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**THIS MEMORANDUM IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** *If you are in any doubt about any aspect of these proposals and/or the action you should take, you should consult immediately your broker, commercial bank, custodian or other professional adviser authorised under the Financial Services and Markets Act 2000 (if you are in the United Kingdom) or other appropriately authorised financial adviser.*

*If you have sold or otherwise transferred all of your Debenture Bonds you should immediately forward this Memorandum to the purchaser or transferee, or to the broker, commercial bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.*

*This Memorandum is directed at persons having professional experience in matters relating to investments and any investment or investment activity covered by this Memorandum is available only to such persons and will be engaged in only with such persons. Persons who do not have professional experience in matters relating to investments should not rely on the contents of this Memorandum.*

**PROPOSALS RELATING TO THE**

**£150,000,000 CLASS A1 DEBENTURE BONDS DUE 2028  
(ISIN: XS0206404138)**

**£200,000,000 CLASS A2 DEBENTURE BONDS DUE 2031  
(ISIN: XS0206404724)**

**£250,000,000 CLASS A3 DEBENTURE BONDS DUE 2021  
(ISIN: XS0206407073)**

**£350,000,000 CLASS A4 DEBENTURE BONDS DUE 2027  
(ISIN: XS0206407743)**

**£300,000,000 CLASS A5 DEBENTURE BONDS DUE 2034  
(ISIN: XS0206409285)**

**ISSUED BY SPIRIT ISSUER PLC**

**AND**

**NOTICE OF MEETING OF DEBENTURE BONDHOLDERS**

**TO BE HELD ON 30 JUNE 2006**

No person has been authorised by Spirit Issuer plc (the “**Issuer**”) or by Punch Taverns plc or any of its subsidiaries from time to time (the “**Punch Group**”) to make any representations with respect to the proposals in this Memorandum to holders of the Class A1 debenture bonds due 2028 (the “**Class A1 Debenture Bonds**”), the Class A2 debenture bonds due 2031 (the “**Class A2 Debenture Bonds**”), the Class A3 debenture bonds due 2021 (the “**Class A3 Debenture Bonds**”), the Class A4 debenture bonds due 2027 (the “**Class A4 Debenture Bonds**”) and the Class A5 debenture bonds due 2034 (the “**Class A5 Debenture Bonds**”) (together, the “**Debenture Bonds**”) issued by the Issuer which are inconsistent with the statements contained in this Memorandum and, if made, such representations may not be relied upon as having been so authorised. Nothing in this Memorandum shall in any way limit any proposals which may hereafter be made with respect to the Debenture Bonds or any other securities of the Issuer. In this Memorandum, references to “**Debenture Bondholders**” shall be to the holders of the Debenture Bonds, and references to the “**Class A1 Debenture Bondholders**”, the “**Class A2 Debenture Bondholders**”, the “**Class A3 Debenture Bondholders**”, the “**Class A4 Debenture Bondholders**” and the “**Class A5 Debenture Bondholders**” shall be construed accordingly.

This Memorandum contains proposals to be put to the Debenture Bondholders in respect of certain amendments and modifications to the whole business securitisation of Spirit Pubs Holdings Limited and its subsidiaries (the “**Spirit Securitisation**”), as more particularly outlined in this Memorandum (the “**Proposals**”).

**The Debenture Bondholders' meeting referred to in this Memorandum has been convened for the sole purpose of enabling the Debenture Bondholders to consider the Proposals and resolve, if they so wish, to pass the extraordinary resolution (the "Extraordinary Resolution") set out in Appendix A (*Notice of Meeting*) below.**

The terms of, and procedures relating to, the Proposals are set out in this Memorandum. The Issuer may elect at any time prior to the Expiration Time on the Expiration Date (each as defined below) to amend or vary the terms of, and the procedures relating to, the Proposals (as set out in "*Certain procedures relating to the Proposals*" below).

Holders of Class A1 Debenture Bonds, Class A3 Debenture Bonds or Class A5 Debenture Bonds (together, the "**Guaranteed Debenture Bonds**") are not invited to attend and vote at the Meeting or give instructions through a Clearing System in relation thereto. Provided that certain conditions are satisfied, Ambac Assurance UK Limited ("**Ambac**") may attend and vote at the Meeting in respect of 100 per cent. of the aggregate Principal Amount Outstanding of each Class of the Guaranteed Debenture Bonds or, not fewer than five Business Days prior to the Meeting, give written instructions to the Debenture Bond Trustee of its vote to be counted at the Meeting (Paragraph 18.1(c) of Schedule 4 to the Trust Deed). As described in the section entitled "*Certain procedures relating to the Proposals – Guaranteed Debenture Bondholders*" below, these conditions are expected to be satisfied and Ambac has expressed its intention to attend and vote or issue voting instructions. Therefore, Guaranteed Debenture Bondholders are not being invited to attend and vote at the Meeting.

Holders of Class A2 Debenture Bonds and Class A4 Debenture Bonds (together the "**Non-Guaranteed Debenture Bonds**") may, in accordance with the procedures set out in the Trust Deed, give instructions through the relevant Clearing System to the Principal Paying Agent either: (i) to appoint a proxy to vote at the Meeting on their behalf; or (ii) to issue a voting certificate to such Debenture Bondholder (or a proxy) to attend and vote at the Meeting, in connection with the Extraordinary Resolution (in each case, an "**Instruction**").

As described in this Memorandum in the section entitled "*Certain procedures relating to the Proposals Non-Guaranteed Debenture Bonds – Revocation of Instructions*" below, an Instruction cannot be withdrawn by a Debenture Bondholder after the Expiration Date.

You should not construe the contents of this Memorandum as legal, tax or financial advice. You are advised to consult your own independent advisers as to the legal, tax, financial or other matters relevant to the action you should take in connection with the Proposals described herein.

Neither the delivery of this Memorandum nor any of the Proposals made in connection with this Memorandum shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer or any member of the Punch Group since the date hereof or that the information contained herein is correct at any time subsequent to the date hereof.

Certain statements contained in this Memorandum, including any targets, forecasts, projections, descriptions or statements regarding the possible future results of operations, any statement preceded by, followed by or that includes the words "targets", "believes", "expects", "aims", "intends", "will", "may", "anticipates" or similar expressions, and other statements that are not historical facts, are or may constitute "forward-looking statements". Because such statements are inherently subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include but are not limited to (i) risks and uncertainties relating to the United Kingdom economy, the United Kingdom pub industry, consumer demand, beer consumption levels and government regulation; and (ii) such other risks and uncertainties as are detailed herein. All written and oral forward-looking statements attributable to the Issuer or any member of the Punch Group or persons acting on behalf of any of them are expressly qualified in their entirety by the cautionary statements set forth in this paragraph. Debenture Bondholders are cautioned not to put undue reliance on such forward-looking statements. None of the Issuer, any member of the Punch Group or any person acting on behalf of any of them will undertake any obligation to publish any revisions to these forward-looking statements to reflect events, circumstances or unanticipated

events occurring after the date of this Memorandum.

Citigroup Global Markets Limited (“**Citigroup**” or the “**Consent Co-ordinator**”), which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for the Punch Group, and no-one else, in relation to the Proposals set out in this Memorandum. Citigroup has not approved the publication of this Memorandum or any of the statements or information contained in this Memorandum and, accordingly, accepts no responsibility for any of the statements or information contained in this Memorandum. Citigroup and/or its associates may have a holding in, or may from time to time provide advice or other investment services in relation to, or engage in transactions involving, the Debenture Bonds.

The terms of the Proposals (together with the Extraordinary Resolution contained in Appendix A (*Notice of Meeting*) below) have not been formulated or approved by Deutsche Trustee Company Limited (the “**Debenture Bond Trustee**”, the “**Issuer Security Trustee**” and the “**Borrower Group Security Trustee**”, as appropriate) or by Deutsche Bank AG London (the “**Principal Paying Agent**”) or by Ambac and nothing in this Memorandum should be construed as a recommendation to Debenture Bondholders from the Debenture Bond Trustee, the Issuer Security Trustee, the Borrower Group Security Trustee, the Principal Paying Agent or Ambac to vote in favour of, or against, the Extraordinary Resolution proposed. Accordingly, none of the Debenture Bond Trustee, the Issuer Security Trustee, the Borrower Group Security Trustee, the Principal Paying Agent or Ambac accepts responsibility for the statements contained in, or any omission from, this Memorandum.

This Memorandum, including the appendices, does not constitute an offer to sell or a solicitation of an offer to buy any of the Debenture Bonds or any other securities. The distribution of this Memorandum in certain jurisdictions may be restricted by law. Persons into whose possession this Memorandum falls should inform themselves about, and observe, any such restrictions.

This Memorandum is solely directed at Debenture Bondholders.

Capitalised terms used but not defined in this Memorandum shall, unless the context otherwise requires, have the meanings given to them in the Trust Deed dated 25 November 2004 between the Issuer, Ambac and the Debenture Bond Trustee and the Master Definitions and Construction Schedule of the same date referred to in the Trust Deed.

**Debenture Bondholders’ attention is drawn to the matters set out in the section entitled “*Special Considerations*” below.**

The Consent Co-ordinator in relation to the Proposals is Citigroup Global Markets Limited. The Consent Co-ordinator may be contacted by telephone on +44 20 7986 8969 or by email at: [liabilitymanagement.europe@citigroup.com](mailto:liabilitymanagement.europe@citigroup.com).

**Consent Co-ordinator**

**Citigroup**

The date of this Memorandum is 8 June 2006.

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## LETTER TO THE DEBENTURE BONDHOLDERS FROM PUNCH TAVERNS PLC



Incorporated in England and Wales (registered number 03752645)

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

**Date: 8 June 2006**

**To: Holders of the Class A1 Debenture Bonds, Class A2 Debenture Bonds, Class A3 Debenture Bonds, Class A4 Debenture Bonds and Class A5 Debenture Bonds issued by Spirit Issuer plc**

Dear Debenture Bondholders,

### 1. INTRODUCTION

I am writing on behalf of Punch Taverns plc to set out the background to this memorandum, including the appendices (the "**Memorandum**"), which Spirit Issuer plc is sending to you today.

In November 2004, the Issuer issued the Debenture Bonds and used the proceeds to make advances to Spirit Managed Pubs Limited (the "**Managed Borrower**") under a facility agreement (the "**Issuer/Borrower Facility Agreement**"). The Managed Borrower, its indirect holding company, Spirit Pubs Holdings Limited, and certain of its subsidiaries comprising the Borrower Group granted fixed and floating charges over all their material assets, including pubs owned by them from time to time (the "**Securitised Estate**") to secure obligations owed to the Issuer under the Issuer/Borrower Facility Agreement. Various other Transaction Documents were executed on or about the same date in connection with that transaction.

On 5 January 2006, the Punch Group completed the acquisition of Spirit Group Holdings Limited and its subsidiaries (the "**Spirit Group**"). At the time of the acquisition, the Spirit Group estate consisted of 1,830 managed pubs across England, Wales and Scotland, of which 1,066 formed the Securitised Estate owned by the Managed Borrower.

In our circular to shareholders concerning the proposed acquisition of the Spirit Group, we stated that our intention was to convert up to 750 pubs owned by the Spirit Group from a managed to a tenanted format, and to sell 82 other pubs which have higher alternative use property value. We also stated that we would undertake a detailed performance review of the remaining pubs owned by the Spirit Group in order to assess the best method of realising value.

One of our strategic aims is that pubs which are expected to have a long-term future in the Punch Group should be financed through long term funding arrangements. In the case of the pubs held by the Spirit Group, this points to the Securitised Estate being comprised of pubs which fall into this category. Those pubs which we do not anticipate keeping in the long term are, in our view, more efficiently financed outside the Securitised Estate through short term bank debt.

We have already begun the process of restructuring the Securitised Estate by transferring certain pubs into, and others out of, the Securitised Estate (under the "Permitted Acquisition" and "Permitted Disposals" provisions in the Transaction Documents). On 22 May 2006, 375 pubs with an aggregate value of approximately £432 million were bought into the Securitised Estate, the vast majority of which came from Spirit Managed Inns Limited. At the same time, 155 pubs, also with an aggregate value of approximately £432 million, were sold out of the

Securitised Estate to Spirit Group companies outside the Borrower Group. It is anticipated that, following the approval of the Proposals, Spirit Managed Inns Limited will transfer its remaining pubs, which are predominantly short leasehold properties intended to be held over the long term, into the Securitised Estate.

We are also planning to dispose of 31 other pubs out of the Securitised Estate in the near future (in accordance with the "Permitted Disposals" provisions in the Transaction Documents).

It is anticipated that, following the approval and implementation of the Proposals, the Securitised Estate will consist of approximately 1,350 pubs which are intended to be retained over the long term by the Punch Group.

In reviewing the pubs retained within the Borrower Group, the key driver has been to identify those pubs which we expect could be run more profitably as tenanted pubs than in their current managed format. Accordingly, we are now proposing to effect the next step in the restructuring of the Securitised Estate, which will result in a mixed estate containing both managed and tenanted pubs. As part of this proposed restructuring, we are proposing a number of consequential changes to the Transaction Documents, including various covenant changes required in order to reflect an estate containing tenanted pubs.

## **2. SUMMARY OF THE AMENDMENTS TO THE SPIRIT SECURITISATION**

### ***Conversion of managed pubs to tenanted pubs***

At present, because of the Spirit Group's previous focus on running managed pubs, all of the pubs in the Securitised Estate are run as managed pubs. We have experience of dealing with both tenanted and managed pubs and do not adhere rigidly to one particular format. Instead, we select the format, on a case by case basis, which we believe will be of most benefit to the relevant Punch Group company and, therefore, to its financiers.

We have identified a significant number of pubs within the Securitised Estate which we expect could be operated more profitably as tenanted pubs and, accordingly, plan to convert these from managed to tenanted pubs. While the current Transaction Documents do not prohibit the acquisition and operation of tenanted pubs, they are not sufficiently flexible to facilitate the conversion of pubs already in the Securitised Estate or the efficient operation of tenanted pubs. Therefore, we propose amending the Transaction Documents to enable the conversion of some managed pubs to a tenanted format and to make further, consequential amendments which will facilitate the operation of tenanted pubs alongside the remaining managed estate within the Securitised Estate.

#### *Benefits of conversion*

As illustrated under "3. Summary Financial Information" below, the conversion of some managed pubs to a tenanted format is expected to result in an increase of approximately eight per cent. on the current company-level EBITDA for the Securitised Estate. This increase will result principally from a significant reduction in overheads, from a minimum of £29,000 per annum per managed pub to a minimum of £6,000 per annum per tenanted pub.

Another anticipated benefit from the conversion programme is a significant reduction in capital expenditure. At present, the minimum capital expenditure per annum per managed pub is £27,500. Our proposals envisage the minimum capital expenditure on tenanted pubs will be £2,000 per annum per pub.

In addition, it is expected that the conversions will result in a more stable and predictable cashflow from each tenanted pub compared to cashflow generated by a managed pub.

The process of conversion (and, in particular, conversion on a large scale) includes certain risks relating to, for example, the ability to attract suitable tenants and the short-term impact on the revenue of the relevant pubs. However, these risks are, in our view, mitigated by other features of the Proposals, such as the tightening of restrictions on making Outside Payments and the expansion of the Liquidity Facility, which are referred to below. As explained below, the one-off costs of restructuring (including the conversions currently contemplated) will be borne by

companies outside the Borrower Group.

*New operating company for the tenanted business*

At present, all the pubs within the Securitised Estate are held by the Managed Borrower, which is the sole operating company within the Borrower Group and is primarily funded by a combination of subordinated intra-group lending and the proceeds of the Debenture Bonds which are on-lent by the Issuer under the Issuer/Borrower Facility Agreement. Following the implementation of the Proposals, all tenanted pubs in the Securitised Estate will be held in a new operating company, Punch Taverns (Pubs) Limited (the "**Leased Borrower**" and, together with the Managed Borrower, the "**Borrowers**"), which will accede as an additional borrower and guarantor to the Issuer/Borrower Facility Agreement and as an additional party (in the same capacity as the Managed Borrower) to the Tax Deed of Covenant.

The Proposals envisage that the Borrowers may, from time to time, transfer pubs between them for conversion into (where the purchaser is the Managed Borrower) managed pubs or (where the purchaser is the Leased Borrower) tenanted pubs. Such transfers would, following the implementation of the Proposals, be specifically permitted under the Issuer/Borrower Facility Agreement, and would not be governed by the provisions relating to Permitted Acquisitions or Permitted Disposals.

Nothing will be done which would have the effect of increasing the number of tenanted pubs within the Securitised Estate above 750 at any one time.

***Inclusion of short leasehold titles***

Following the approval of the Proposals, our plans for the restructuring of the Securitised Estate include the introduction into the Securitised Estate (pursuant to the "Permitted Acquisitions" provisions of the Transaction Documents, as amended) of 119 leasehold pubs which are predominantly held on short leases. These 119 pubs are expected to represent approximately nine per cent. of the Securitised Estate by number of pubs and to generate approximately seven per cent. of the pub-level EBITDA of the Securitised Estate after their introduction.

Going forward, it is proposed that short leasehold pubs (to be defined as any leasehold property acquired by a member of the Borrower Group after 30 June 2006 in respect of which the unexpired term at the date of its acquisition is less than (a) 25 years, or (b) if longer, the remaining period until the Final Maturity Date of the Class A5 Debenture Bonds) may be included within the Securitised Estate, up to an aggregate maximum of 10 per cent. by number of pubs. It is also proposed that, where a pub estate is acquired which includes short leasehold pubs, the average unexpired term of such newly acquired short leasehold pubs must be at least 15 years.

In addition, a new restriction will limit the proportion of leasehold pubs with forfeiture on insolvency provisions in the Securitised Estate to an aggregate maximum of five per cent. by number of pubs.

***Changes to the restrictions on Outside Payments***

At present, Outside Payments are permitted provided that the DSCR (OpFlex) level, tested on a rolling four-quarter pro forma look-back basis and on a one-quarter pro forma look-back basis, is greater than 1.30:1. At 18 February 2006, the DSCR (OpFlex) of the Securitised Estate was 1.79:1. Currently, the Spirit Group may therefore remove all Excess Cash from the Spirit debenture structure even if it were to experience a significant drop in performance from its current level of around 1.80:1. As at 18 February 2006, Excess Cash was about £87 million for the trailing 12 month period.

As part of the restructuring, the restriction on Outside Payments is to be amended so that the DSCR (OpFlex) test will be steadily increased for the amortisation-free period (until 2013) from the present level of 1.30:1 up to a level of 1.70:1. In addition, until the end of 2007, two further DSCR (OpFlex) tests (using ratios of up to 1.75:1 and 1:80:1, respectively) will be introduced such that if the DSCR (OpFlex) level falls below such ratios, 50 per cent. or 25 per cent. (respectively) of the cash otherwise available to make Outside Payments will be retained. In

addition, if the required DCSR (OpFlex) levels are not met during this period, then an additional 10 per cent. of such otherwise available cash will be retained if targets for the number of pub conversions are also not achieved.

Any cash retained will not be available for the purpose of making Outside Payments until the necessary DCSR (OpFlex) level has been achieved for four consecutive financial quarters, and even then only one financial quarter's worth of retained cash may be released in each subsequent quarter. Accordingly, operating cash will continue to be retained in the debenture structure until a long-term improvement in the performance of the Securitised Estate is achieved.

The above changes will provide extra comfort to Debenture Bondholders by providing an incentive for Spirit's management to ensure its current performance levels are maintained or improved and by increasing the amount of cash which will be retained within the debenture structure should the performance of the Securitised Estate deteriorate from present levels. Given the amount of cash currently generated by the Securitised Estate, these additional and strengthened DCSR (OpFlex) tests are expected to create the potential to trap significant amounts of cash in the debenture structure.

### ***Expansion of the Liquidity Facility***

At present, the Liquidity Facility is structured so that it cannot be drawn to cover shortfalls in payment of principal on the Debenture Bonds. Given that the order of priority in the "payments waterfall" is interest followed by principal, any shortfall would be likely to be of principal amounts and the Issuer would be unable to draw on the Liquidity Facility to cover such a shortfall.

As part of the proposed restructuring, the Liquidity Facility will be restructured, so that it may be drawn to cover both interest and principal shortfalls, and increased in size, in order to cover 18 months' future debt service (including both interest and scheduled principal payments). This will involve an increase in the size of the Liquidity Facility from £125 million to £194 million.

### ***Funding of pension deficit***

If the Proposals are approved, the Punch Group will commit to funding the current pension deficit of the Spirit Group from outside the Borrower Group. Accordingly, to the extent companies within the Borrower Group are directly or indirectly liable to contribute towards the deficit, such liability will be met by a company outside the Borrower Group, and, to the extent companies outside the Borrower Group are directly or indirectly liable to contribute towards the deficit, the costs of this will not be passed on to entities within the Borrower Group.

As at January 2006, the aggregate pension deficit of the Spirit Group stood at approximately £75 million on an FRS17 basis. Companies within the Punch Group have already paid £16 million towards the deficit and have contracted to pay a further £16 million by the end of August 2006. A binding agreement has also been signed with the trustees of the Spirit pension schemes to fund the currently outstanding deficit in equal instalments until August 2010.

### ***One-off costs of restructuring***

The change to a mixed estate of managed and leased pubs is expected to lead to lower central overhead costs. If the Proposals are approved, the Punch Group will commit to funding the costs of the restructuring of the Spirit Group from outside the Borrower Group, which will ensure that the costs of restructuring the Debenture will not affect Debenture Bondholders' security. Similarly, if the Proposals are approved, all professional advisers' fees relating to the restructuring will be paid by companies outside the Borrower Group.

## **3. SUMMARY FINANCIAL INFORMATION**

Set out below, on an illustrative pro forma basis, are our expectations of the changes which the Proposals might have on the profitability (drawn from figures at 19 November 2005) of pubs in, or expected to be in, the Securitised Estate at certain points in time.

	Pubs in, or expected to be in, the Securitised Estate <sup>1</sup>	Pro forma pub-level EBITDA <sup>2</sup>	Pro forma company-level EBITDA <sup>3</sup>
Securitised Estate at 18 February 2006	1,047	£234.90 million	£198.09 million
Securitised Estate at 21 May 2006 <sup>4</sup>	1,262	£248.50 million	£204.45 million
Securitised Estate following anticipated acquisitions and disposals <sup>5</sup>	1,350	£257.85 million	£211.02 million
Securitised Estate following conversion <sup>6</sup>	1,350	£249.17 million	£221.67 million

1. Number of pubs in or expected to be in the Securitised Estate on the date stated.
2. Pro forma pub-level EBITDA is calculated by reference to the aggregate of the MAT Pub-Level EBITDA as at 19 November 2005 of the pubs referred to in the previous column.
3. Pro forma company-level EBITDA is calculated by taking the pro-forma pub-level EBITDA referred to in the previous column and deducting overheads (assuming actual overheads for each managed pub and £6,000 per leased pub).
4. These pro forma figures reflect the number of pubs within the Securitised Estate following the Permitted Disposal of 155 pubs and the Permitted Acquisition of 375 pubs on 21 May 2006.
5. These pro forma figures represent the illustrative numbers immediately following the planned disposal of the 31 pubs referred to under "1. Introduction" above and the planned acquisition of the 119 pubs referred to under "2. Summary of the Amendments to the Spirit Securitisation" above (but prior to any conversions of pubs). These figures do not take account of the possible sale of approximately 20 properties out of the Securitised Estate to allow such properties to be converted into tenanted pubs within one of the other Punch Group securitisations or, following the implementation of the Proposals, any subsequent acquisition of equivalent tenanted properties from the other Punch Group securitisations.
6. These pro forma figures represent the illustrative numbers for the pubs referred to in the previous row assuming the prior conversion of all the pubs in the Securitised Estate which it is currently intended to convert. Again, these figures do not take account of the possible sale of properties for conversion or any subsequent acquisition of tenanted properties from the other Punch Group securitisations, as described in Note 5 above.

Additional historical financial information relating to the Spirit Securitisation is set out in the Issuer's quarterly Debenture Bondholders' Reports, copies of which are available at [www.punchtaverns.com/punch/corporate/investor+centre/securitisation](http://www.punchtaverns.com/punch/corporate/investor+centre/securitisation) under the heading "Spirit Issuer".

#### 4. AMBAC

Ambac has provided an unconditional and irrevocable guarantee in respect of the payment of Scheduled Interest and Ultimate Principal on the Guaranteed Debenture Bonds and are expected to be able to exercise 100 per cent. of the voting rights in respect of the Guaranteed Debenture Bonds. This represents approximately 56 per cent. of the total votes which may be cast in respect of the Extraordinary Resolution.

We have consulted, and will continue to consult, with Ambac in relation to the Proposals. We are pleased to report that Ambac have informed us that, on the basis of discussions to date, they are supportive of the overall package of the Proposals and intend to vote in favour of the Extraordinary Resolution.

Implementation of the Proposals will be subject to, among other matters, Ambac satisfaction with the final documentation (including conditions precedent).

#### 5. RATING AGENCIES

We have consulted, and will continue to consult, with Fitch Ratings Limited ("**Fitch**"), Moody's Investors Service Ltd. ("**Moody's**") and Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("**S&P**") (together, the "**Rating Agencies**") in relation to the Proposals, each of whom may issue reports and/or press releases in respect of the Proposals prior to the Meeting.

Reports of Fitch and S&P in relation to the Proposals are expected to be published on their respective websites and Moody's press release in relation to the Proposals is expected to be

published on its website, on or shortly after the date of this Memorandum.

## 6. THE MEETING

A single Meeting of all Debenture Bondholders has been convened for the purpose of enabling the Debenture Bondholders to consider and, if they so wish, to pass the Extraordinary Resolution. The Meeting will be held at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY at 9:30 a.m. on 30 June 2006.

A copy of the notice convening the Meeting and the applicable voting arrangements in respect of the Meeting is contained in Appendix A (*Notice of Meeting*).

Assuming the Extraordinary Resolution is passed at the Meeting, we expect that the Proposals will be implemented by 7 July 2006.

You should note that neither Citigroup Global Markets Limited (as the Consent Co-ordinator) nor Deutsche Trustee Company Limited (in its capacity as Debenture Bond Trustee, Issuer Security Trustee and Borrower Group Security Trustee) nor Deutsche Bank AG London (as Principal Paying Agent) has been involved in the formulation of the Proposals or the Extraordinary Resolution and, in accordance with normal practice, neither Citigroup Global Markets Limited nor Deutsche Trustee Company Limited nor Deutsche Bank AG London expresses any opinion on the merits of the Proposals or the Extraordinary Resolution. Debenture Bondholders should take their own advice on the merits and on the consequences of voting in favour of the Extraordinary Resolution, including any tax consequences. However, on the basis of the information contained in this letter and the Memorandum, Deutsche Trustee Company Limited (in its capacity as Debenture Bond Trustee, Issuer Security Trustee and Borrower Group Security Trustee) has authorised it to be stated that it has no objection to the Extraordinary Resolution being put to Debenture Bondholders for their consideration and that it intends to attend the Meeting.

## 7. ACTION BY YOU

The Memorandum explains what, if any, action you may take in relation to the Extraordinary Resolution.

If you are the holder of a Non-Guaranteed Debenture Bond, your attention is drawn to the details in the Memorandum in the section entitled "*Certain Procedures relating to the Proposals – Non-Guaranteed Debenture Bondholders*", which describes the procedures to be followed if you wish to attend and/or vote at the Meeting.

Please note that if you are the holder of a Guaranteed Debenture Bond, you are not invited to attend and vote at the Meeting in respect of such Guaranteed Debenture Bond. Provided that certain conditions are satisfied, Ambac may attend and vote at the Meeting in respect of 100 per cent. of the then aggregate Principal Amount Outstanding of each Class of the Guaranteed Debenture Bonds or, not fewer than five Business Days prior to the Meeting, give written instructions to the Debenture Bond Trustee of its vote to be counted at the Meeting (Paragraph 18.1(c) of Schedule 4 to the Trust Deed). As described in the section entitled "*Certain Procedures relating to the Proposals – Guaranteed Debenture Bondholders*", these conditions are expected to be satisfied and Ambac has expressed its intention to attend and vote or give written instructions to the Debenture Bond Trustee of its vote to be counted at the Meeting. Therefore, Guaranteed Debenture Bondholders are not being invited to attend and vote at the Meeting.

**We believe that the implementation of the Proposals will benefit Debenture Bondholders and the Punch Group and urge all Debenture Bondholders who hold Class A2 Debenture Bonds or Class A4 Debenture Bonds to give Instructions and vote in favour of the Extraordinary Resolution.**

Yours faithfully,

Giles Thorley  
Chief Executive

## THE PROPOSALS

### Introduction

The Proposals involve the modification and supplementing of certain of the existing Transaction Documents, the execution of some new Transaction Documents and the termination of some redundant Transaction Documents, all as described more fully below.

The key features of the Proposals include the following changes to the Debenture Bond structure:

- (A) changes to enable the introduction of the Leased Borrower as a second operating company and accommodate the resulting two borrower structure (the Leased Borrower is currently a subsidiary of the Managed Borrower, but, on the Effective Date, all of the shares issued by the Leased Borrower are to be transferred to Spirit Pubs Parent Limited, the holding company of the Managed Borrower);
- (B) changes to facilitate the operation of tenanted pubs by the Leased Borrower and to permit the conversion of pubs between managed and tenanted formats (prior to or simultaneously with conversion, the relevant pub will be transferred to the Managed Borrower or the Leased Borrower, as appropriate);
- (C) changes to tighten up the restrictions on the making of Outside Payments;
- (D) changes to permit the inclusion, up to set limits, of short leasehold pubs within the Securitised Estate;
- (E) changes to the administrative services and supply arrangements to reflect the existence of two operating companies and the inclusion within the Securitised Estate of both managed and tenanted pubs; and
- (F) changes to expand the Liquidity Facility.

The main amendments to the Transaction Documents envisaged by the Proposals are summarised below.

### 1. AMENDMENTS TO THE ISSUER/BORROWER FACILITY AGREEMENT

It is proposed that the Issuer/Borrower Facility Agreement will be amended so that:

#### ***Two Borrowers***

- (A) there are two borrowers, the Managed Borrower and the Leased Borrower, each of which guarantees the obligations of the other and grants security over its assets to secure both its and the other's obligations;

#### ***Conversion***

- (B) the Borrowers may, from time to time, transfer pubs between them for conversion into (where the Managed Borrower is the purchaser) managed pubs or (where the Leased Borrower is the purchaser) tenanted pubs (such transfers to be specifically permitted and not governed by the provisions relating to Permitted Acquisitions or Permitted Disposals);
- (C) each of the Borrowers will assume such proportion of each Term Advance, and such proportion of the intra-group subordinated lending, and the associated rights and obligations as is appropriate in consideration for such pubs as are transferred between them;
- (D) the representations, warranties and covenants (including those to be amended as part of the Proposals) contemplate the existence of two separate operating companies owning, respectively, a managed estate and a leased and tenanted estate;
- (E) equivalent bank accounts to those operated by the Managed Borrower will be opened

and operated by the Leased Borrower in accordance with the Bank Agreement (as amended), such accounts being subject to security granted in favour of the Borrower Group Security Trustee;

- (F) upon conversion of a pub, any funds received in respect of the sale of fixtures and fittings to the new tenant which are paid into the Operating Accounts will be recorded as a credit in a ledger account against which capital expenditure items may be debited. Unless the ledger has a zero balance, no funds from the Disposal Proceeds Account may be drawn to fund capital expenditure;

***Restrictions on Outside Payments***

- (G) the restrictions on members of the Borrower Group making Outside Payments will be amended by increasing the minimum DSCR (OpFlex) level which must be achieved in order to make such payments, and by introducing additional tests which will restrict the amount of available cash which may be used to fund Outside Payments and, in circumstances where those tests are not passed, requiring operating cash to be retained within the Spirit Securitisation structure. The proposed terms of these restrictions (which are summarised in section 2 of the letter to Debenture Bondholders from Punch Taverns plc included in this Memorandum) are expected to be substantially in the form set out in Part 1 of Appendix B (*Certain proposed amendments to the Transaction Documents*) below, subject to such amendments as may be agreed between the Borrowers, the Borrower Group Security Trustee and Ambac;

***Restrictions on Short Leasehold Pubs***

- (H) pursuant to the introduction of short leasehold pubs (to be defined as any leasehold property acquired by a member of the Borrower Group after 30 June 2006 in respect of which the unexpired term at the date of its acquisition is less than (a) 25 years, or (b) if longer, the remaining period until the Final Maturity Date of the Class A5 Debenture Bonds) into the Securitised Estate (i) the proportion of such pubs will be limited to 10 per cent. of the total number of pubs within the Securitised Estate; (ii) where one or more short leasehold pubs are subsequently acquired, such newly acquired short leasehold pubs must have a mean average outstanding term of at least 15 years; and (iii) the proportion of leasehold pubs with forfeiture on insolvency provisions will be limited to five per cent. of the total number of pubs within the Securitised Estate. The proposed terms of these restrictions are expected to be substantially in the form set out in Part 2 of Appendix B (*Certain proposed amendments to the Transaction Documents*) below, subject to such amendments as may be agreed between the Borrowers, the Borrower Group Security Trustee and Ambac;

***Restriction on Tenanted Pubs***

- (I) pursuant to the introduction of tenanted pubs into the Securitised Estate, the number of such pubs will be limited to 750 in aggregate within the Securitised Estate at any one time. The proposed terms of this restriction are expected to be substantially in the form set out in Part 2 of Appendix B (*Certain proposed amendments to the Transaction Documents*) below, subject to such amendments as may be agreed between the Borrowers, the Borrower Group Security Trustee and Ambac; and

***Managed Pubs***

- (J) pursuant to the introduction of tenanted pubs into the Securitised Estate, the Managed Borrower will notify the Rating Agencies if, on the date falling two years after Effective Date, the number of managed pubs held by the Managed Borrower exceeds 700.

**2. AMENDMENTS TO THE MASTER DEFINITIONS AND CONSTRUCTION SCHEDULE**

It is proposed that the Master Definitions and Construction Schedule will be amended so that:

- (A) it takes account of all new or amended definitions which are used in any of the other new or amended Transaction Documents (such definitions to include, without limitation,

those relating to lease agreements, managed pubs, short leasehold pubs and tenanted pubs);

- (B) it takes account of certain amendments to the Borrower Group Deed of Charge, the AdminCo Share Mortgage and the SupplyCo Share Mortgage which were effected pursuant to a supplemental deed of charge between, *inter alios*, the Managed Borrower and the Borrower Group Security Trustee dated 21 March 2006;
- (C) the definition of "Permitted Business" is widened to encompass the inclusion of short leasehold pubs within the Securitised Estate;
- (D) the definition of "Allocated Overheads" stipulates that, in the case of tenanted pubs, the allocation per year will be the higher of (i) actual overheads; and (ii) £6,000 per pub; and
- (E) the definition of "Synthetic Capex" stipulates that, in the case of tenanted pubs, the minimum expenditure per year will be £2,000 per pub (adjusted for inflation).

The terms of certain of the new and amended definitions referred to in paragraph (A) and the definitions referred to in paragraphs (C) to (E) (inclusive) above are expected to be substantially in the form set out in Part 3 of Appendix B (*Certain proposed amendments to the Transaction Documents*) below, subject to such amendments as may be agreed between the Borrowers, the Borrower Group Security Trustee and Ambac.

### **3. BORROWER GROUP DEED OF CHARGE**

It is proposed that the Borrower Group Deed of Charge will be amended so that:

- (A) the Leased Borrower, which is already a party to the Borrower Group Deed of Charge (pursuant to a supplemental deed of charge dated 21 March 2006), will grant security, on substantially the same terms as the Managed Borrower, over the pubs to be acquired by it, and the security granted under the Borrower Group Deed of Charge will secure the obligations of, *inter alios*, both Borrowers under the Transaction Documents; and
- (B) it will reflect the requirement to retain funds within the Borrowers' operating accounts if the amended DSCR (OpFlex) tests are not met. The terms of such requirement are expected to be substantially in the form set out in Part 4 of Appendix B (*Certain proposed amendments to the Transaction Documents*) below, subject to such amendments as may be agreed between the Borrowers, the Borrower Group Security Trustee and Ambac.

### **4. AMENDMENTS TO THE LIQUIDITY FACILITY**

It is proposed that the Liquidity Facility Agreement be amended in order to:

- (A) permit the Issuer to utilise the Liquidity Facility in order to meet payments of both scheduled principal and interest on the Debenture Bonds; and
- (B) increase the size of the Liquidity Facility to £194 million.

### **5. AMENDMENTS TO THE ADMINISTRATIVE SERVICES ARRANGEMENTS**

It is proposed that:

- (A) the Managed Borrower will continue to obtain management services in respect of its managed estate under the Administrative Services Agreement with Spirit Group Limited, which will be amended in order to reflect (i) the existence of two separate operating companies owning, respectively, a managed estate and a tenanted estate; (ii) the acquisition of the Spirit Group by the Punch Group, and the subsequent repayment of the Spirit Group's bank debt; (iii) certain changes to the Issuer/Borrower Facility Agreement referred to above which interact with provisions in the Administrative Services Agreement (primarily those relating to the Liquidity Reserve and appointment

of a Financial Adviser); (iv) the termination of the Spirit Managed Inns Limited Administrative Services Agreement (referred to below); and (v) changes in operational arrangements which have arisen since the Administrative Services Agreement was entered into or which will arise as a consequence of the implementation of the Proposals;

- (B) the Leased Borrower will obtain management services in respect of its tenanted estate from Punch Taverns (PTL) Limited, the main service provider to the wider Punch Group, by acceding to the Punch Taverns (PTL) Limited Management Services Agreement already in place with the latter's other tenanted operating company customers in the wider Punch Group;
- (C) Spirit Group Limited will accede to the existing Punch Taverns (PTL) Limited Management Services Agreement in order to enable it to "outsource" certain centralised services (such as licensing) to Punch Taverns (PTL) Limited, and also to permit the individuals performing such services, together with certain other central management employees, including certain senior executives with responsibilities across the entire Punch Group, to be employed by Punch Taverns (PTL) Limited rather than Spirit Group Limited; and
- (D) the Administrative Services Agreement between Spirit Group Limited and Spirit Managed Inns Limited will, following the implementation of the Proposals, be terminated once the Managed Borrower has acquired the remainder of Spirit Managed Inns Limited's pub estate.

## **6. AMENDMENTS TO THE SUPPLY ARRANGEMENTS**

It is proposed that:

- (A) the Managed Borrower's Back-to-Back Supply Agreement will be amended in order to (i) add Punch Taverns (PPCS) Limited, which provides supply services to the wider Punch Group, as an additional or alternative supplier to Spirit Supply Company Limited, the current supplier, so as to permit supplies to be obtained on the best possible terms (prior to the rationalisation of the existing supply arrangements across the Spirit Group and the wider Punch Group); (ii) adjust the pro rata proportion attributable to the Securitised Estate of certain historic compensation payments in respect of previously terminated beer supply arrangements with Carlsberg UK which form part of the overall pricing structure of Spirit Supply Company Limited's long term beer supply arrangements with Carlsberg UK, to reflect the acquisition of a considerable number of managed pubs within such beer supply arrangement by the Managed Borrower from Spirit Managed Inns Limited (as referred to above); and (iii) reflect changes to the underlying supply arrangements which have arisen since the Back-to-Back Supply Agreement was entered into or which will arise as a consequence of the implementation of the Proposals;
- (B) the Leased Borrower will enter into a separate back-to-back supply agreement in order to allow it to obtain supplies and services suitable for a tenanted pub operator from Punch Taverns (PPCS) Limited; and
- (C) Spirit Managed Inns Limited's equivalent Back-to-Back Supply Agreement with Spirit Supply Company Limited will, following the implementation of the Proposals, be terminated once the Borrowers have acquired the remainder of Spirit Managed Inns Limited's pub estate.

## **7. AMENDMENTS TO THE TAX DEED OF COVENANT**

It is proposed that:

- (A) the Leased Borrower will accede to the Tax Deed of Covenant in the same capacity as, and will give the same representations, warranties and covenants as, the Managed Borrower. It is also proposed that the Tax Deed of Covenant will be amended to reflect the Leased Borrower's accession so that, where appropriate, references to the

Managed Borrower will be extended to refer also to the Leased Borrower; and

- (B) the Tax Deed of Covenant may be amended to incorporate further protection for the Borrower Group addressing risks potentially arising from the implementation of the Proposals.

## **8. AMENDMENTS TO OTHER TRANSACTION DOCUMENTS**

It is proposed that the following additional amendments will be made to the following Transaction Documents:

### ***Hedging***

- (A) the Issuer/Borrower Hedging Agreement will be amended such that each of the Borrowers will assume such rights and obligations thereunder as relate to the amount of Term Advances owed by each of them under the Issuer/Borrower Facility Agreement from time to time. Each Borrower will guarantee the other's obligations under the Issuer/Borrower Hedging Agreement;

### ***Subordinated loan arrangements***

- (B) the LoanCo/Borrower Subordinated Loan Agreement (previously the BankCo/Borrower Subordinated Loan Agreement, prior to its novation to Spirit Managed Funding Limited on 22 May 2006) will be amended such that each of the Borrowers will assume such proportion of the LoanCo/Borrower Subordinated Loan and the associated rights and obligations as is appropriate in consideration for the pubs which are transferred between them; and
- (C) the Issuer/Borrower Subordinated Loan Agreement will be amended such that each of the Borrowers will assume such proportion of the Issuer/Borrower Subordinated Loan and the associated rights and obligations as is appropriate in consideration for the pubs which are transferred between them.

## **9. OTHER CONSEQUENTIAL AMENDMENTS**

It is proposed that, in addition to the above, any other amendments, modifications or additions to any Transaction Document or any related, ancillary or further documents which are necessary or desirable to effect the Proposals or consequential to them should be carried out or entered into.

**EXPECTED TIMETABLE**

The expected timetable of events is set out in the table below.

<b>Event</b>	<b>Date</b>	<b>Time</b>
Issue of Notice of Meeting and this Memorandum	8 June 2006	
Publication of Notice of Meeting	8 June 2006	
Expiration Date and Time	28 June 2006	5:00 p.m.
Date and Time of the Meeting	30 June 2006	Commencing 9:30 a.m.
<b>If the Extraordinary Resolution is passed:</b>		
Result of the Extraordinary Resolution given to Debenture Bondholders and published	30 June 2006	
<b>If all documentation is agreed and all conditions precedent are satisfied:</b>		
Effective Date	7 July 2006	

In relation to the times and dates indicated above, Non-Guaranteed Debenture Bondholders holding Debenture Bonds in a Clearing System should note the particular practice and policy of the relevant Clearing System regarding their communications deadlines, which will determine the latest time on which Instructions may be delivered to the relevant Clearing System so that they are received by the Principal Paying Agent within the deadline set out above or by which Non-Guaranteed Debenture Bonds may be blocked for the purposes of voting at the Meeting.

Non-Guaranteed Debenture Bondholders who are not direct accountholders in the relevant Clearing System should refer to the provisions set out in the section entitled "*Certain Procedures relating to the Proposals – Non-Guaranteed Debenture Bondholders*" below.

All references in the table above to times are to London time, unless otherwise stated. Times and dates are indicative only and will depend, among other matters, on timely receipt of Instructions (and non-revocation thereof) and the passing of the Extraordinary Resolution.

If the Meeting is adjourned, the dates and times set out in the table above will be changed accordingly.

Instructions must be received by the Principal Paying Agent prior to the Effective Time on the Effective Date. The Debenture Bond Trustee may, in its discretion, agree to the extension of the Expiration Date.

The Proposals will be implemented only if the Issuer receives sufficient votes in favour of the Extraordinary Resolution and all documentation is agreed and all conditions precedent are satisfied as set out in the Extraordinary Resolution.

## CERTAIN PROCEDURES RELATING TO THE PROPOSALS

### NON-GUARANTEED DEBENTURE BONDHOLDERS

#### 1. IMPLEMENTATION OF THE PROPOSALS

The Proposals will be implemented only if the Issuer receives sufficient votes in favour of the Extraordinary Resolution and all documentation is agreed and all conditions precedent are satisfied as set out in the Extraordinary Resolution.

Non-Guaranteed Debenture Bondholders are entitled to attend and vote at the Meeting in accordance with the provisions of the Trust Deed or by communicating their Instructions to the Principal Paying Agent (as set out in the section entitled "*Procedures for giving Instructions*" below).

#### 2. PROCEDURES FOR GIVING INSTRUCTIONS

Euroclear Bank S.A./N.V., as operator of the Euroclear System ("**Euroclear**"), and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**" and, together with Euroclear, each a "**Clearing System**") will require Instructions with respect to the Extraordinary Resolution sufficiently prior to the Expiration Date so that such Instructions may be communicated to the Principal Paying Agent prior to the Expiration Time on the Expiration Date.

Instructions must comply with, and be transmitted in accordance with, the usual procedures of the relevant Clearing System so that they are received by the Principal Paying Agent prior to the Expiration Time on the Expiration Date.

In order to give a valid Instruction, Non-Guaranteed Debenture Bondholders must either:

- (A) instruct the relevant Clearing System to procure that the Principal Paying Agent instructs a proxy to attend and vote on its behalf at the Meeting and in accordance with its Instructions. Non-Guaranteed Debenture Bondholders must clearly state in the Instruction whether they wish the proxy to vote for, or against, the Extraordinary Resolution; or
- (B) instruct the relevant Clearing System to procure that the Principal Paying Agent issues a voting certificate in respect of the Non-Guaranteed Debenture Bonds held by such Non-Guaranteed Debenture Bondholder in favour of such Non-Guaranteed Debenture Bondholder to enable it to attend and vote at the relevant Meeting.

In either case above, such Instructions must be received by the Principal Paying Agent (via the relevant Clearing System) prior to the Expiration Time on the Expiration Date, by accountholders in accordance with the usual procedures of the relevant Clearing System. The account in which such Non-Guaranteed Debenture Bonds are held will be blocked in accordance with such procedures to enable the relevant Clearing System to communicate such Instructions to the Principal Paying Agent and to confirm such blocking of the Non-Guaranteed Debenture Bonds to the Principal Paying Agent.

Only Instructions that are received by the Principal Paying Agent prior to the Expiration Time on the Expiration Date (which is the latest date for the Principal Paying Agent to deliver block voting instructions to the Debenture Bond Trustee or, as the case may be, to issue voting certificates to the Debenture Bondholders (or their proxies) in respect of the Meeting) will be accepted. Under the expected timetable, the Expiration Time will be 5:00 p.m. in respect of such Instructions and the Expiration Date will be 28 June 2006 (see the section entitled "*Expected Timetable*" above).

Non-Guaranteed Debenture Bondholders who are not direct accountholders in the relevant Clearing System must arrange directly through their broker, custodian, commercial bank or other nominee to contact the accountholder in the relevant Clearing System through which they hold the Non-Guaranteed Debenture Bonds to give timely Instructions in accordance with the above procedures.

### **3. RESPONSE TO INSTRUCTIONS**

All Instructions validly given in accordance with the procedures and within the time limits set out in the section entitled "*Procedures for Giving Instructions*" above and not validly revoked in accordance with the procedures set out in the section entitled "*Revocation of Instructions*" below will be accepted as being valid Instructions at the Meeting.

### **4. INTERPRETATION FINAL**

The Issuer's interpretation of the terms and conditions of the Proposals shall be final and binding. All questions as to the form of documents, and the validity and eligibility (including in relation to the time of receipt) of Instructions and matters relating to the revocation or amendment of Instructions will be determined by the Issuer, which determination shall be final and binding. The Issuer reserves the absolute right to reject any and all Instructions in a form which does not comply with the requirements of this Memorandum and the Trust Deed. The Issuer also reserves the absolute right to waive any and all defects or irregularities in the giving of particular Instructions (including, without limitation, with respect to the timely delivery of Instructions), whether or not similar defects or irregularities are waived in respect of other Instructions. All Non-Guaranteed Debenture Bondholders giving Instructions will be deemed to have waived any right to receive notice of the acceptance of such Instructions.

No alternative, conditional or contingent Instructions will be accepted. Unless waived by the Issuer, any defects or irregularities in connection with any Instructions must be rectified within such time as is permitted by the provisions of this Memorandum. None of the Issuer, the Principal Paying Agent, the Debenture Bond Trustee, the Consent Co-ordinator or any other person will be under any duty to give notification of any defects or irregularities in such Instructions nor will such entities incur any liability for failure to give such notification. Giving of such Instructions will not be deemed to have been made until such defects or irregularities have been rectified or waived.

### **5. REVOCATION OF INSTRUCTIONS**

Instructions may be revoked in the manner set out below at any time prior to the Expiration Time on the Expiration Date. Under the expected timetable, the Expiration Time will be 5:00 p.m. in respect of such Instructions and the Expiration Date will be 28 June 2006 (see the section entitled "*Expected Timetable*" above).

Any Instructions not so revoked prior to the Expiration Time on the Expiration Date shall become irrevocable and will continue in force in respect of any adjourned meeting provided such adjourned meeting is convened no more than 42 days from the date of the Meeting.

To be effective, any notice of revocation must indicate the relevant Instructions to be revoked and must be communicated to the Principal Paying Agent through the relevant Clearing System and received by the Principal Paying Agent prior to the Expiration Time on the Expiration Date in the same manner as the original Instructions.

Non-Guaranteed Debenture Bondholders who are not direct accountholders in the relevant Clearing System must arrange either directly or through their broker, commercial bank, custodian or other nominee to contact the accountholder in the relevant Clearing System through which they hold the Non-Guaranteed Debenture Bonds to communicate notice of such revocation to the Principal Paying Agent through the relevant Clearing System, which must be received by the Principal Paying Agent prior to the Expiration Time on the Expiration Date. Such Non-Guaranteed Debenture Bondholders should give such directions to their broker, commercial bank, custodian or other nominee sufficiently in advance to ensure receipt by the relevant Clearing System of any such notice of revocation prior to the Expiration Time on the Expiration Date, in the same manner as the original Instructions.

In the event of a valid revocation of Instructions, the Principal Paying Agent so far as practicable shall take such steps to rescind the blocking of the account in which the relevant Non-Guaranteed Debenture Bonds are held in accordance with the procedures of the relevant Clearing System. None of the Issuer, the Principal Paying Agent, the Debenture Bond Trustee or any other person will be under any duty to give notification of any defects or irregularities with

respect to any revocations of Instructions nor shall any of them incur any liability for failure to give such notification.

Once revoked, subject to the applicable time limits, new Instructions may be given by a Non-Guaranteed Debenture Bondholder in accordance with the procedures set out above.

#### **6. TERMINATION, AMENDMENT AND VARIATION PRIOR TO THE EXPIRATION DATE**

The Issuer may, at its discretion and subject to applicable law, at any time prior to the Expiration Time on the Expiration Date:

- (A) withdraw, terminate or amend the terms of the Proposals; or
- (B) amend or vary the procedures relating to the Proposals (including any changes to all relevant time limits and/or deadlines relating to Instructions), as set out in this Memorandum,

provided that if such withdrawal, termination, amendment or variation is, or would be, in the sole opinion of the Issuer, prejudicial to Non-Guaranteed Debenture Bondholders such changes will not be made less than three business days prior to the Expiration Date (provided that, if such changes are made less than three business days prior to the Expiration Date, the Expiration Date shall be extended by at least three business days). Any such withdrawal, termination, amendment or variation will be followed as promptly as practicable by an announcement thereof through the relevant Clearing System and on Bloomberg (or such other electronic news service as may be approved by the Debenture Bond Trustee).

Save as described above, the Issuer will not make any modifications, amendments or variations to the Proposals prior to the Meeting.

Following the Meeting, the Issuer may make further changes to the Proposals as described in the section entitled "*Special Considerations – 6. Changes to the Proposals following the Meeting*".

**CERTAIN PROCEDURES RELATING TO THE PROPOSALS**

**GUARANTEED DEBENTURE BONDHOLDERS**

**GUARANTEED DEBENTURE BONDHOLDERS ARE NOT ENTITLED TO ATTEND AND/OR VOTE AT THE MEETING**

Pursuant to the Ambac Financial Guarantee, Ambac has guaranteed the payment of the Scheduled Interest (which excludes Class A1 Step-Up Amounts, Class A3 Step-Up Amounts and Class A5 Step-Up Amounts) on and repayment of Ultimate Principal of the Class A1 Debenture Bonds, the Class A3 Debenture Bonds and the Class A5 Debenture bonds or, in the circumstances described in Condition 6(c)(iv) of the Debenture Bonds, the amounts set forth therein.

Paragraph 18 of Schedule 4 to the Trust Deed provides as follows:

**“18. AMBAC VOTING RIGHTS**

18.1 Subject to paragraph 18.2 below and provided that no Ambac Termination Event has occurred:

- (a) Ambac shall have the right to give requests or directions to the Debenture Bond Trustee and to vote at Meetings of the holders of the Guaranteed Debenture Bonds as if it were the holder of 100 per cent. of the then aggregate Principal Amount Outstanding of each Class of the Guaranteed Debenture Bonds to the exclusion of any right which the holders of the Guaranteed Debenture Bonds would otherwise have to vote or to direct the Debenture Bond Trustee. For so long as such provisions apply, for the purposes of determining whether or not a request or direction has been given by a holder of not less than the required percentage in aggregate Principal Amount Outstanding of the relevant Debenture Bonds or whether any Meeting of the Debenture Bondholders is quorate and for counting votes cast at any such Meeting of Debenture Bondholders, Ambac shall be treated as the holder of 100 per cent. of the then aggregate Principal Amount Outstanding of each Class of the Guaranteed Debenture Bonds.
- (b) In respect of a separate Meeting of the holders of any Class of the Guaranteed Debenture Bonds, Ambac shall not be required to attend such Meeting but may instead deliver written instructions to the Debenture Bond Trustee as to its vote on each of the items in the relevant notice within 10 Business Days of receipt of notice of such Meeting.
- (c) If a single Meeting of the holders of any Class of the Guaranteed Debenture Bonds and one or more other Classes of the Debenture Bonds has been convened, Ambac may attend and vote at such Meeting in respect of 100 per cent. of the then aggregate Principal Amount Outstanding of each Class of the Guaranteed Debenture Bonds or, not fewer than 5 Business Days prior to such meeting, give written instructions to the Debenture Bond Trustee of its vote to be counted at such Meeting.

18.2 Ambac will not be entitled to give requests or directions to the Debenture Bond Trustee or to vote at a meeting of the Debenture Bondholders as if it were the holder of 100 per cent. of the then aggregate Principal Amount Outstanding of each Class of the Guaranteed Debenture Bonds pursuant to paragraph 18.1 above to the extent that such request, direction or, as the case may be, vote relates to any Debenture Bondholder Reserved Matter.”

It will be seen from the above that, subject to two principal conditions, Ambac may attend and vote at the Meeting in respect of 100 per cent. of the then aggregate Principal Amount Outstanding of each Class of the Guaranteed Debenture Bonds or, not fewer than five Business Days prior to the Meeting, give written instructions to the Debenture Bond Trustee of its vote to be counted at the Meeting.

The two principal conditions are that no Ambac Termination Event has occurred and the request, direction or vote to be given or made by Ambac does not relate to any Debenture Bondholder Reserved Matter.

In the Master Definitions and Construction Schedule, an “Ambac Termination Event” is described as follows:

“**Ambac Termination Event** means (A) an Ambac Event of Default has occurred and is continuing or (B) Ambac has no further obligations, actual or contingent, under the Ambac Financial Guarantee and no amount is then owing to Ambac under the Ambac Guarantee and Reimbursement Agreement or (C) both of the events set out in (A) and (B) have occurred;”

For this purpose an “Ambac Event of Default” is defined as a list of events relating to Ambac or its failure to perform obligations none of which are believed to have occurred.

In paragraph 23 of Schedule 4 to the Trust Deed, a “Debenture Bondholder Reserved Matter” is defined as follows:

“**Debenture Bondholder Reserved Matters** means any of the following:

- (a) any modification of the obligations or liabilities of Ambac set forth in, or waiver or authorisation of any breach or proposed breach by Ambac or, any provision of the Trust Deed applicable to Ambac, the Ambac Financial Guarantee, the Ambac Guarantee and Reimbursement Agreement or any other Transaction Document to which Ambac is or will be a party and which is applicable to Ambac;
- (b) the release or termination of the Ambac Financial Guarantee (other than pursuant to the Trust Deed or the Ambac Financial Guarantee) or the substitution of another entity in place of Ambac as financial guarantor thereunder (other than in accordance with the Trust Deed and the Ambac Guarantee and Reimbursement Agreement);
- (c) any modification of, or waiver or authorisation of any breach or proposed breach by Ambac of, any provision in any Transaction Document the effect of which would result in the obligations or liabilities of Ambac under the Ambac Financial Guarantee being in any way modified, waived, authorised, reduced, altered or varied;
- (d) any determination contemplated or required under the Trust Deed as to the occurrence or otherwise of an Ambac Event of Default and/or Ambac Termination Event; and
- (e) any claim under, or enforcement against Ambac of any provision of, the Ambac Financial Guarantee or any other obligations of Ambac under any other Transaction Document;”

So far as the Issuer is aware, no Ambac Termination Event has occurred or is expected to occur prior to the Meeting and no request, direction or vote to be given or made by Ambac at or in relation to the Meeting relates or is expected to relate to any Debenture Bondholder Reserved Matter.

Accordingly, Ambac is expected to be entitled to attend and vote at the Meeting in respect of 100 per cent. of the then aggregate Principal Amount Outstanding of each Class of the Guaranteed Debenture Bonds or, not fewer than five Business Days prior to the Meeting, give written instructions to the Debenture Bond Trustee of its vote to be counted at the Meeting.

## MEETING OF DEBENTURE BONDHOLDERS

A single meeting of the Debenture Bondholders is being convened at which the Debenture Bondholders will be asked to consider and, if thought fit, pass the Extraordinary Resolution in the form set out in the Notice of Meeting at Appendix A (*Notice of Meeting*).

Subject to the provisions in the Trust Deed regarding Ambac's voting rights, a Debenture Bondholder may communicate Instructions as to how it wishes to vote which will permit details of its identity to be disclosed to the Principal Paying Agent, the Consent Co-ordinator and the Issuer (see the section entitled "*Certain procedures relating the Proposals*" above).

Pursuant to the Extraordinary Resolution, Debenture Bondholders will be requested, *inter alia*, to approve the Proposals and to assent to any variation of their direct or indirect rights under any of the Transaction Documents required for the implementation of the Proposals.

One meeting is being held for all classes of Debenture Bonds. The Extraordinary Resolution will be put to all holders of the Debenture Bonds present at the meeting and it will only be effective if the requisite majority of Debenture Bondholders present at the meeting vote in favour of the Extraordinary Resolution set out in the Notice of Meeting at Appendix A (*Notice of Meeting*).

Debenture Bondholders should read carefully the Extraordinary Resolution to be considered at the Meeting. Further information about the procedure for voting and the quorum requirements is set out in the Notice of Meeting (see the section entitled *Voting and Quorum* in Appendix A (*Notice of Meeting*) below).

The attention of Guaranteed Debenture Bondholders is directed to the fact that, pursuant to Paragraph 18(c) of Schedule 4 to the Trust Deed, Ambac is entitled to cast 100 per cent. of the votes relating to the Guaranteed Debenture Bonds as described in the section entitled *Certain Procedures Relating to the Proposals – Guaranteed Debenture Bondholders* above. Therefore, Guaranteed Debenture Bondholders may not attend and/or vote on the Extraordinary Resolution at the Meeting.

**If the Extraordinary Resolution is passed, such Extraordinary Resolution will be binding on all Debenture Bondholders (including both Guaranteed Debenture Bondholders and Non-Guaranteed Debenture Bondholders whether or not they have attended or voted in favour of the Extraordinary Resolution).**

If the Extraordinary Resolution is passed and all documentation is agreed and all conditions precedent are satisfied as referred to in the Extraordinary Resolution, then the Effective Date will occur.

## **SPECIAL CONSIDERATIONS**

*Set out below are a number of matters which Debenture Bondholders should consider in relation to the Proposals. The summary set out below is not meant to be exhaustive and Debenture Bondholders should also read the detailed information set out elsewhere in this Memorandum before reaching their own views as to the merits of the Proposals.*

### **1. PERFORMANCE OF THE SECURITISED ESTATE**

There can be no assurance that the future financial performance of the Securitised Estate (in aggregate or on a per pub basis) will exceed that of the Securitised Estate to date or that the future financial performance of the Securitised Estate will continue on present trends.

### **2. SHORT LEASEHOLDS**

One element of the Proposals relates to the inclusion of short leasehold properties in the Securitised Estate. Short leasehold properties typically have a lower capital value, and may also require a market (rather than nominal) rent to be paid, which will reduce the net income from such outlets. Short leasehold properties are also more likely to have provisions in the lease which will result in the forfeiture or termination of the lease upon the insolvency of the tenant, meaning they are typically of lower security value than comparable properties without such provisions.

### **3. EXECUTION RISK DURING CONVERSION PERIOD**

The proposed conversion of pubs within the Securitised Estate from a managed to a tenanted format involves certain risks, particularly in view of the large number of conversions planned. In particular, the Punch Group may not be able to attract sufficient numbers of suitable tenants, or may find that the process of converting the selected pubs takes longer or involves higher costs than anticipated. The process of conversion is also expected to affect revenue from the relevant outlets in the short term, which may take some time to recover to previous levels, or may not recover fully. Furthermore, additional costs, such as redundancy payments made to some managers, will be incurred by members of the Spirit Group, although these will be borne by companies outside the Borrower Group. Some equipment which is only of use in managed pubs will become obsolete when a managed pub is converted to a tenanted format.

### **4. OVERHEADS IN THE SPIRIT GROUP**

Currently, the entire Spirit estate is run as a wholly-managed operation. As pubs are converted across to a tenanted format, it is intended that this will lead to a corresponding reduction in the central overheads that are associated with operating a managed estate. However, if the Spirit Group's management are unable to achieve the planned cost reductions, this could lead to a higher level of costs for each outlet which continues to be run on a managed basis. This would, in turn, lead to an overall reduction in the net income of the managed estate.

### **5. UNITED KINGDOM TAXATION**

*The following is a summary only and is based on Spirit Issuer plc's understanding of current law and H.M. Revenue & Customs practice in the United Kingdom as at the date of this Memorandum. Debenture Bondholders who are in any doubt about the tax consequences of the Proposals should seek their own professional advice*

The Proposals may result in a different trade, that is, a tenanted pub trade, being carried on for corporation tax purposes in addition to the existing managed pub trade currently carried on by the Borrower Group. In order to avoid the current or carried forward trading losses of the Managed Borrower being lost or restricted for corporation tax purposes as a result of a major change in the nature or conduct of the Managed Borrower's trade, it is proposed that the tenanted pub business will be carried on by the Leased Borrower, such that the Managed Borrower will continue to carry on only its managed pub trade. In this way, it is intended that any trading losses which have arisen or arise from the managed pub trade should continue to be eligible to be off-set against profits arising from the managed pub trade and any trading losses which arise from the tenanted pub trade which will be carried on by the Leased Borrower

should be eligible to be off-set against profits arising from the tenanted pub trade.

It is intended that the transfers of pubs for conversion by the Managed Borrower (or members of the Punch Group or other members of the Spirit Group) to the Leased Borrower, or from members of the Punch Group (or other members of the Spirit Group or the Leased Borrower) to the Managed Borrower, will take place on a tax neutral basis for the purposes of corporation tax on chargeable gains, stamp duty land tax and (following amendment of the Tax Deed of Covenant to allow the Managed Borrower and the Leased Borrower to form a value added tax group) value added tax.

However, the Tax Deed of Covenant which was entered into in November 2004 in favour of, among others, Deutsche Trustee Company Limited (in its capacity as Borrower Group Security Trustee, Debenture Bond Trustee and Issuer Security Trustee) is designed to prevent such liabilities from arising and, if and to the extent that they do arise, to protect the Borrower Group against such liabilities. The Proposals will be carried out in accordance with the Tax Deed of Covenant and, overall, this risk will remain within the strict financial confines set out in the Tax Deed of Covenant.

In addition, it is proposed that the Leased Borrower will accede to the Tax Deed of Covenant in the same capacity as, and give the same representations, warranties and covenants as, the Managed Borrower (and that certain changes be made to the Tax Deed of Covenant in order to enable the Leased Borrower to do so), in order to limit the circumstances in which such contingent liabilities could arise. The Tax Deed of Covenant may also be amended to incorporate further protection for the Borrower Group addressing risks potentially arising from the implementation of the Proposals.

## **6. CHANGES TO PROPOSALS FOLLOWING THE MEETING**

The Proposals and the Extraordinary Resolution contemplate that, following the Meeting and subject to the passing of the Extraordinary Resolution, the final terms of the Issuer/Borrower Facility Agreement and the other Transaction Documents (including the Conditions) will be agreed by the various parties thereto in accordance with, and subject to the possibility of variations (including variations from the detailed drafting set out in Appendix B (*Certain proposed amendments to the Transaction Documents*)) contemplated by, the Proposals.

In addition, following the Meeting and the passing of the Extraordinary Resolution, it may be necessary or desirable to make other changes to the covenants or other provisions of the Issuer/Borrower Facility Agreement or the other Transaction Documents (including the Conditions) in addition to those specifically described or summarised in or contemplated by this Memorandum, or to make other changes to, or adopt other arrangements in respect of, any of the matters considered by this Memorandum. Any such other changes will, however, require the consent of the Debenture Bond Trustee, in accordance with paragraph (E) of the Extraordinary Resolution. The Debenture Bond Trustee will only be entitled to give its consent to such other changes where, in its sole discretion, such other changes are no less favourable to the interests of Debenture Bondholders than the arrangements set out in the Extraordinary Resolution and described in this Memorandum. In exercising its discretion in this manner, the Debenture Bond Trustee will be entitled to take into account any Rating Confirmations from one or more of the Rating Agencies.

The definitive terms and structure of the final amended Transaction Documents may, therefore, differ in certain material respects from those described or summarised in or contemplated by the Proposals and elsewhere in this Memorandum.

## **7. RATINGS OF THE DEBENTURE BONDS**

A security rating (including any affirmation of a security rating given by Rating Agencies) is not a recommendation to buy, sell or hold securities or a recommendation as to the merits of a particular transaction involving securities. Ratings may be subject to revision, suspension or withdrawal at any time by the assigning Rating Agencies, and each security rating should be evaluated independently of any other rating.

The ratings of the Debenture Bonds will depend, among other things, on certain underlying

characteristics of the business of the Borrower Group, including its ability to comply with the operational and financial covenants contained in the Issuer/Borrower Facility Agreement (as modified following the Effective Date).

## **8. RISKS RELATED TO TENANTED PUBS**

### ***General risks***

The liquidation value of the Borrower Group may be adversely affected by risks relating generally to its interests in property comprising the Securitised Estate, including changes in political and economic conditions or in the public house and restaurant industries, declines in property values, variations of supply of and demand for pubs, increases in interest rates, changes in rental terms including the tenants' responsibility for operating expenses, changes in governmental rules, regulations and fiscal policies, terrorism, natural disasters and other factors which are beyond the control of the Issuer and the members of the Borrower Group.

### ***Rental and sales income***

The Borrower Group intends to lease pubs, upon conversion, to retailers, each of whom will generally be free to operate and manage the pub as it sees fit, subject to the terms of its lease or tenancy agreement. Since a substantial proportion of the Borrower Group's turnover is currently derived from wet product sales to its retailers, declining sales due to local factors over which the Borrower Group may have no direct control, such as poor pub management, marketing, or changing local demographic trends, may also result in a decline in the Borrower Group's sales to that pub. In the absence of non-compliance with lease obligations, the Borrower Group cannot arbitrarily 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.

The Borrower Group will also receive fixed rental payments from each of its retailers, at a rate negotiated when the lease is signed. Rental rates for a given pub are assessed by the Borrower Group on the basis of its likely level of retail trading. If the Borrower Group initially underestimates the likely level of retail trading for a pub, it may be led to agree to a lower fixed rent and consequently receive a smaller overall share of the pub's profits until the next rent review.

Persistent under-performance by retailers or inaccurate assessments when negotiating rents would, in the aggregate, result in a decrease in the Borrower Group's turnover and overall financial condition.

### ***Tenancy agreements***

There is a general risk that rental and other payments owing to landlords in the Borrower Group (including, for example, for the supply of beer and other products to the tenants and for receipts from "amusements with prizes" machines) 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 income of the Borrower Group. Continued failure by a particular tenant to pay the rental and other payments due to the landlord would usually result in the departure of the tenant and the leasing of the relevant pub to a new tenant. There may be a period following the departure of the former tenant, and before a replacement tenant can be found, where cashflow to the Borrower Group is reduced or the relevant pub may become vacant. In addition, the rent and other payments payable by the replacement tenant may not be as high as those payable by the former tenant.

A substantial portion of the Borrower Group's pubs may be leased pursuant to shorter term tenancy agreements with terms of six years or less. Although management believes that shorter term tenancy agreements allow commercial flexibility, the Borrower Group would, if a significant number of such tenancy agreements were terminated by tenants at the end of the relevant term, be required to find a significant number of new tenants. This could have a negative impact on the income of the Borrower Group in the period prior to the installation of these new tenants.

### ***Competition for high quality retailers***

All of the Borrower Group's pubs which are converted will be operated by retailers who are lessees or tenants. Individuals seeking to enter the pub operating business have several alternatives to being a lessee or tenant, any one or more of which may prove to be more attractive depending on 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 Borrower Group would like to attract. The Borrower Group may not be successful in convincing prospective retailers of the benefits of leasing its pubs and the Borrower Group may fail to attract or subsequently lose high quality retailers as a result.

### ***Fluctuations in the property market***

The property market may develop so that rents may increase such that they affect the economic viability of one or more of the Borrower Group's tenanted pubs. Equally, a downturn in the UK property market may lead to a reduction in the Borrower Group's freehold or long leasehold property values over time.

### ***Regulation***

#### *Compulsory purchase*

Any property in the United Kingdom may at any time be acquired by a local authority or government department, generally in connection with proposed redevelopment or infrastructure projects.

In the event of a compulsory purchase order being made in respect of a pub, compensation would be payable on the basis of the open market value of all owners' and tenants' proprietary interests in that pub at the time of the related purchase and will be paid by the relevant Borrower into the Disposal Proceeds Account. In the case of an acquisition of the whole of that pub, the relevant freehold, heritable or leasehold estate and any lease would both be acquired and the tenant would cease to be obliged to make any further rental payments to the relevant Borrower, under the relevant lease. The risk to Borrower Group is that the amount received from the proceeds of purchase of the relevant freehold, heritable or leasehold estate may be inadequate to cover the loss of cashflow from such pub and thus the relevant Borrower's ability to meet its obligations under the Issuer/Borrower Facility Agreement may be prejudiced.

There may be a delay between the compulsory purchase of a property and the payment of compensation, the length of which will largely depend upon the ability of the property owner and the entity acquiring the property to agree on the open market value. Should such a delay occur in the case of any pub, then, unless the relevant Borrower has other funds available to it, this delay may prejudice either party's ability to meet its obligations under the Issuer/Borrower Facility Agreement.

#### *Frustration*

A lease could, in exceptional circumstances, be frustrated under English or Scots law (as applicable). Frustration may occur where a supervening event so radically alters the implications of the continuance of a lease for a party thereto that it would be inequitable for such lease to continue.

#### *Rent reviews*

The tenancy agreements and leases to which certain of the pubs in the Securitised Estate will be subject contain open market rent review provisions. Some of these will be on an upwards only basis but with reference to the initial rent or the rent fixed at the previous open market review date (as the case may be). Those leases may also provide for annual rent reviews by reference to movements in the UK retail prices index. Therefore it is possible that rents in respect of certain pubs which do not have unqualified upwards only provisions could fall if the open market rental value at the time of review is below the rent then payable.

## 9. REGULATORY ENVIRONMENT

### *General*

During the second half of 2004, the House of Commons Trade and Industry Select Committee (the “TISC”) conducted an inquiry into pub companies. Their report, which was published on 21 December 2004, did not recommend any further legislation but instead highlighted a number of issues relating to tenants and encouraged pub companies to address them voluntarily through a code of conduct. The TISC did, however, recommend that its successor body in the following session of Parliament should conduct a further review of the industry. In the event that such a review is undertaken, it may recommend further legislation to regulate the pub industry.

### *Licensing reform*

The retail sale of alcohol in England and Wales is a highly regulated industry governed by the licensing system. The law covers all premises where alcohol is sold, such as pubs, bars, off-licences, restaurants, hotels and supermarkets. Until 24 November 2005, the law governing the sale of alcohol in England and Wales was set out in the Licensing Act 1964. In order to sell alcohol for consumption on the premises, pubs required a full “on-licence” which was generally held by the pub’s manager or landlord. That person had to attend a local magistrates’ court and satisfy the Justices that he or she was a fit and proper individual to hold such a licence and that he or she was not disqualified from holding such a licence. Other types of licence that could be granted by the Justices included certificates which extended the permitted hours for selling alcohol where the sales were ancillary to music, dancing or the availability of food, public entertainment licences for music, dancing and certain live performances, and “amusements with prizes” permits.

On-licences were granted for three years and could be revoked at any time for serious cause, including violation by the manager or landlord or his or her employees of any law or regulation, such as those regulating the minimum age of patrons or employees.

The retail sale of alcohol in England and Wales is now governed by a licensing system set out in the Licensing Act 2003. Pubs now operate under a “premises licence” which is granted to the operating company by the licensing authority, which is part of the local authority. The premises licence regulates the sale of alcohol, the hours that alcohol can be sold, entertainment, such as live music, karaoke and discos and the sale of hot food after 11:00 p.m. Alcohol can only be sold from premises that benefit from such a premises licence. In the case of a pub, the premises licence will generally permit the consumption of alcohol on or off the premises. The sale of alcohol must also be made under the authority of a “designated premises supervisor”, who must hold a “personal licence”. This is obtained by way of examination and by reference to the Criminal Records Bureau. Personal licences must be renewed every 10 years but premises licences are valid for the life of the business or until revoked or surrendered. Breach of a condition of a licence could result in it being revoked or, more likely, reviewed and the operating parameters reduced or additional control measures added. On the sale of a business, the premises licence is, upon application, transferred to the new owner.

As set out above, the Licensing Act 2003 has transferred the operation of the licensing system from local magistrates’ courts to local authorities, and therefore from the courts to local government. However, licence holders will retain the right of appeal to a magistrates’ court. In order to obtain a premises licence, all pubs will have to submit details of their operating plan and face greater scrutiny from the local authority itself, the fire authorities, the police and local residents.

The Licensing Act 2003 has introduced greater flexibility with respect to pub opening hours and the provision of entertainment. Whilst longer opening hours will have implications in terms of operating costs, the change may benefit pubs where there is a demand for later hours drinking and entertainment.

### *Drink driving legislation*

The European Commission recommended in the “White Paper on European transport policy for 2010: time to decide” of October 2002 that all countries in the EU adopt the same drink and

drive limit of 0.5mg/ml blood alcohol concentration. It recommends that a lower level of 0.2mg/ml be adopted for younger and inexperienced drivers. The Government has also carried out a consultation exercise concerning the legal blood alcohol limit for drivers. On the basis of such exercise, the Government is examining whether it should lower the legal blood alcohol limit from its current level. There are currently no formal proposals for any such changes to be incorporated into legislation, although they may be the subject of future European and/or national legislation. The current legal limit in the United Kingdom is 0.8mg/ml (see sections 11(1) and (21) of the Road Traffic Act 1988) and as car drivers and passengers account for 40 per cent. of pub visits, such a measure may discourage customers who drive to pubs from visiting pubs unless they are willing to designate a driver who will refrain from drinking alcohol.

Any future legislation in this area could affect trading in the Borrower Group's rural and suburban pub sites.

### ***Employment legislation***

The Working Time Regulations (the "**WT Regulations**") came into effect on 1 October 1998 and 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 lay down rights and protections in areas such as minimum rest time, days off and paid leave. Many employees of the Punch Group are covered by the WT Regulations. The retention of the opt out and the guidance as to who is covered by the WT Regulations is expected to be under review later this year with possible changes 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 employed 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.

### ***EC noise directive***

The Physical Agents Directive 2001 (the "**Directive**") is currently under discussion in the retail industry relating to the regulation of noise in the workplace. The current United Kingdom noise limit for workplaces is 90 decibels averaged over an eight hour day but if the Directive were to come into effect that limit would be reduced to 85 decibels. The European Parliament has recently agreed that the industry in the United Kingdom should agree a code of conduct as to how the Directive is to be implemented in the United Kingdom. It is expected that the Government will need to put regulations in place in relation to this Directive within the next five years. A small number of the Borrower Group's pubs that play loud music and have other live entertainment could be affected by the proposed change in the law, but noise levels in the vast majority of the pubs would fall below the revised limit.

### ***Legislation relating to smoking***

On 14 February 2006, the House of Commons voted in favour of legislation in relation to public health (the "**Health Bill**"). Subject to certain limited exceptions (which do not apply to licensed premises), the legislation provides for a total ban on smoking in England and Wales in all substantially enclosed public places, and all substantially enclosed premises that are used as a place of work. This includes, without limitation, pubs, bars, restaurants and clubs, regardless of whether food is sold or not. The appropriate national authority has the power to designate additional smoke-free places, whether they are enclosed or not (and such places might, therefore, include beer gardens).

Although the Health Bill still requires the approval of the House of Lords and Royal Assent, the government has stated it intends to implement a ban in England by the summer of 2007. The Welsh assembly, which will decide whether to implement the ban in Wales, has previously voted in favour of a ban on smoking in public places. In Scotland, a complete ban on smoking in enclosed public places has been in force since March 2006, and a similar ban in Northern Ireland is due to be imposed in April 2007.

Legislation prohibiting smoking will affect all of the pubs within the Securitised Estate within the relevant jurisdiction. Such legislation, including, when finally enacted, the Health Bill, may have the effect of discouraging smokers from using pubs, which may adversely affect the results of the Securitised Estate. However, although there has been much speculation about the impact of a smoking ban on the pub industry, the actual effects of such a ban remain uncertain, and it remains too early to draw any conclusions from the experience of Scotland, which is the only part of the UK where a ban is currently in force.

## GENERAL

### 1. ADDITIONAL INFORMATION

The issue of this Memorandum has been authorised by a resolution of the Board of Directors of the Issuer passed on 7 June 2006.

### 2. CONTACTS

#### ***Consent Co-ordinator***

Questions and requests for assistance relating to the Proposals may be directed to the Consent Co-ordinator as follows:

Citigroup Global Markets Limited  
Canada Square  
Canary Wharf  
London E14 5LB

Attention: European Liability Management  
Telephone number: +44 20 7986 8969  
Email: liabilitymanagement.europe@citigroup.com

#### ***Principal Paying Agent***

The Issuer has appointed the Principal Paying Agent to receive instructions in connection with the Proposals. The Principal Paying Agent can be contacted as follows:

Deutsche Bank AG London  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB

Attention: Trust & Securities Services  
Telephone number: +44 207 547 5000  
Fax number: +44 207 547 5001

#### ***Luxembourg Paying Agent***

The Issuer has appointed the Luxembourg Paying Agent to receive instructions in connection with the Proposals. The Luxembourg Paying Agent can be contacted as follows:

Dexia Banque Internationale à Luxembourg  
69 route d'Esch  
L-2953 Luxembourg

Attention: Transaction Execution Group  
Telephone number: +352 4590 1  
Fax number: +352 4590 4227

#### ***Clearing Systems***

The Clearing Systems may also be contacted in connection with the giving of Instructions in connection with the Proposals, as follows:

Clearstream, Luxembourg

Attention: Corporate Action Department (OCE unit)  
Telephone number: +352 243 38065  
Fax number: +352 243 38248

Euroclear Bank SA/NV

Attention: Custody Operations Department  
 Telephone number: +322 224 4245  
 Email: +322 224 4245

**Debenture Bondholders should, if relevant, also contact their brokers, commercial banks, custodians or other nominees through which they hold Debenture Bonds with any questions and requests for assistance.**

### **3. DOCUMENTS ON DISPLAY**

Copies of the current Transaction Documents entered into on or about 25 November 2004 listed below relating to the Spirit Securitisation and the Proposals may be inspected at the offices of Deutsche Bank AG London at Winchester House, 1 Great Winchester Street, London EC2N 2DB and at the offices of Slaughter and May at One Bunhill Row, London EC1Y 8YY, in each case between 9:30 a.m. and 5:00 p.m. on any weekday from the date of this Memorandum until the date of the Meeting (public holidays excepted):

- (A) The Master Definitions and Construction Schedule
- (B) The Issuer/Borrower Facility Agreement
- (C) The Borrower Group Deed of Charge
- (D) The Tax Deed of Covenant
- (E) The Ambac Guarantee and Reimbursement Agreement
- (F) The Issuer/Borrower Hedging Agreement
- (G) The Administrative Services Agreement
- (H) The Back-to-Back Supply Agreement
- (I) The Bank Agreement
- (J) The BankCo/Borrower Subordinated Loan Agreement
- (K) The Issuer/Borrower Subordinated Loan Agreement
- (L) The Liquidity Facility Agreement

### **4. ADDITIONAL COPIES OF DOCUMENTS**

Additional copies of this Memorandum may be obtained from the Consent Co-ordinator and the Principal Paying Agent at the addresses set out above.

**APPENDIX A  
NOTICE OF MEETING**

**THIS NOTICE IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. IF YOU ARE IN ANY DOUBT ABOUT ANY ASPECT OF THESE PROPOSALS AND/OR THE ACTION YOU SHOULD TAKE, YOU SHOULD CONSULT IMMEDIATELY YOUR BROKER, COMMERCIAL BANK, CUSTODIAN OR OTHER PROFESSIONAL ADVISER AUTHORISED UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000 (IF YOU ARE IN THE UNITED KINGDOM) OR OTHER APPROPRIATELY AUTHORISED FINANCIAL ADVISER.**

**£150,000,000 CLASS A1 DEBENTURE BONDS DUE 2028  
(ISIN: XS0206404138)**

**£200,000,000 CLASS A2 DEBENTURE BONDS DUE 2031  
(ISIN: XS0206404724)**

**£250,000,000 CLASS A3 DEBENTURE BONDS DUE 2021  
(ISIN: XS0206407073)**

**£350,000,000 CLASS A4 DEBENTURE BONDS DUE 2027  
(ISIN: XS0206407743)**

**£300,000,000 CLASS A5 DEBENTURE BONDS DUE 2034  
(ISIN: XS0206409285)**

**ISSUED BY**

**SPIRIT ISSUER PLC**

**NOTICE IS HEREBY GIVEN** that a meeting (the “**Meeting**”) of the holders (the “**Debenture Bondholders**”) of all of the above-mentioned series of debenture bonds (together, the “**Debenture Bonds**”) issued by Spirit Issuer plc (the “**Issuer**”) is convened for the purpose of considering and, if thought fit, passing the extraordinary resolution set out below (the “**Extraordinary Resolution**”).

This notice is issued pursuant to the provisions of the Debenture Bonds and the trust deed constituting the Debenture Bonds (the “**Trust Deed**”).

Further information concerning the Extraordinary Resolution is contained in a memorandum (including the appendices thereto, the “**Memorandum**”) to Debenture Bondholders dated 8 June 2006, copies of which are available from the offices of Deutsche Bank AG London at Winchester House, 1 Great Winchester Street, London EC2N 2DB, the offices of Dexia Banque Internationale à Luxembourg (the “**Luxembourg Paying Agent**”) at 69 route d’Esch, L-2953 Luxembourg and from the offices of Slaughter and May at One Bunhill Row, London EC1Y 8YY, in each case between 9:00 a.m. and 5:00 p.m. on any weekday (public holidays excepted).

The Meeting will be held at One Bunhill Row, London EC1Y 8YY at 9:30 a.m. on 30 June 2006.

If a quorum is not present within 15 minutes from the commencement of the Meeting, the Meeting will, unless the Issuer and the Debenture Bond Trustee otherwise agree, be adjourned until such date, being not fewer than 14 days nor more than 42 days later, and such place as the chairman of the Meeting decides (with the approval of the Debenture Bond Trustee). A notice reconvening the adjourned meeting will be given to the Debenture Bondholders.

Capitalised terms used in this notice and the text of the Extraordinary Resolution have the same meanings ascribed thereto in the Memorandum, unless the context otherwise requires.

The text of the Extraordinary Resolution applicable to the Debenture Bonds is as follows:

“**THAT** Debenture Bondholders:

- (A) sanction and approve:
- (i) the amendment of the Issuer/Borrower Facility Agreement, the Master Definitions and Construction Schedule, the Borrower Group Deed of Charge, the Issuer/Borrower Hedging Agreement, the Administrative Services Agreement, the Back-to-Back Supply Agreement, the Liquidity Facility Agreement, the Bank Agreement and the other Transaction Documents, in each case in accordance with the Proposals; and
  - (ii) the Proposals, as more particularly described in a memorandum (including the appendices thereto, the “**Memorandum**”) to Debenture Bondholders dated 8 June 2006, and the implementation thereof,
- in each case subject to settlement of definitive documentation (including conditions precedent) in form and substance satisfactory to the Issuer, the Borrower Group Security Trustee, the Issuer Security Trustee, the Debenture Bond Trustee and Ambac;
- (B) authorise and ratify the entry by the Debenture Bond Trustee, the Issuer Security Trustee and the Borrower Group Security Trustee into the documentation necessary to give effect to the Proposals;
- (C) sanction and approve every modification, abrogation, variation or compromise of, or arrangement in respect of, the rights of Debenture Bondholders (whether or not any such rights arise under the Trust Deed) necessary or desirable to give effect to the Proposals and assent to every modification, variation or abrogation of the covenants or provisions of the Transaction Documents involved or affected by the implementation of the Proposals;
- (D) authorise and ratify the execution by the Debenture Bond Trustee, the Issuer Security Trustee and the Borrower Group Security Trustee of any amendment to any Transaction Document or any further document necessary or desirable to give effect to the subject matter of paragraphs (A) to (C) above, or any documents incidental thereto;
- (E) sanction and approve every modification, abrogation, variation or compromise of, or arrangement in respect of, the rights of Debenture Bondholders (whether or not any such rights arise under the Transaction Documents) and assent to every modification, variation or abrogation of the covenants or provisions of the Transaction Documents to give effect to or to implement such other arrangements, modifications, abrogations, variations or compromises in respect of the subject matter of this Extraordinary Resolution which are not otherwise described in the Memorandum which, in the sole discretion of the Debenture Bond Trustee, are no less favourable to the interests of Debenture Bondholders than the arrangements referred to in paragraphs (A) to (C) above (in exercising its discretion in this regard, the Debenture Bond Trustee may take into account any Rating Confirmations it receives from one or more Rating Agencies);
- (F) authorise and request each of the Debenture Bond Trustee, the Issuer Security Trustee and the Borrower Group Security Trustee to concur in taking all steps considered by it in its sole discretion to be necessary, desirable or expedient to carry out and give effect to this Extraordinary Resolution and the matters contemplated hereby;
- (G) declare that:
- (i) each Debenture Bondholder understands the legal and other consequences that the Proposals will have both for the Debenture Bonds and for itself and that each Debenture Bondholder has decided to sanction, approve, authorise and/or ratify the Proposals and the actions and omissions of the Debenture Bond Trustee, the Issuer Security Trustee and the Borrower Group Security Trustee (as the case may be) in accordance with this Extraordinary Resolution solely on

the basis of its own investigations and without any reliance on any representations of, or on behalf of, the Debenture Bond Trustee, the Issuer Security Trustee or the Borrower Group Security Trustee (as the case may be);

- (ii) none of the Debenture Bond Trustee, the Issuer Security Trustee or the Borrower Group Security Trustee shall have any liability to Debenture Bondholders for its acts or omissions in furtherance of this Extraordinary Resolution; and
  - (iii) no act or omission of the Debenture Bond Trustee in furtherance of this Extraordinary Resolution generally, or under paragraph (F) above in particular, shall constitute a breach of duty of the Debenture Bond Trustee to Debenture Bondholders or a wrongful exercise of the Debenture Bond Trustee's discretion; and
- (H) acknowledge that capitalised terms used in this Extraordinary Resolution have the same meanings as those used in the Memorandum, unless the context otherwise requires.”

The Issuer has convened the Meeting for the purpose of enabling Debenture Bondholders to consider the Proposals outlined in the Memorandum and resolve, if they so wish, to pass the Extraordinary Resolution.

The substantive terms of the Proposals and the Extraordinary Resolution have not been formulated by Deutsche Trustee Company Limited (whether in its capacity as Debenture Bond Trustee, Issuer Security Trustee or Borrower Group Security Trustee), who expresses no view on whether Debenture Bondholders would be acting in Debenture Bondholders' best interests in approving them, and nothing in this notice should be construed as a recommendation to Debenture Bondholders from Deutsche Trustee Company Limited to vote in favour of, or against, the Extraordinary Resolution proposed.

Deutsche Trustee Company Limited has not been involved in the formulation of the Proposals outlined in the Memorandum and, in accordance with normal practice, it expresses no opinion on the merits of those Proposals.

Debenture Bondholders should take their own advice on the merits of the Proposals and on the consequences of voting in favour of the Extraordinary Resolution, including any tax consequences.

Deutsche Trustee Company Limited is not responsible for the accuracy, completeness, validity or correctness of the statements made and documents referred to in the Memorandum or any omissions from the Memorandum.

However, on the basis of the information contained in the Memorandum, Deutsche Trustee Company Limited has authorised it to be stated that it has no objection to the Extraordinary Resolution being put to Debenture Bondholders for their consideration.

## VOTING AND QUORUM

**Non-Guaranteed Debenture Bondholders may elect to communicate an Instruction to the Principal Paying Agent either (i) to appoint a proxy to vote at the Meeting on their behalf; or (ii) to issue a voting certificate to such a Debenture Bondholder (or a proxy) to attend and vote at the Meeting, in connection with the Extraordinary Resolution, as further detailed below.**

**Non-Guaranteed Debenture Bondholders who have submitted and not revoked a valid Instruction in accordance with the Memorandum need take no further action to be represented at, or to attend and vote at, the Meeting.**

**As set out in paragraph 9 (*Ambac Voting Rights*) below, Guaranteed Debenture Bondholders are not invited to attend and vote at the Meeting or give Instructions to the Principal Paying Agent.**

1. ***Voting Certificates and Block Voting Instructions:*** Subject to paragraph 9 (*Ambac Voting Rights*) below, the holder of a Debenture Bond may obtain a voting certificate from any Paying Agent or require any Paying Agent to issue a Block Voting Instruction by depositing such Debenture Bond with such Paying Agent or arranging for such Debenture Bond to be (to its satisfaction) held to its order or under its control or blocked in an account with a clearing system, in each case not later than 48 hours before the time fixed for the Meeting. Debenture Bonds so deposited or held will not be released:
  - (A) in the case of Debenture Bonds in respect of which a voting certificate has been issued, until the earlier of (i) the conclusion of the Meeting; and (ii) the surrender of such voting certificate to such Paying Agent; and
  - (B) in the case of Debenture Bonds in respect of which a block voting instruction has been issued, until the earlier of (i) the conclusion of the Meeting; and (ii) the surrender to such Paying Agent, not fewer than 48 hours before the time fixed for the Meeting (or, if the Meeting has been adjourned, the time fixed for its resumption), of the receipt for the deposited or blocked Debenture Bonds and notification thereof by such Paying Agent to the Issuer and the Debenture Bond Trustee.
  
2. ***Quorum Requirements:*** Subject to paragraph 9 (*Ambac Voting Rights*) below, the quorum at the Meeting shall be at least one voter representing or holding not less than the Relevant Percentage of the Principal Amount Outstanding of the outstanding Debenture Bonds, provided that so long as at least the Relevant Percentage of the Principal Amount Outstanding of the outstanding Debenture Bonds is represented by a Global Debenture Bond, a voter appointed in relation thereto or being the holder of the Debenture Bonds represented thereby shall be deemed to be a voter for the purpose of forming a quorum.
  
3. ***Adjournment for Want of Quorum:*** If within 15 minutes after the time fixed for the Meeting a quorum is not present, then, unless the Issuer and the Debenture Bond Trustee otherwise agree, it shall be adjourned for such period (which shall be not fewer than 14 days and not more than 42 days) and to such place as the Chairman determines (with the approval of the Debenture Bond Trustee), provided that:
  - (A) the Meeting will be dissolved if the Issuer and the Debenture Bond Trustee together so decide; and
  - (B) the Meeting will not be adjourned more than once for want of a quorum.
  
4. ***Voting by Show of Hands:*** Every question submitted to the Meeting shall be decided in the first instance by a show of hands. Unless a poll is validly demanded before or at the time that the result is declared, the Chairman's declaration that on a show of hands a resolution has been passed, passed by a particular majority, rejected or rejected by a particular majority shall be conclusive, without proof of the number of votes cast for, or against, the resolution.

5. **Voting by Poll:** A demand for a poll shall be valid if it is made by the Chairman, the Issuer, the Debenture Bond Trustee or one or more voters representing or holding in aggregate not less than two per cent. of the Principal Amount Outstanding of the outstanding Debenture Bonds. The poll may be taken immediately or after such adjournment as the Chairman directs, but any poll demanded on the election of the Chairman or on any question of adjournment shall be taken at the Meeting without adjournment. A valid demand for a poll shall not prevent the continuation of the relevant Meeting for any other business as the Chairman directs.
6. **Number of Votes:** Subject to paragraph 9 (*Ambac Voting Rights*) below, every voter entitled to vote at the Meeting in accordance with paragraph 1 (*Voting Certificates and Block Voting Instructions*) above shall have:
- (A) on a show of hands, one vote; and
  - (B) on a poll, one vote in respect of each £1,000 in aggregate face amount of the outstanding Debenture Bond(s) represented or held by him.
7. **Voting Majority Requirement:** The Extraordinary Resolution is being put to the Meeting as an "Extraordinary Resolution", as defined in Schedule 4 to the Trust Deed. To be passed at the Meeting, the Extraordinary Resolution requires a majority of not less than 75 per cent. of the votes cast, whether on a show of hands or a poll. If passed, the Extraordinary Resolution will be binding on all Debenture Bondholders whether or not present at the Meeting and whether or not voting and upon all Couponholders and Talonholders (each as defined in the Trust Deed).
8. **Notices:** Notice of the result of the vote on the Extraordinary Resolution will be published in accordance with the Conditions within 14 days of the conclusion of the Meeting.
9. **Ambac Voting Rights:** Pursuant to paragraph 18 of Schedule 4 to the Trust Deed, subject to two principal conditions, Ambac may attend and vote at the Meeting in respect of 100 per cent. of the then aggregate Principal Amount Outstanding of each Class of the Guaranteed Debenture Bonds or, not fewer than five Business Days prior to such meeting, give written instructions to the Debenture Bond Trustee of its vote to be counted at such Meeting. The two principal conditions are that (i) no Ambac Termination Event has occurred; and (ii) the request, direction or vote to be given or made by Ambac does not relate to any Debenture Bondholder Reserved Matter.

So far as the Issuer is aware, no Ambac Termination Event has occurred or is expected to occur prior to the Meeting and no request, direction or vote to be given or made by Ambac at or in relation to the Meeting relates or is expected to relate to any Debenture Bondholder Reserved Matter. Accordingly, the above conditions are expected to be satisfied and Ambac has expressed its intention to attend and vote or give written instructions to the Debenture Bond Trustee of its vote to be counted at the Meeting. Therefore, Guaranteed Debenture Bondholders are not being invited to attend and vote at the Meeting.

10. This Notice is given by Spirit Issuer plc, a public company incorporated in England and Wales (registered number 05266745), whose registered office is c/o Wilmington Trust SP Services London Limited, Tower 42, Level 11, 25 Old Broad Street, London EC2N 1HQ.
11. **Further Information:** Debenture Bondholders should contact the following for further information:

The Consent Co-ordinator at European Liability Management, Citigroup Global Markets Limited, Canada Square, Canary Wharf, London E14 5LB, Tel: +44 20 7986 8969 or by email at: [liabilitymanagement.europe@citigroup.com](mailto:liabilitymanagement.europe@citigroup.com)

The Principal Paying Agent at Deutsche Bank AG London, Winchester House, 1 Great Winchester Street, London EC2N 2DB, Tel: +44 20 7547 5000

The Luxembourg Paying Agent at Dexia Banque Internationale à Luxembourg, 69 route  
d'Esch, L-2953 Luxembourg, Tel: +352 4590 1

Date 8 June 2006

**APPENDIX B  
CERTAIN PROPOSED AMENDMENTS TO THE TRANSACTION DOCUMENTS**

**Part 1  
Amendments to the restrictions on Outside Payments**

Clause 16.4 (*Restrictions on Outside Payments*) of the Issuer/Borrower Facility Agreement will be amended by the deletion of the existing wording and its replacement by the following:

**“16.4 Restrictions on Outside Payments**

(a) Subject only to Clause 16.4(c) below, unless otherwise provided in the Transaction Documents, no Obligor may:

- (i) pay, make or declare a dividend, make a return of capital, repay capital contributions, redeem any share capital at a premium or otherwise make any other form of distribution of assets or other payment whatsoever in respect of share capital to an Excluded Group Entity; or
- (ii) make a loan to an Excluded Group Entity or any third party; or
- (iii) repay, prepay or make any payment of interest in relation to any subordinated loan (including, without limitation, the LoanCo/Borrower Subordinated Loan and/or the Issuer/Borrower Subordinated Loan) made available by an Excluded Group Entity or any third party to the relevant Obligor at any time,

(each payment in Clause 16.4(a)(i), (ii) or (iii) being an **Outside Payment**) unless the provisions of this Clause 16.4 are complied with.

(b) (i) Prior to the security under the Borrower Group Deed of Charge becoming enforceable and provided no Borrower Group Event of Default or Potential Borrower Group Event of Default has occurred and is subsisting or would occur as a result of such Outside Payment being made, the Obligors will be permitted (subject always to the priority of payments set out in clause 8 of the Borrower Group Deed of Charge) to make Outside Payments (ignoring for these purposes the Permitted Outside Payments to be made as described in Clause 16.4(c) below) (such Outside Payments, together with Outside Payments permitted under Clause 16.4(c) below, being **Permitted Outside Payments**) in accordance with the following provisions:

- (A) where, in relation to the relevant Loan Interest Payment Date, the DSCR (OpFlex) is equal to or less than the applicable ratio shown in the second column of the DSCR (OpFlex) Table (such ratio being the **Base Threshold**), the Borrowers shall not be permitted to make any Outside Payments under this Clause 16.4(b);
- (B) subject to Clause 16.4(b)(ii) below, and in calendar years 2006 and 2007 only, where, in relation to the relevant Loan Interest Payment Date, the DSCR (OpFlex) is greater than the applicable Base Threshold but less than or equal to the applicable ratio shown in the third column of the DSCR (OpFlex) Table (such ratio being the **First Excess Threshold**), the Borrowers may make Outside Payments under this Clause 16.4(b) equal to up to 50 per cent. of the Available Operating Cash in relation to the relevant Loan Interest Payment Date;
- (C) subject to Clause 16.4(b)(ii) below, and in calendar years 2006 and 2007 only, where, in relation to the relevant Loan Interest Payment Date, the DSCR (OpFlex) is greater than the applicable First Excess Threshold but less than or equal to the applicable ratio shown in the fourth column of the DSCR (OpFlex) Table (such ratio being the **Second Excess Threshold**), the Borrowers may make Outside Payments under this Clause 16.4(b) equal to up to 75 per cent. of the

Available Operating Cash in relation to the relevant Loan Interest Payment Date; and

- (D) where, in relation to the relevant Loan Interest Payment Date, the DSCR (OpFlex) is greater than the applicable Second Excess Threshold, the Borrowers may make Outside Payments under this Clause 16.4(b) equal to up to 100 per cent. of the Available Operating Cash in relation to the relevant Loan Interest Payment Date.

As a condition to any such Permitted Outside Payment being made, the relevant Borrower shall beforehand deliver a certificate to the Borrower Group Security Trustee with respect to the DSCR (OpFlex) in relation to the relevant Loan Interest Payment Date (calculated on the basis set out in Clause 16.4(b)(iv) below) certifying that the Permitted Outside Payment will be permitted under this Clause 16.4(b)(i), and setting out the relevant calculations in the agreed form.

- (ii) If, in relation to any Loan Interest Payment Date during the calendar years 2006 and 2007, the number of Borrower Mortgaged Properties which are Tenanted Pubs has not reached the relevant target set out in the Conversion Targets Table, then, for such Loan Interest Payment Date, the reference to “50 per cent.” in Clause 16.4(b)(i)(B) above shall be deemed to be a reference to “40 per cent.” and the reference to “75 per cent.” in 16.4(b)(i)(C) above shall be deemed to be a reference to “65 per cent.”.
- (iii) Any amounts of Available Operating Cash which are not permitted to be used to fund Outside Payments under Clause 16.4(b)(i) above shall be taken into account in calculating the level of the Operating Cash Reserve.
- (iv) For the purposes of this Clause 16.4(b):
- (A) for the calendar year 2006, the DSCR (OpFlex) will be calculated on both a *pro forma* look-back rolling two Financial Quarter basis and a *pro forma* look-back immediately preceding Financial Quarter basis; and
- (B) for the calendar year 2007 and thereafter, the DSCR (OpFlex) will be calculated on both a *pro forma* look-back rolling four Financial Quarter basis and a *pro forma* look-back immediately preceding Financial Quarter basis.
- (v) In addition, in relation to the Loan Interest Payment Date falling in September of any calendar year, the Borrowers will be permitted to make a Permitted Outside Payment either (x) if it delivers a certificate to the Borrower Group Security Trustee with respect to the DSCR (OpFlex) as described in Clause 16.4(b)(i) above, or (y) if the DSCR (OpFlex) (calculated on both a *pro forma* look-back rolling four Financial Quarter basis and a *pro forma* look-back rolling two Financial Quarter basis) was equal to at least the higher of (A) 1:1.65; and (B) the Second Excess Threshold relating to the Loan Interest Payment Date falling in June of such calendar year, **PROVIDED THAT** if, following the making of a Permitted Outside Payment on the Loan Interest Payment Date falling in September of any year pursuant to this Clause 16.4(b)(iv), it is subsequently established that the DSCR (OpFlex) was in fact below the Second Excess Threshold relating to the Loan Interest Payment Date falling in September of the calendar year that such Permitted Outside Payment was made, the Borrowers shall be required to procure the repayment of a sum equal to the amount by which the Permitted Outside Payment made exceeded the amount which could have been made in accordance with this section (y) within 10 Business Days of such subsequent calculation.
- (vi) For the purposes of this Clause 16.4(b), *pro forma* shall be by reference to Pub-Level EBITDA in relation to Borrower Mortgaged Properties held by the

Borrower Group for the whole of the Relevant Period as adjusted to take account of Attributable Pub-Level EBITDA for Borrower Mortgaged Properties (if any) acquired by way of Permitted Acquisition(s) during the Relevant Period but deducting an amount equal to the Pub-Level EBITDA in respect of Borrower Mortgaged Properties (if any) disposed of by way of Permitted Disposal(s) during the Relevant Period.

- (c) Notwithstanding Clause 16.4(b) above, Outside Payments may be made at any time prior to the occurrence of a Borrower Group Event of Default or a Potential Borrower Group Event of Default:
- (i) to any Excluded Group Entity in consideration for the surrender of any amounts which are available for surrender by the Excluded Group Entity by way of group relief where such payment is contemplated by the Tax Deed of Covenant;
  - (ii) to any Excluded Group Entity in consideration for any amount of compensation payable in accordance with the Tax Deed of Covenant in connection with an election or claim made by any BankCo Entity, as contemplated by clause 10.2(b)(ii) of the Tax Deed of Covenant, the effect of which is to remove a chargeable gain or a tax liability in respect of a chargeable gain out of the Borrower Group;
  - (iii) to any Excluded Group Entity in consideration for any amount of compensation payable in accordance with clauses 11.5(b) and (c) of the Tax Deed of Covenant in connection with a claim to roll over a gain arising in a member of the Borrower Group into the business and assets of a company that is not a Borrower Group Entity; and
  - (iv) by the Borrowers of an amount equal to amounts due from Spirit Supply to Carlsberg UK by way of compensation payments under the supply arrangements with Carlsberg UK to compensate Carlsberg UK for the termination of the pre-existing arrangements between Punch Retail Limited and Carlsberg UK which terminated pursuant to a compensation agreement dated 4 May 2000 between, *inter alios*, Carlsberg UK and Punch Supply Company Limited provided that such payments are not made before the time such payments are actually due to Carlsberg UK.
- (d) If the Punch Finance Parties cease to permit the Punch Borrower to make further drawings under the Punch Revolving Credit Facility (or such other facilities that are available to fund AdminCo's working capital requirements as AdminCo and the Borrower Group Security Trustee may agree) for the purposes of funding AdminCo's working capital requirements (an **RCF Drawstop**), the Managed Borrower shall establish a liquidity reserve in accordance with clause 8.3 of the Borrower Group Deed of Charge equal to either:
- (i) the amount of the Punch Revolving Credit Facility available to the Punch Borrower immediately prior to the RCF Drawstop; or
  - (ii) such other amount in respect of working capital as the directors of AdminCo shall certify to the Managed Borrower (with a copy to the Borrower Group Security Trustee) as being the amount reasonably determined by them to be necessary to meet the working capital needs of AdminCo (insofar as they relate solely to payments to be made by AdminCo in respect of the Borrower Group's business) from time to time thereafter.

The Managed Borrower will establish this reserve by, *inter alia*, retaining the Service Fee payable by the Managed Borrower to AdminCo. Whilst the Managed Borrower is building up the liquidity reserve to the required level it shall not be permitted to make any Outside Payments under this Agreement, nor shall it be permitted to make any distributions to shareholders. Once the reserve has reached the requisite level, as determined in accordance with this Clause 16.4(d) and clause 8.3 of the Borrower Group Deed of Charge, the Managed Borrower may, subject to the tests above, re-

commence payment of the Service Fee and make Outside Payments under this Agreement and the LoanCo/Borrower Subordinated Loan Agreement.

- (e) Any or all of the provisions of this Clause 16.4 may be disapplied or modified at the request of either Borrower at any time including, without limitation, in connection with or as a result of an Equity Offering, so long as the Borrower Group Security Trustee consents thereto.”

In connection with this modification of Clause 16.4, the following definitions will be added to the Master Definitions and Construction Schedule:

**“Available Operating Cash** means, in relation to any Loan Interest Payment Date, amounts standing to the credit of the Operating Accounts after having paid or provided for amounts expressed to be due and payable as set out in paragraphs (a) to (m) (inclusive) of the Borrower Group Pre-Enforcement Priority of Payments;

**Conversion Targets Table** means the table set out in Schedule • to the Issuer/Borrower Facility Agreement (*Note: This table is set out in Part 5 of this Appendix B*);

**DSCR (OpFlex) Table** means the table set out in Schedule • to the Issuer/Borrower Facility Agreement (*Note: This table is set out in Part 6 of this Appendix B*);

**Loanco/Borrower Subordinated Loan** means the £550,000,000 of intra-group subordinated debt lent by LoanCo to the Managed Borrower pursuant to the LoanCo/Borrower Subordinated Loan Agreement;

**LoanCo/Borrower Subordinated Loan Agreement** means a loan agreement dated 25 November 2004 between, *inter alios*, LoanCo (following the novation of BankCo’s interest in the original loan agreement to LoanCo on 22 May 2006) and the Managed Borrower, pursuant to which LoanCo has lent £550,000,000 of subordinated debt to the Managed Borrower;

**Operating Cash Reserve** means a sum equal to the aggregate of the amounts of Available Operating Cash unavailable for distribution as a Permitted Outside Payment pursuant to Clause 16.4(b) of the Issuer/Borrower Facility Agreement in relation to any preceding Loan Interest Payment Date, provided that each such amount shall no longer be counted for the purposes of this calculation to the extent that, in relation to a Loan Interest Payment Date:

- (a) it is the earliest such amount which was, in relation to the preceding Loan Interest Payment Date, counted for the purposes of this calculation; and
- (b) the DSCR (OpFlex) level was, in relation to any four consecutive Loan Interest Payment Dates falling after the date such amount was originally counted for the purposes of this calculation, in each case greater than the relevant Second Excess Threshold;

**Punch Borrower** means Punch Taverns plc and any “Additional Borrower”, as that term is defined in the Punch Credit Facility Agreement;

**Punch Credit Facility Agreement** means the facility agreement dated 1 December 2005 between, *inter alios*, Punch Taverns plc as the Company and as Original Borrower and Citigroup Global Markets Limited, The Royal Bank of Scotland plc and Morgan Stanley & Co. International Limited as the Mandated Lead Arrangers (as the same may be amended, varied or supplemented from time to time);

**Punch Revolving Credit Facility** has the same meaning as “Revolving Credit Facility”, as that term is defined in the Punch Credit Facility Agreement;”

## Part 2 Restrictions on the Composition of the Securitised Estate

Clause 16.3 (*Negative Covenants*) of the Issuer/Borrower Facility Agreement will be amended by the insertion of three new paragraphs as follows:

- “(r) **Restrictions on Short Leasehold Pubs:** take any steps:
- (i) which would have the effect of increasing the proportion of Short Leasehold Pubs included within the Borrower Mortgaged Properties above 10 per cent. of the total number of Borrower Mortgaged Properties; or
  - (ii) to acquire (whether pursuant to a Permitted Acquisition or otherwise) one or more Short Leasehold Pubs where the unexpired term or (where more than one such pub is to be acquired) mean average unexpired term of such Short Leasehold Pubs is less than 15 years;
- (s) **Restriction on Leasehold Insolvency Provisions:** do anything to increase the number of the Borrower Mortgage Properties which are leased to the relevant Borrower on terms which provide for the forfeiture or irritancy of the lease on the insolvency of the tenant above five per cent. of the total number of Borrower Mortgaged Properties; and
- (t) **Restriction on Tenanted Pubs:** do anything to increase the number of the Borrower Mortgaged Properties which are Tenanted Pubs above 750 at any one time.”

### Part 3 New and amended defined terms

The definition of “Permitted Business” in the Master Definitions and Construction Schedule will be amended by the deletion of the existing definition and its replacement by the following:

“**Permitted Business** means a business or a pub or other real or heritable property centred around the ownership and/or operation of premises from which hospitality, catering and other incidental services (including accommodation) are to be provided in the United Kingdom, the primary activity of which is that of owning/operating public houses (which, for the avoidance of doubt, includes bars, nightclubs, restaurants, hotels or other premises licensed or otherwise authorised for the sale by retail of alcoholic liquor predominantly for consumption on the premises);”

The definition of “Allocated Overheads” in the Master Definitions and Construction Schedule will be amended by the deletion of the existing definition and its replacement by the following:

“**Allocated Overheads** means, in respect of any Financial Quarter:

- (a) in the case of Managed Pubs, an amount equal to the higher of (i) one quarter of £29,000 per pub; and (ii) actual overheads (plus any Increased Costs (as defined in the Administrative Services Agreement)) paid by the Managed Borrower to AdminCo under the Administrative Services Agreement (less costs exclusively referable to the Managed Borrower which are not recharged to the Managed Borrower pursuant to the Administrative Services Agreement) during that Financial Quarter; and
- (b) in the case of Tenanted Pubs, an amount equal to the higher of (i) one quarter of £6,000 per pub; and (ii) actual overheads (plus any increased costs) paid by the Leased Borrower to Punch Taverns (PTL) Limited under the Punch Taverns (PTL) Limited administrative services agreement (less costs exclusively referable to the Leased Borrower which are not recharged to the Leased Borrower pursuant to the Punch Taverns (PTL) Limited administrative services agreement) during that Financial Quarter;”

The definition of “Synthetic Capex” in the Master Definitions and Construction Schedule will be amended by the deletion of the existing definition and its replacement by the following:

“**Synthetic Capex** means, in respect of any Financial Quarter:

- (a) in the case of Managed Pubs, an amount equal to the higher of (i) 5.5 per cent. of the actual turnover of the Borrower Mortgaged Properties during the relevant Financial Quarter and (ii) one quarter of £27,500 (adjusted at the start of each Financial Year in accordance with the percentage increase in the UK retail prices index since the start of

the last Financial Year) per pub during the relevant Financial Quarter; or

- (b) in the case of Tenanted Pubs, one quarter of £2,000 (adjusted at the start of each Financial Year in accordance with the percentage increase in the UK retail prices index since the start of the last Financial Year) per pub;”

The following definitions will be added to the Master Definitions and Construction Schedule:

“**Lease Agreement** means an occupational lease (which shall include, for the avoidance of doubt, a tenancy at will (or its Scottish equivalent)) in respect of a pub included in the Borrower Mortgaged Properties between any Obligor and the tenant running such pub;

**Managed Pub** means a pub where the management and operation of such pub is carried out other than under a Lease Agreement;

**Short Leasehold Pub** means a leasehold pub acquired by a member of the Borrower Group after 30 June 2006 in respect of which the unexpired term at the date of its acquisition is less than the longer of:

- (a) 25 years; and  
 (b) the remaining period until the Final Maturity Date of the Class A5 Debenture Bonds;

**Tenanted Pub** means a pub where the management and operation of such pub is carried out under a Lease Agreement;”

#### **Part 4 Amendments to the pre-enforcement priority of payments**

Clause 8.1 of the Borrower Group Deed of Charge will be amended by the insertion of a new paragraph (m):

- (m) *thirteenth*, to retain an amount in the Operating Accounts equal to the Operating Cash Reserve;”

The subsequent paragraphs of Clause 8.1 shall be re-lettered accordingly.

#### **Part 5 Conversion Targets Table**

Loan Interest Payment Date in	September, 2006	December, 2006	March, 2007	June, 2007	September, 2007	December, 2007
Converted Pubs	0	225	225	450	450	650

**Part 6  
DSCR (OpFlex) Table**

<b>Loan Interest Payment Date in</b>	<b>Base Threshold</b>	<b>First Excess Threshold</b>	<b>Second Excess Threshold</b>
<b>June, 2006</b>	1.55:1	1.60:1	1.65:1
<b>September, 2006</b>	1.60:1	1.65:1	1.70:1
<b>December, 2006</b>	1.65:1	1.70:1	1.75:1
<b>2007</b>	1.70:1	1.75:1	1.80:1
<b>2008 to 2013</b>	1.70:1	1.70:1	1.70:1
<b>March, 2014</b>	1.60:1	1.60:1	1.60:1
<b>June, 2014</b>	1.50:1	1.50:1	1.50:1
<b>September, 2014</b>	1.40:1	1.40:1	1.40:1
<b>December, 2014</b>	1.30:1	1.30:1	1.30:1
<b>2015 to 2032</b>	1.30:1	1.30:1	1.30:1