

# PUNCH TAVERNS PLC

("Punch" or "the Group")

## IMS Trading statement

### **Confident of meeting market expectations and balance sheet remains strong**

Ahead of this evenings planned analysts' event, we have brought forward our third quarter interim management statement to confirm that the balance sheet remains strong, business performance is in line with expectations and we remain confident of meeting the market's full year profit expectations.

#### **Trading Performance**

There have been only minor changes to the size and shape of the estate since the half year with two transfers from managed to leased, one acquisition and 19 disposals, resulting in an estate of 7,568 leased pubs and 863 managed pubs as at 21 June 2008.

As previously reported, following a satisfactory start to the financial year, trading in the second quarter was more subdued following the impact of the smoking ban over the winter months. Trading into the second half of the financial year has continued broadly in line with that of the second quarter, albeit trading during the Easter period was weak compared to the prior year due to the comparatively early timing of Easter this year.

Consequently, like for like trading for the year to date (44 weeks to 21 June 2008) has declined with leased contribution down 3.4%, whilst like for like sales in the core managed estate declined by 3.6%.

We continue to work in partnership with our licensees and where appropriate support pubs through the current challenging trading environment with the use of discount schemes and rent concessions. Rent concessions remain in line with the level announced at the half year and represent less than 2% of the total rent roll.

The investment programme in the pub estates has continued and for the year to date we have undertaken investments in more than 1,200 pubs.

Trading over the last two weeks has seen an improvement, being particularly evident in the managed business, as we trade into weaker weather comparatives and start benefiting from the investment in outside trading areas.

The above performance is in line with our expectations and we consequently remain confident of meeting the market's full year profit expectations.

#### **Balance Sheet**

Our balance sheet continues to be strong.

Our debt is repayable on a known schedule extending over 25 years. We have no refinancing requirements on any of our securitised debt which has relatively modest amortisation requirements over the near term with scheduled capital repayments of just £34m in FY09 and £61m in FY10. The levels of headroom on financial covenants and other measures within the securitisations continue to be in line with those reported at the half year and to be in line with our expectations.

All of our debt is secured on our extensive property portfolio comprising c.7,900 freehold and long leasehold properties and c.500 short leasehold properties, at effectively fixed rates of interest equating to a blended rate of interest of 6.6% with a weighted average life of 19 years.

Since the start of the current financial year we have repaid £67m of debt from existing cash flows and continue to maintain an undrawn corporate facility of £50m. Despite a period of challenging trading conditions, the Group has maintained an interest cover ratio in excess of 2.0x.

The Group continues to generate strong levels of cash flow, the majority of which is generated within three securitisation structures. Cash requirements outside the securitisation structures are largely limited to £14m of convertible bond interest and dividend payments which amount to £42m for FY08. Future corporation tax and acquisition cash flows are largely permitted to be funded from within the securitisation structures.

With almost 200 freehold and long leasehold pubs with an asset value of c.£90m held outside of the securitisation vehicles, £50m of corporate loan facility, existing cash resources and projected cash flows from the securitisation vehicles for FY08, the Group has more than sufficient funds to meet its current corporate needs and does not anticipate any refinancing needs before December 2010 at the earliest.

Given the above the Board remains of the opinion that the Group is prudently and efficiently financed for its current business structure.

## **REIT**

Punch continues to have in place a robust, tax efficient capital structure which it believes will maximise shareholder returns for the foreseeable future. Furthermore, due to the efficient utilisation of brought forward tax losses, Punch does not anticipate that it will be in a full tax paying position until the end of the next financial year at the earliest.

However, as previously announced, Punch continues to review the potential value that might be created for shareholders through conversion to a REIT. Following extensive discussions with HM Revenue & Customs ("HMRC") and our advisers, we believe that a structure has been identified which would allow Punch to elect to a REIT regime whilst retaining ownership of all of its existing businesses, including Spirit. The benefit of retaining our managed business is clear and includes the retention of material operational synergies, the opportunity to capture upside from improving performance and maintaining the strategic flexibility to maximise value in the future. Punch is continuing to discuss with its advisers and HMRC the feasibility of this structure in light of its operating and financing arrangements, and intends to submit a clearance application to HMRC in the near future.

It is important to note that whilst the conversion to REIT would yield tax advantages over an already tax efficient capital structure, conversion would involve material implementation costs and would introduce a significantly increased dividend requirement which must be weighed up against the tax benefits.

Punch will progress this structure in order to create REIT optionality for its shareholders, so as to enable an assessment of the merits for shareholders of conversion to a REIT relative to the current business structure. A further announcement will be made in due course.

Punch will be holding a presentation for investors covering the Group's financing and REIT perspectives in accordance with our normal reporting schedule on 7 July 2008. More details will follow in due course.

## **Giles Thorley, Chief Executive, of Punch Taverns commented:**

"Punch remains extremely robust from both an operational and financing perspective, despite the challenging consumer environment. We continue to be confident of meeting the market's full year profit expectations as well as continued value creation over the medium and long term."

**24 June 2008**

**ENQUIRIES:**

**Punch Taverns plc**

Giles Thorley, Chief Executive  
Phil Dutton, Finance Director

Today: 020 7457 2020

Thereafter: 020 7255 4002

**College Hill**

Justine Warren  
Matthew Smallwood

Tel: 020 7457 2020

Ends