred during the quarter, from the managed to the leased trading format within the Borrower Group Estate.

	<u>Quarter 1</u> <u>Managed pubs</u>	<u>Quarter 1</u> <u>Leased pubs</u>	<u>Quarter 1</u> <u>Managed and</u> <u>Leased pubs</u>	<u>2008/09</u> <u>Managed and</u> <u>Leased pubs</u>
	16 weeks to 12 December 2009	16 weeks to 12 December 2009	16 weeks to 12 December 2009	52 weeks to 22 August 2009
Number of Pubs				
Opening	698	603	1,301	1,322
Acquisitions	-	-	-	83
Managed to lease transfers	(1)	1	-	-
Disposals	(14)	(26)	(40)	(104)
End of Period	<u>683</u>	<u>578</u>	<u>1,261</u>	<u>1,301</u>

Investment in Assets

	<u>Quarter 1</u> <u>16 weeks to</u> <u>12 December</u> <u>2009</u> <u>£m</u>	<u>2008/09</u> <u>52 weeks to</u> <u>22 August</u> <u>2009</u> <u>£m</u>
Payments to acquire new pubs	-	50.0
Spend on existing pubs	12.0	41.2
Total Spend on Estate	<u>12.0</u>	<u>91.2</u>
Disposal Proceeds	<u>21.5</u>	<u>140.5</u>

¹ The proceeds in the current period include £0.4m relating to land and other sales.



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Debt Service Cover Ratio (DSCR)

The DSCR is calculated upon the actual performance of the current estate at the financial quarter end. It is calculated as follows:

	<u>Rolling 4</u> <u>Quarters</u> 52 weeks to 12 December 2009 <u>£m</u>
EBITDA	137.5
Less: capex	(16.3)
Plus: interest received	0.4
Free cash flow	<u>121.6</u>
Actual debt service	61.3
Synthetic debt service	75.2
Debt service cover ratio (Default basis)	<u>1.98</u>
Debt service cover ratio (OpFlex basis)	<u>1.62</u>



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Interest Payments

	<u>Quarter 1</u> 16 weeks to 12 December 2009 <u>£m</u>	<u>2008/09</u> 52 weeks to 22 August 2009 <u>£m</u>
Interest Payments		
A1	0.5	6.5
A2	1.1	10.5
A3	1.7	13.3
A4	4.5	22.4
A5	2.9	15.9
Swap costs	4.7	8.4
Other	1.2	4.8
	<u>16.6</u>	<u>81.8</u>



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PROFIT AND LOSS ACCOUNT

	Quarter 1 16 weeks to 12 December 2009	2008/09 52 weeks to 22 August 2009
	£m	£m
MANAGED DIVISION		
Turnover		
Drink (net of discounts)	92.3	339.6
Food (net of discounts)	66.6	239.0
Machines	3.1	12.7
Other	5.3	15.6
Total Turnover	<u>167.3</u>	<u>606.9</u>
Gross margin	116.9	428.3
Pub costs	(76.4)	(270.3)
Rent payable	(9.1)	(29.9)
Outlet EBITDA	<u>31.4</u>	<u>128.1</u>
Managed overheads	(7.1)	(31.8)
Managed EBITDA	<u>24.3</u>	<u>96.3</u>
LEASED DIVISION		
Turnover		
Beer (net of discounts)	16.8	58.4
Rent	7.5	27.8
Machines	1.3	4.9
Other	3.7	12.0
Total Turnover	<u>29.3</u>	<u>103.1</u>
Gross Profit		
Beer	7.6	27.1
Rent	7.5	27.8
Machines	1.3	4.9
Other	1.5	4.5
Total Gross Profit	<u>17.9</u>	<u>64.3</u>
Leased costs (including overheads)	(3.8)	(13.0)
Leased EBITDA	<u>14.1</u>	<u>51.3</u>
Combined EBITDA	<u>38.4</u>	<u>147.6</u>
Administrative fee	(0.4)	(1.7)
Property related profit / (loss)	(7.1)	(90.1)
Depreciation and amortisation – managed division	(12.9)	(43.4)
Impairment of tangible fixed assets – managed division	-	(103.5)
Depreciation and amortisation – leased division	(0.7)	(1.7)
Impairment of tangible fixed assets – leased division	-	(89.0)
Exceptional items ¹	15.0	82.1
Management recharge	-	3.1
Interest payable on debenture	(20.9)	(83.3)
Intercompany interest payable	(38.1)	(115.8)
Other interest receivable	0.1	4.6
Loss Before Taxation	<u>(26.6)</u>	<u>(291.1)</u>
Taxation	-	(11.9)
Loss After Taxation	<u>(26.6)</u>	<u>(303.0)</u>

¹ Exceptional items relate to movements in the fair value of interest rate swaps, costs incurred on reorganisation of field and central support teams and profit arising on debt buy-back.

¹ The figures at 22 August 2009 have been restated from those shown in the quarter 4 (August 2009) report for the finalisation of the underlying statutory accounts. This has the impact of increasing the loss for the period by £254.2m, being; £37.8m loss on year end revaluation of leased pubs earmarked for disposal, £2.9m adjustment to loss on disposal, -£2.5m adjustment to depreciation of managed pubs, £103.5m impairment of managed pubs, £89.0m impairment of leased pubs, £0.1m exceptional items and £23.4m taxation.



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AGGREGATED BALANCE SHEET

	As at 12 December 2009 £m	As at 22 August 2009 £m
Tangible Fixed Assets	1,654.0	1,684.2
Stocks	6.1	5.9
Debtors	20.4	18.4
Cash	51.4	64.1
Creditors due within one year	(79.7)	(78.5)
Current assets less current liabilities	(1.8)	9.9
Total operating assets	1,652.2	1,694.1
Creditors due after more than one year	(11.7)	(11.7)
Securitised debt due after more than one year	(946.5)	(996.2)
Deferred tax	6.4	6.4
Provisions for liabilities and charges	(12.8)	(13.5)
Defined benefit pension scheme	(29.4)	(29.5)
Derivative financial instrument	(103.2)	(103.2)
Amounts due to group undertakings	(954.2)	(919.0)
	(2,051.4)	(2,066.7)
NET LIABILITIES	(399.2)	(372.6)
Capital and Reserves		
Share Capital	-	-
Revaluation Reserve	(88.9)	(88.7)
Capital Contribution	153.3	153.3
Other Reserves	(41.3)	(41.3)
Profit and Loss Reserves	(422.3)	(395.9)
SHAREHOLDERS' DEFICIT	(399.2)	(372.6)

¹ The prior year figures have been restated to reflect adjustments made on finalisation of underlying statutory accounts. The impact of these adjustments has been to reduce net assets by £342.0m, being £103.5m impairment of managed pubs, £214.6m year end revaluation of leased pubs, -£2.5m adjustment to depreciation of managed pubs, £2.8m adjustment to disposal of fixed assets, -£2.3m reclassification of debtors to intercompany, -£8.3m reclassification of creditors due within one year to intercompany, £3.8m finalisation of deferred taxation, £1.7m finalisation of deferred taxation on pensions and £26.4m corporation tax group relief.



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AGGREGATED CASH FLOW

	<u>Quarter 1</u> 16 weeks to 12 December 2009 £m	<u>2008/09</u> 52 weeks to 22 August 2009 £m
Operating profit	24.4	98.3
Depreciation and amortisation	13.6	47.6
Increase in working capital	(13.9)	(0.6)
Net Cash Inflow from Operating Activities	<u>24.1</u>	<u>145.3</u>
Returns on Investment and Servicing of Finance		-
Interest paid	(16.6)	(81.8)
Interest received	0.1	1.2
	<u>(16.5)</u>	<u>(80.6)</u>
Capital Expenditure and Financial Investment		
Payments to acquire new pubs	-	(50.0)
Investment spend on fixed assets	(12.0)	(41.2)
Receipt from sale of fixed assets	27.4	140.5
	<u>15.4</u>	<u>49.3</u>
Net Cash Inflow Before Financing	<u>23.0</u>	<u>114.0</u>
Financing		
Loans repaid	(35.7)	(134.1)
NET DECREASE IN CASH	<u>(12.7)</u>	<u>(20.1)</u>



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PUNCH PUB COMPANY (PUBS) LIMITED AND PUNCH PARTNERSHIPS (PUBS) LIMITED

FINANCIAL RATIO COMPLIANCE CERTIFICATE

To: Security Trustee

- 1 We, Phil Dutton and Giles Thorley, each being a director of Punch Pub Company (Pubs) and Punch Partnerships (Pubs) Limited, HEREBY CERTIFY without incurring any personal liability for the same, that for the Financial Quarter just ended:
 - (a) the Debt Service Cover Ratio (Default) for the period of four Financial Quarters ending on 12 December 2009 was 1.98:1 (both with and without any Additional Properties);
 - (b) the Debt Service Cover Ratio (Opflex) for the period of four Financial Quarters ending on 12 December 2009 was 1.62:1;
 - (c) the Adjusted Debt Service Cover Ratio (Default) for the period of two Financial Quarters ending on 12 December 2009 was 1.92:1;
 - (d) the Loan-to-Value Ratio expressed as a percentage calculated in accordance with Clause 15.1 of the Issuer / Borrower Facility Agreement for the Financial Quarter commencing on 23 August 2009 and ending on 12 December 2009 was 61.2% (both with and without any Additional Properties);
 - (e) in addition, the following values were relevant for the Financial Quarter just ended:

The average and final balance of the Borrower's accounts	Managed Borrower Average - £33.2.0m Final - £32.7m Leased Borrower Average - £26.9m Final - £18.2m
CapEx Amounts expended	£16.9m for the quarter
Unspent CapEx amounts	£nil
Number of Punch Taverns Mortgaged Properties disposed of or acquired	Disposals - 40 Acquisitions - nil
Number of Pubs in Portfolio	1,261
Disposal Proceeds Account balance	Managed Borrower £0.4m Leased Borrower £0.2m

- (f) As of the date of this Certificate, no Borrower Group Event of Default or Potential Borrower Group Event of Default (which in either case, has not previously been notified to the Security Trustee) has occurred;



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FINANCIAL RATIO COMPLIANCE CERTIFICATE (continued)

- 2 In accordance with Clause 14.1(b) of the Issuer/Borrower Facility Agreement, we confirm that there have been:
- (a) no material amendments made to the Material Contracts since the date of the last Financial Ratio Compliance Certificate;
 - (b) no Material Contracts entered into since the date of the last Financial Ratio Compliance Certificate;
 - (c) no Material Contracts assigned since the date of the last Financial Ratio Compliance Certificate, for which consent to assign was required.
- 3 The number of Borrower Mortgaged Properties which have been converted by the Leased Borrower from Managed Pubs to Tenanted Pubs in accordance with the terms of the IBFA since July 2006 is 623.
- 4 The number of Borrower Mortgaged Properties which have been converted by the Leased Borrower from Managed Pubs to Tenanted Pubs in accordance with the terms of the IBFA since the previous Financial Quarter is 1.
- 5 The amounts owed by each Borrower under the Term Advances and the LoanCo / Borrower Subordinated Loan are:

Issuer/ Borrower Facility Agreement	Managed Borrower	Leased Borrower
Term A1 Loan	£90.2m	£54.5m
Term A2 Loan	£115.9m	£72.7m
Term A3 Loan	£40m	£80.3m
Term A4 Loan	£199.6m	£67.5m
Term A5 Loan	£128.9m	£96.9m
LoanCo / Borrower Subordinated Loan	£180.7m	£369.3m



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FINANCIAL RATIO COMPLIANCE CERTIFICATE (continued)

- 6 Terms used in this Financial Ratio Compliance Certificate that are not defined herein shall have the meaning given to them in the Master Definitions and Construction Schedule dated 25 November 2004 (as amended and restated with effect from the Effective Date and as may be further amended or varied from time to time).

Dated: 26 January 2010

Signed for and on behalf of
Punch Pub Company (Pubs) and Punch Partnerships (Pubs) Limited

A handwritten signature in black ink, appearing to be "A. Puffin", written over a dotted line.

Finance Director

A handwritten signature in black ink, appearing to be "J. Puffin", written over a dotted line.

Director