PUNCH TAVERNS PLC

("Punch" or "the Group")

Preliminary results for the 52 weeks to 20 August 2016

Performance in line with management expectations and reflects the completion of our strategic disposal programme:

- Higher quality pub estate:
  - Average profit per pub[1] across the entire estate up 4%; benefiting from the disposal of non-core pubs
  - Core estate like-for-like net income[2] growth of 1.0%
- Underlying EBITDA of £178 million (August 2015: £196 million); reflecting the impact of £324 million of strategic disposals completed over the last 24 months
- Underlying profit before tax of £53 million (August 2015: £61 million)
- Profit before tax of £60 million (August 2015: loss of £105 million)

Good operational progress:

- Retail division operating ahead of expectations:
  - 242 pubs identified to operate under the Retail contract, of which 109 pubs are trading at November 2016 (November 2015: 32 pubs trading)
  - Retail contract roll-out plans accelerated to c.150 pubs per year (up from previous guidance of 100-120 pubs per year)
  - Under the Retail contract, anticipated pub EBITDA is between £100,000 and £110,000, representing an expected profit uplift of between £15,000 and £25,000 as compared to historical EBITDA under the tenanted and leased model
- Mercury pub division, our smaller drink led pub estate, is on target to deliver like-for-like growth from the end of 2017
- Positive progress in realising additional value from the non-trading parts of our extensive freehold property and land estate, having identified the potential for upwards of £100 million of additional value (not currently recognised in the external property valuation), of which £11 million was realised in the year.

Strengthened balance sheet:

- Nominal net debt[3] reduced by £223 million in the year (16% reduction)
- Nominal net debt to underlying EBITDA reduced to 6.6 times (August 2015: 7.2 times)
- Property estate externally valued by GVA at £2,030 million; £848 million in excess of nominal net debt (August 2015: valuation and Matthew Clark investment[4] £790 million in excess of nominal net debt)
- Nominal net debt to property valuation reduced to 58% (August 2015: 67%)
- Strategic disposal programme is now complete, having delivered ahead of expectations with net proceeds of £234 million in the year; £75 million above book value

Duncan Garrood, Chief Executive Officer of Punch Taverns plc, commented:

"The business has ended the year with a solid set of results, in line with our expectations, and which reflects the completion of our strategic disposal programme.

We have made good progress towards delivering on the strategy we set out in November 2015. In particular the roll-out of our Retail division is progressing well and we are accelerating the roll-out to c.150 pubs per year.

The new Pubs Code Regulations has resulted in us having to re-market all lets in line with the new regulatory requirements. While this is impacting letting activity in the short-term, our expectations for the longer-term growth prospects for the business remain unchanged.

Punch has a clear plan for the future, a strategy that is progressing well, and a unique operating model that is expected to drive improved performance over the coming years."

8 November 2016

[1] average profit per pub represents underlying EBITDA on the Core and Mercury operating segments (note 2) divided by the average number of pubs held in the year
[2] like-for-like net income represents underlying revenue less cost of sales (gross profit), see Performance Summary, for those pubs held for the entirety of both the prior and current year
[3] nominal net debt represents the par value of loans less cash balances (note 7)
[4] Matthew Clark investment included at net proceeds value of £99 million

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A presentation for equity and debt analysts on the full year results will be held today at 9.00am (UK time) at The Lincoln Centre, 18 Lincoln's Inn Fields, London, WC2A 3ED.

A live web cast and slide presentation of this event will be available on our website, www.punchtavernsplc.com and subsequently available on demand. We recommend you register at 8.50am.

Inside information and forward-looking statements

This announcement contains inside information.

This report contains certain statements about the future outlook for Punch. Although we believe our expectations are based on reasonable assumptions, any statements about future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

CHAIRMAN'S STATEMENT

I am pleased to present our results for the financial year ended 20 August 2016. The Group has continued to improve the quality of the estate, improving average profit per pub across the entire estate of c.3,300 pubs by 4%, having benefited from the disposal of non-core pubs and having delivered like-for-like net income growth of 1.0% in the Core estate. Underlying profit before tax for the 2016 year was £53 million (2015: £61 million) which delivered adjusted earnings per share of 18.8 pence (2015: 25.0 pence)

Improving the performance of our pub estate

Following his appointment as Chief Executive Officer in June 2015, Duncan Garrood led a full review of our strategic priorities. The outcome of this review was presented in November 2015 and set out clear plans to drive revenue and profit by realising previously untapped growth opportunities and unlocking significant additional value from our property portfolio.

I am pleased with the progress we have made towards delivering on this strategy. The roll-out of our Retail division is progressing well and we now intend to accelerate, converting approximately 150 pubs to our new Retail contract each year. Progress has also been made in unlocking value from the under-utilised elements of our extensive freehold property and land portfolio. £11 million of additional value not recognised in the external property valuation was realised in the year, and upwards of £100 million of potential additional value has been identified.

Strengthening our balance sheet

The strength of the balance sheet is now significantly enhanced following the completion of our strategic disposal programme. We realised net proceeds of £234 million in the year, at a profit of £75 million.

Since the financial restructuring in October 2014 we have continued to proactively manage our debt position. Nominal net debt has reduced by £326 million since the restructuring, of which £223 million of the reduction occurred in the current financial year, leaving nominal net debt at £1,182 million (22% reduction on October 2014). All of the Group's debt is in the form of long-term securitised debt, secured against our property portfolio which was independently valued in the year by GVA at £2,030 million; £848 million in excess of nominal net debt (August 2015: valuation and Matthew Clark investment £790 million in excess of nominal net debt).

Following the year end (on 1 November 2016), we redeemed £65 million of junior 15% (cash and PIK) coupon debt at par, utilising some of the £118 million of available cash resources held outside of the securitisations. All junior securitisation debt (class B and M notes) is redeemable at par at Punch's option. We will continue to review the most effective way of reducing our interest expense, including the option of further redemptions or the issuance of cheaper replacement debt, while maintaining appropriate cash reserves to support the delivery of the business strategy.

Legislative changes

The Pubs Code Regulations, which includes the provision of a Statutory Code, independent adjudicator and a Market Rent Only option ("MRO"), came into effect on 21 July 2016.

The legislation is still in the early stages of implementation. The take-up of the MRO option will become clearer with time as we move through the cycle of five yearly rent reviews and renewals. We expect that the majority of publicans will continue to operate under the tied drink model, enjoying the full range of benefits that it brings.

Dividend

The Board is not proposing to recommend a final dividend for the year. We continue to use free cash flow to meet our debt repayments and fund business growth.

Board of directors

We announced in September the appointment of Emma Fox to the Board as a Non-Executive Director. Emma has a wealth of commercial and marketing experience across a number of sectors, including the drinks sector, which will be of great value as we expand our Retail pub estate.

Non-Executive Director Ian Dyson will step down from the Board at the conclusion of the Company's AGM on 1 February 2017. On behalf of the Board, I would like to thank Ian for his significant contribution to Punch, first in delivering the demerger of Spirit and returning value to shareholders, and then as a Non-

Executive Director supporting the company during its successful financial restructuring in 2014 and the subsequent strategic review.

Employees and publicans

We have a committed and engaged workforce, the majority of whom were involved in the creation of our new vision, mission and values. The business has been recognised in the finals of the Organisational Culture Excellence awards for implementation of this cultural change programme.

Our publicans continue to be recognised for their achievements. Nine Punch pubs were recognised as finalists in the Great British Pub Awards. In addition, Punch pubs won seven accolades at the 2016 Scottish Hotel Awards and over 180 of our publicans, and their pubs, were represented in the Good Beer Guide for 2017. Punch also undertook its own recognition programme, where over 80 pubs were cited for excellence by Punch Development Managers within their local communities.

Outlook

We are making good progress delivering on our strategy, but this does not come without execution challenges against the backdrop of the new Pubs Code Regulations. We will incur additional cost in the short term to meet these challenges and we have already strengthened our senior management team, our Retail division team and our Regulatory Compliance function. In the medium term we plan to offset these costs through efficiency savings.

The Pubs Code Regulations are negatively impacting letting activity in the first half of the new financial year as we have had to re-market all lets in line with the new regulatory requirements. While this is impacting near-term trading, our expectations for the longer-term growth prospects of the business remain unchanged.

CHIEF EXECUTIVE OFFICER'S REVIEW

MARKET POSITIONING

Punch is a leading operator of pubs in the United Kingdom, with the second largest pub estate by number of pubs. As at 20 August 2016, the Punch estate comprised 3,276 pubs located across the UK, 96% of which are held on a freehold or long leasehold basis. The Group has over the past few years been actively disposing of less profitable non-core sites resulting in a smaller, but higher quality pub estate.

Punch operates in the UK pub industry, which itself is part of the wider drinking-out and eating-out market. The UK pub market consists of some 47,000 licenced public houses in total, including around 9,000 managed, branded and franchised, 17,000 tenanted and leased and 21,000 independently owned.

The pub market has had to manage the impact of significant changes over the last decade including the smoking ban, changing consumer preferences and an increasingly competitive landscape. Recent changes in legislation, including the implementation of the Pubs Code Regulations in July 2016, is expected to result in further structural changes to the pub market.

Despite the challenges faced by the industry, there are some clear growth opportunities. Going to pubs continues to be one of the most popular leisure activities in the UK. The UK pub industry has estimated annual sales of approximately £22 billion and supports around 900,000 jobs.

Success for the UK pub sector is being determined by the ability to quickly respond to the changing market conditions and provide offers which deliver great customer experiences and value. Aware of the challenges, we have refocused our plans and strategy to ensure that we are in the strongest position to address the changing needs of the marketplace.

Our business model

Punch operates its pubs predominantly under the tied leased and tenanted model, with a small but growing number of pubs operated under either a retail operating model or as free of tie commercial leases.

Our model makes a pub business accessible to many more publicans than the purchase of a freehold, while also providing an extensive package of support to our publicans to help them build a successful pub business. The business model is simple and adaptable with no single pub or any single publican accounting for more than 1% of the Group's operating profit.

Under the tied leased and tenanted model, publicans lease pubs from the Group on agreements which provide a flexible split between rent and tied drink margin. There is a higher risk for the publican if they opt for an agreement with a higher rent and lower drinks price, as opposed to an agreement with a lower rent and higher drinks price which provides the publican with protection in periods of lower trading.

Under the Retail contract, Punch retains 100% of the revenue and cost of sales (like a traditional managed house operation) and pub costs (excluding staff costs), and pays the retailer (the publican) a percentage of the retail sales, out of which the retailer pays their staff costs. The retailer is free to focus on delivering an excellent consumer experience whilst Punch supports the back-of-house processes.

We are focused on helping publicans to stay on top of evolving consumer tastes. There is an increasing trend for consumers to dine out, and choose premium drinks options. Punch is well positioned to take advantage of these trends. We are increasingly targeting the food offering in our pubs, and ensuring we can provide the widest drinks range available in our sector through the Punch Buying Club.

PERFORMANCE SUMMARY

We are pleased to report results which are in line with our expectations. We have made good progress towards implementing the strategy we set out at the time of our full year results in November 2015. Punch is now clearly focused on helping our customers (publicans) to give the best possible consumer experience.

The strategic disposal programme is now complete and this has greatly enhanced the strength of the Group's balance sheet.

In the 52 weeks ended 20 August 2016, Punch generated underlying EBITDA of £178 million (August 2015: £196 million), which reflects the impact of £324 million of strategic disposals completed over the last two years:

Operating Segment	Core	Mercury	Central	Punch
Period end pub numbers	2,581	695	-	3,276
Revenue	£359m	£48m	-	£407m
Cost of sales	£(147)m	£(22)m	-	£(169)m
Net income	£212m	£26m	-	£238m
Other operating costs	£(20)m	£(6)m	£(34)m	£(60)m
Underlying EBITDA	£192m	£20m	£(34)m	£178m

We have continued to improve the quality of the estate with average profit per pub across the entire estate up 4%, benefiting from the disposal of non-core pubs. Like-for-like net income in the Core division (which represents 91% of pub profits), was 1.0% up on last year. Including the 240 pubs which were transferred to the Mercury division in the year, the like-for-like net income growth was 0.2%.

The Pubs Code Regulations which came into effect on 21 July 2016, are negatively impacting letting activity in the first half of the new financial year as we have had to re-market all lets in line with the new regulatory requirements. While the regulations have necessarily increased the time taken to complete pub lettings, we have identified ways in which the letting process can be shortened moving forward. The percentage of pubs available to let in the Core estate has increased to 9% (up 2.5% pts on November 2015). We are, however, confident in our plans to improve this position as we progress through the year and expect to end the year in line with our long-term target of having an estate of 93%-95% on substantive agreements.

While this is impacting near-term trading, our expectations for the longer-term growth prospects of the business remain unchanged.

Property review

Following the decision to realign our operating divisions, the Board commissioned external valuers to undertake a full revaluation of the Group's property estate, the previous external valuation having been undertaken in 2015:

	No. of pubs	Valuation
August 2015 valuation	3,588	£2,097m
- Package disposals	(158)	£(52)m
- Core pub disposals	(43)	£(28)m
- Mercury pub and unlicensed property disposals	(111)	£(24)m
- Valuation uplift		£37m
August 2016 valuation	3,276	£2,030m

The property estate was externally valued at £2,030 million (including £8 million of unlicensed properties), which represents a net like-for-like uplift in the valuation (after accounting for pub disposals) of £37 million.

Consistent with our strategy to focus on the Core estate, we disposed of 111 non-core pubs from the Mercury division, together with unlicensed property assets for proceeds of £40 million, £14 million above book value. In addition, package disposals raised £53 million from the sale of 158 pubs, £0.3 million above book value.

We also disposed of a relatively small number of Core pubs in the year, realising £42 million in proceeds from the sale of 43 pubs, £14 million above book value and at a multiple of c.20 times LTM EBITDA.

We have continued to invest in our properties with a total spend of £62 million across the Group:

- £51 million on Core (including Retail) pub investment;

- £6 million on Mercury pub investment;
- £3 million on development of unlicensed properties; and
- £2 million on the purchase of freehold rights to existing Punch leasehold pubs

Our capital investment strategy is an important contributor in supporting the delivery of the business strategy and in delivering like-for-like growth. We maintain a rigorous approach to capital allocation and authorisation, including an annual plan, a project by project capital approval process and regular post-investment reviews to ensure we maximise value from our investment spend.

Disposal of our investment in Matthew Clark:
On 7 October 2015 we announced the completion of the disposal of our 50% shareholding in Matthew Clark (our 50% joint venture investment with Accolade Wines) for £99 million in cash (after £2 million of transaction costs) and at a £46 million premium to book value. The sale of our investment in Matthew Clark, a non-core asset, enhances the Group's financial flexibility to pursue its strategic objectives.

On completion, the Group entered into a 10 year non-exclusive drinks supply contract with Matthew Clark. Under this supply agreement, Matthew Clark will supply selected wines and spirits drinks products to the Group at agreed pricing levels.

STRATEGIC AND OPERATIONAL REVIEW

Following my appointment as Chief Executive Officer in June 2015, I led a full review of our strategic priorities, which we communicated to the market in November 2015.

Our strategy enables us to maximise the value in our properties through a phased, lower risk approach. We are meeting consumer needs in an evolving pub market by taking greater control of the property and retail offer, but without the added overhead that comes with directly employing pub staff.

We have a clear set of plans which will help drive revenue and profit by realising previously untapped growth opportunities and unlocking significant additional value from our property portfolio.

Development of the Punch model

1. **Deliver a clear and consistent bespoke consumer offer, relevant to each pub**
   In recent years we have led the leased and tenanted pub sector in dedicating resources to help our publicans deliver outstanding customer offers and service. More recently we have formed an in-house concept development and innovation team. This team is overseeing the measured roll-out of our existing concepts alongside the development of new concepts that fit within our community mainstream and value pub segments. Revenue uplifts on conversion of pubs over to our retail concepts have been strong and give us confidence in realising additional growth opportunities as we develop our concepts further.

   To date we have 47 pubs operating under a retail concept, with four existing concepts ('*Mighty Local'* community drinks led pubs, '*Champs'* sports bar, '*Signature'* managed houses of excellence and '*Village Pub & Kitchen'* community drink and food led pubs) being rolled out across the estate.

2. **Broad range of operating models in line with an evolving market**
   We have seen a significant market movement away from long-term fully repairing leases towards shorter-term tenancy agreements where the external building repair obligations remain the responsibility of the pub company. There has also been a marked shift towards variable turnover linked agreements.

   To address these changing market dynamics we have already introduced a number of new operating formats:

   Retail contracts:
   The Retail contract allows us to have a much tighter control of the consumer offer and we can see the benefits of this control through rising customer advocacy scores, improved food safety audits and increasing volumes in selected drinks categories. The Retail contract also enables us to set the optimal product range and pricing for the pub in line with the local market and competitors.

Customer advocacy is measured by monthly Mystery Shopper experience reports. It is tracking at impressive levels, is significantly ahead of that of our invested tied and leased estate and is amongst the highest in our marketplace.

Programmes to target specific drinks ranges and offers have shown real success. Our summer drinks campaign grew spirits sales significantly, such that they now represent c.20% of the Group's sales of selected spirits, despite the offer being operational on only 3% of the estate.

Our focus on the food offering in our retail sites also delivered growth that was ahead of expectations, with food sales growing from relatively low bases to between 40% and 50% of revenue in some pubs.

We now have 109 pubs trading under Retail contracts (November 2015: 32 pubs) with a further 133 pubs identified for roll-out under this operating model. Success from our early openings under this format gives us confidence that we can accelerate the roll-out to c.150 pubs per year (up from previous guidance of 100-120 pubs per year).

The anticipated pub EBITDA (excluding opening costs, at c.£10,000 per pub) from pub conversions is expected to be between £100,000 and £110,000, representing an anticipated profit uplift of between £15,000 and £25,000 as compared to historical EBITDA under the tenanted and leased model. We now have 32 pubs with over 12 months' trading history. It is pleasing to see that these pubs have maintained their sales uplift, highlighting the sustainability of this model.

As a result of the positive results from these initial trials and the positive reaction from publicans, we now expect up to one out of every two new agreements to be on the Retail contract, with the majority of future pub investment spend allocated to Retail pub openings.

Managed 'Punch Signature Pubs':
Our first fully managed pub opened in October 2015 and we now have three sites operating as fully managed pubs. While we do not anticipate building a significant managed house pub presence, these 'Signature Pubs' provide centres of training for our colleagues and publicans as well as supporting the development of new consumer offers.

Flexible short-term tenancies:
Given the market preference for more flexible shorter-term tenancy agreements over long-term fully repairing leases, we now expect the vast majority of new lettings to be on either short-term tenancies or Retail contracts.

Short-term tenancies can provide publicans with the benefit of a six-month notice term should they wish to reduce the term of their agreement. In addition, external building repair obligations reside with the pub company and greater operational support is available through our fully supported open book tenancy agreements.

Commercial free-of-tie leases:
Since the start of the year we have introduced a suite of new commercial lease agreements, including income sharing arrangements, and expect the number of such agreements to grow over time, particularly in the premium and destination food led segments of our estate.

We have a small but growing commercial free-of-tie operation with a number of fixed rent and variable turnover-linked leases in operation. We currently have 46 such commercial leases in operation with an average rent of £73,000, including three pubs recently let to Stonegate Pub Company on commercial free-of-tie leases.

3. **Refocussing of management resources to drive improved support, innovation and operational delivery**
   We have already strengthened our senior management team and recruited additional expertise across a number of critical areas including digital marketing, concept development and regulatory compliance. We have also expanded the operational teams responsible for our Retail pubs, with this team now providing full national coverage with the capacity to launch our target of 150 Retail pub openings per year.

We completed a full review of our tied tenanted and leased operations in the year. As a result of this review, we created a new operating division ('Mercury') that sits alongside the Core business (which includes the Punch tenanted and leased pubs, Retail contracts and free-of-tie commercial leases).

The Mercury division combined all of the pubs from the Turnaround (non-core) division (457 pubs) and 238 lower profit pubs from the core division for which capital investment opportunities were considered limited. As such, the previous Turnaround division no longer exists.

The purpose for creating the Mercury division was linked to the recent success of the Turnaround (non-core) division, which has demonstrated the ability to deliver like-for-like growth in an estate of lower profitability sites under a reduced cost operating model.

We have a clear target to deliver like-for-like growth in this division from the end of 2017, supported by the conversion of pubs onto more flexible tenancy agreements.

4. **Delivering value to our publicans through an enhanced Punch Buying Club**

The Punch Buying Club continues to provide real and meaningful benefits to our publicans. We supply over 3,000 drinks brands from 660 different brewers on one consolidated delivery; approximately 75% of Punch's drinks orders are placed through the on-line buying club which compares to around 30% for the rest of the tenanted and leased sector.

In addition, we leverage our Group buying power to provide a range of free services (including commercial WiFi, publican and pub staff training, marketing materials and legal helplines) and access to cheaper goods and services.

Earlier in the year the Buying Club launched an offer that allows our publicans to benefit from the group purchase of electricity and gas supply. We expect it to deliver savings to our publicans of thousands of pounds each per year.

5. **Releasing significant additional value from our property portfolio and land bank**

Having completed our strategic disposal programme, we are now focussed on realising additional value from the non-trading parts of our extensive freehold property and land estate, which is not currently recognised in the external property valuation.

Progress has already been made in unlocking value with £11 million of additional value having been realised in the year, having identified upwards of £100 million of potential additional value (post planning and net of development expenditure), of which a further £11 million is under exchange of contracts or in legals.

While sales of Core 'gold brick' properties will be scaled back, we anticipate selling up to 100 non-core pubs per year from the Mercury division.

REGULATORY CHANGES

The Pubs Code Regulations, which form part of the Small Business, Enterprise and Employment Act 2015, came into effect on 21 July 2016. The legislation has three key aspects, a statutory code, the appointment of an independent adjudicator and a Market Rent Only (MRO) option.

The MRO option enables some occupational lessees to elect to opt-out of the drinks supply tie at certain points during the term of their lease agreement and therefore occupy the premises on a standard commercial property lease, paying rent only. In the event that a lessee elected to invoke the MRO option, whilst our income derived from the supply of tied drinks products would be partially offset by increases in rent, we are aware of the potential for our total income to be adversely affected.

Publicans lease pubs from the Group under a wide variety of agreements ranging from short-term tenancies (less than 5 years), tied leases (10 to 30 years) and free-of-tie commercial leases. Approximately two thirds of Punch's Core estate pubs do not have a rent review MRO trigger event before the end of their agreement. Tied leases with five years remaining on their lease at the next rent review represent c.26% (c.660 pubs) of the Core estate, while tied leases with ten or more years remaining on their lease represent a further c.7% (c.170 pubs) of the Core estate.

Since the new regulations came into effect on 21 July 2016, 40 publicans have requested MRO comparison figures, of which 21 are currently under review with the publicans, with the remainder having been either concluded under a tied rent review or renewal, or lapsed.

While it remains early days with the new legislation and the take-up of the MRO option will become clearer with time through the cycle of five yearly rent reviews and renewals, our expectations, and early indications are, that the majority of publicans will continue to operate under, and enjoy the benefits of the tied-drinks model.

FINANCIAL REVIEW

Income statement:

Results for the 52 weeks ended 20 August 2016:

Underlying results	2016	2015 restated[1]	Movement
Average Core pub numbers	2,596	2,665	(2.6)%
Average Mercury pub numbers	757	1,014	(25.3)%
Average Total pub numbers	3,353	3,679	(8.9)%
	£m	£m	£m
Core division underlying EBITDA	191.5	192.6	(1.1)
Mercury division underlying EBITDA	20.1	30.2	(10.1)
Underlying Divisional EBITDA	211.6	222.8	(11.2)
Matthew Clark joint venture	0.4	7.8	(7.4)
Central costs	(34.1)	(34.2)	0.1
Underlying EBITDA	177.9	196.4	(18.5)
Depreciation and amortisation	(9.8)	(12.5)	2.7
Net finance costs	(115.2)	(123.0)	7.8
Underlying Profit before taxation	52.9	60.9	(8.0)
Tax	(11.1)	(11.4)	0.3
Underlying Net earnings	41.8	49.5	(7.7)

[1]During the period the Group has reassessed its segments, based on how the Group's operations are reviewed and managed. The business has been restructured into Core and Mercury divisions, each having its own clear strategy. The results for the current and prior periods have been restated to reflect these revised segments.

Underlying divisional EBITDA was down 5.0% on last year to £211.6 million, in line with our expectations and reflecting the impact of an 8.9% reduction in the size of the estate, through the strategic disposal programme, which has realised net proceeds of £234 million over the last 12 months. The disposal programme included the sale of our 50% shareholding in Matthew Clark, which provided a contribution of £7.8 million in the prior period.

Like-for-like net income (which reflects rental income and net income from the sale of drinks and other products to our leased and tenanted publicans) in the Core division, after adjusting for the impact of disposals, was 1.0% up on last year. Profits in the Core division have declined by £1.1 million, of which £2.7 million is due to the disposal programme, being partially offset by the increase in like-for-like net income in the year.

Underlying EBITDA in the Mercury division declined by £10.1 million, the majority of which, £8.5 million, is due to the disposal programme. Excluding the impact of disposals, the remaining decline of £1.6 million largely relates to reduced EBITDA in the 240 pubs transferred from the Core division.

We have continued to maintain a tight control on costs, with central costs broadly in line with that of the prior period. Central costs are expected to increase in 2017 by up to £3 million, due to the additional resource recruited to support the execution of our strategy, coupled with the increased regulatory costs following the implementation of the Pubs Code. Efficiency savings are expected to be made from 2018 onwards however as the increasing number of pubs moving onto Retail contracts or commercial leases, together with further disposals of non-core pubs will permit efficiencies to be made in the way support functions are organised.

The Matthew Clark joint venture which was disposed of in the period provided a contribution prior to disposal of £0.4 million compared to £7.8 million for the full period in the prior year.

Underlying net finance costs reduced by £7.8 million to £115.2 million, reflecting the benefit of the capital restructuring that completed on 8 October 2014, combined with the reduction in debt delivered subsequent to the refinancing.

Taxation:
The underlying taxation charge equates to an effective tax rate of 21.1% before post-tax earnings from joint ventures (2015: 21.5%). This compares with the UK corporation taxation rate of 20.0% for the year.

The availability of sizeable capital allowance pools amounting to c.£300 million (generated from our investment programme in community pubs) at August 2016, together with other tax assets is expected to result in limited corporation tax payments being due in the 2017 financial year.

Non-underlying items:
A number of non-underlying items were recognised during the period amounting to a net credit of £23.5 million, resulting in a net profit after tax of £65.3 million. The principal items are set out below:

- £28.8 million profit on disposal of properties;
- £(4.6) million impairment costs;
- £46.1 million profit on disposal of Matthew Clark joint venture;
- £(13.9) million goodwill disposed on the transfer and disposal of core pubs;
- £(10.5) million movement in valuation of properties; and
- £(38.2) million charge on the mark-to-market movement in value of interest rate swaps.

The tax effect of all of these items, together with the resolution of prior year tax matters, gave rise to a tax credit of £16.3 million.

Share capital and earnings per share:
Punch's issued share capital at the end of the year, 20 August 2016, amounted to 222.0 million shares.

Adjusted basic earnings per share (EPS), which excludes the effect of non-underlying items was 18.8 pence. Basic EPS was 29.4 pence, which reflects the non-underlying credit of £23.5 million.

Pensions:
Punch maintains a defined contribution scheme which is open to all employees. The Group has one defined benefit scheme which is closed to new entrants. Under IAS 19 the net pension liability was £11.7 million at August 2016 (2015: £6.1 million).

Cash flow:
Cash flow before the benefit of strategic activities amounted to £45.7 million:

Cash flow	2016 £m	2015 £m
Underlying EBITDA	177.9	196.4
Working capital and other cash movements	(7.9)	3.7
Net cash interest expense	(104.4)	(118.2)
Non-core disposal proceeds (individual sales)	40.3	38.7
Capital investment	(60.2)	(46.4)
Cash flow before strategic activities	45.7	74.2
Restructuring costs	(0.5)	(18.3)
Purchase of freehold properties	(2.2)	-
Proceeds from ordinary share capital	-	50.0
Other financing cash flows	-	7.7
Strategic disposals - Core pubs (gold brick sites)	42.4	50.7
- Pub disposal package	52.8	-
- Matthew Clark joint venture	98.8	-
Net cash flow available for debt reduction	237.0	164.3
Net repayment of borrowings, derivatives and finance leases	(142.9)	(339.8)

Net increase / (decrease) in cash and cash equivalents	94.1	(175.5)
Non-cash: payment-in-kind (PIK) interest	*(13.4)*	*(9.2)*

Note: Underlying EBITDA, Working capital and other cash movements and Restructuring costs form net cash from operating activities as set out in the Group's cash flow.

Net cash flow available for debt reduction, after including the benefit of the strategic activities amounted to £237.0 million for the year.

A proportion of the annual interest charge is in the form of payment-in-kind (PIK) interest, which accrues and is then capitalised at each quarter end. The PIK interest amounted to £13.4 million for the year (2015: £9.2 million).

Capital Structure:
The Group is financed by two long-term securitised debt structures (Punch A and Punch B securitisations) and has no bank borrowings. The nominal value of net debt (excluding the mark-to-market of interest rate swaps) reduced by £223 million in the year and down by £326 million since the October 2014 refinancing to £1,182 million.

Nominal net debt at August 2016 of £1,182 million is secured against a largely freehold pub estate which was independently valued at £2,030 million. Total Group property valuation less nominal net debt amounted to £848 million (£3.82 per share).

	Punch A £m	Punch B £m	External £m	Group £m
Securitisation cash	£(58.4)m	£(37.3)m	-	£(95.7)m
Senior hedge notes	£16.9m	£12.9m	-	£29.8m
Class A notes	£421.6m	£479.8m	-	£901.4m
Class M notes	£300.0m	-	-	£300.0m
Class B notes	£112.5m	£72.9m	-	£185.4m
Net securitisation debt	£792.6m	£528.3m	-	£1,320.9m
External cash	-	-	£(117.7)m	£(117.7)m
Supply company cash	-	-	£(20.8)m	£(20.8)m
Nominal Net Debt	£792.6m	£528.3m	£(138.5)m	£1,182.4m
Property valuation	£1,247.2m	£774.7m	£8.4m	£2,030.3m
Property valuation less net debt	£454.6m	£246.4m	£146.9m	£847.9m
Underlying EBITDA	£109.6m	£68.5m	£(0.2)m	£177.9m
Nominal Net Debt leverage	7.2 times	7.7 times	-	6.6 times

The strength of the balance sheet has been significantly enhanced following the completion of the strategic disposal programme. Our focus on lowering our net debt through selective disposals at high disposal multiples has substantially improved our loan to value ratio at 58% (August 2015: 67%), and reduced the net debt to underlying EBITDA leverage ratio of the Group to 6.6 times (August 2015: 7.2 times).

The securitisation debt has a contractual amortisation requirement with scheduled contractual amortisation of £191 million over the next five years, with no term repayments until 2021.

All of the Group's securitised debt, with the exception of the senior hedge notes, is at fixed rates of interest, or fixed through the use of interest rate swaps. Consequently, the Group does not benefit from the current low UK interest rate. The mark-to-market value on the Group's interest rate swap which matches the Class M notes amounted to £169.7 million at the balance sheet date.

The junior classes of securitised notes (Class M and Class B notes) are callable (at the Group's option) at par from October 2016 onwards, following the end of their no-call period. The Class A notes carry make-whole provisions (modified Spens) whereby a predetermined price premium is set should the notes be redeemed early (at the Group's option).

Following the year end, we redeemed £65 million of junior 15% (cash and PIK) coupon debt on 1 November 2016, utilising available Group cash resources.

Outside of the securitisations ('External'), the Group holds a number of short leasehold pubs. External EBITDA of £(0.2) million represents Punch's share of the post-tax earnings from Matthew Clark (£0.4 million), central costs and losses on short leasehold pubs (£1.3 million), together with the release of certain property provisions (£0.7 million).

For further information on the securitisation debt structures, please refer to our website: www.punchtavernsplc.com

CONSOLIDATED INCOME STATEMENT
for the 52 weeks ended 20 August 2016

		52 weeks to 20 August 2016			52 weeks to 22 August 2015		
	Notes	**Underlying items £m**	**Non-underlying items (note 3) £m**	**Total £m**	Underlying items £m	Non-underlying items (note 3) £m	Total £m
Revenue		**406.8**	**-**	**406.8**	420.8	-	420.8
Operating costs before depreciation and amortisation		**(229.3)**	**(0.5)**	**(229.8)**	(232.2)	(18.3)	(250.5)
Share of post-tax profit from joint venture		**0.4**	**-**	**0.4**	7.8	-	7.8
EBITDA[1]		**177.9**	**(0.5)**	**177.4**	196.4	(18.3)	178.1
Depreciation and amortisation		**(9.8)**	**-**	**(9.8)**	(12.5)	-	(12.5)
Profit on sale of property, plant and equipment and non-current assets classified as held for sale		**-**	**28.8**	**28.8**	-	21.9	21.9
Profit on disposal of joint venture		**-**	**46.1**	**46.1**	-	-	-
Impairment		**-**	**(4.6)**	**(4.6)**	-	(16.4)	(16.4)
Movement in valuation of properties		**-**	**(10.5)**	**(10.5)**	-	(483.8)	(483.8)
Goodwill charge		**-**	**(13.9)**	**(13.9)**	-	(9.1)	(9.1)
Operating profit / (loss)		**168.1**	**45.4**	**213.5**	183.9	(505.7)	(321.8)
Finance income		**2.1**	**-**	**2.1**	2.5	374.6	377.1
Finance costs		**(117.3)**	**-**	**(117.3)**	(125.5)	-	(125.5)
Movement in fair value of interest rate swaps		**-**	**(38.2)**	**(38.2)**	-	(35.0)	(35.0)
Profit / (loss) before taxation		**52.9**	**7.2**	**60.1**	60.9	(166.1)	(105.2)
UK income tax (charge) / credit	5	**(11.1)**	**16.3**	**5.2**	(11.4)	34.0	22.6
Profit / (loss) for the financial period attributable to owners of the parent company		**41.8**	**23.5**	**65.3**	49.5	(132.1)	(82.6)
Earnings per share	6						
- basic (pence)		**18.8**		**29.4**	25.0		(41.7)
- diluted (pence)		**18.8**		**29.3**	25.0		(41.7)

[1] EBITDA represents earnings before depreciation and amortisation, profit on sale of property, plant and equipment and non-current assets classified as held for sale, profit on disposal of joint venture, impairment, movement in valuation of properties, goodwill charge, finance income, finance costs, movement in fair value of interest rate swaps and tax of the Group.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the 52 weeks ended 20 August 2016

	52 weeks to 20 August 2016 £m	52 weeks to 22 August 2015 £m
Profit / (loss) for the period attributable to owners of the parent company	**65.3**	(82.6)
Items that cannot be recycled subsequently to the income statement		
Remeasurements of defined benefit pension scheme	**(6.4)**	(3.0)
Other items that cannot be recycled subsequently to the income statement	**(0.2)**	(4.2)
Unrealised surplus on revaluation of properties	**1.4**	293.2
Tax relating to components of other comprehensive income that cannot be reclassified into profit or loss	**1.4**	(1.6)
Other comprehensive (loss) / profit for the period	**(3.8)**	284.4
Total comprehensive income for the period attributable to owners of the parent company	**61.5**	201.8

BALANCE SHEET
at 20 August 2016

	20 August 2016 £m	22 August 2015 £m
Non-current assets		
Property, plant and equipment	**2,044.2**	2,038.2
Other intangible assets	**0.8**	0.5
Goodwill	**149.6**	163.5
Investment in joint venture	**-**	52.3
Deferred tax asset	**11.8**	8.1
	2,206.4	2,262.6
Current assets		
Inventories	**0.7**	0.1
Trade and other receivables	**31.3**	30.5
Current income tax assets	**3.7**	0.8
Non-current assets classified as held for sale	**18.3**	93.1
Cash and cash equivalents	**234.2**	140.1
	288.2	264.6
Total assets	**2,494.6**	2,527.2
Current liabilities		
Trade and other payables	**(94.7)**	(99.6)
Short-term borrowings	**(42.9)**	(47.7)
Derivative financial instruments	**(16.7)**	(15.8)
Provisions	**(0.8)**	(0.7)
	(155.1)	(163.8)
Non-current liabilities		
Borrowings	**(1,385.0)**	(1,511.7)
Derivative financial instruments	**(153.0)**	(116.5)
Retirement benefit obligations	**(11.7)**	(6.1)
Provisions	**(5.3)**	(6.6)
	(1,555.0)	(1,640.9)
Total liabilities	**(1,710.1)**	(1,804.7)
Net assets	**784.5**	722.5
Equity		
Called up share capital	**2.1**	2.1
Share premium	**700.0**	700.0
Revaluation reserve	**283.4**	291.0
Share based payment reserve	**6.9**	6.5
Retained earnings	**(207.9)**	(277.1)
Total equity attributable to owners of the parent company	**784.5**	722.5

STATEMENT OF CHANGES IN EQUITY
for the 52 weeks ended 20 August 2016

	Share capital £m	Share premium £m	Revaluation reserve £m	Share based payment reserve £m	Retained earnings £m	Total equity £m
Total equity at 23 August 2014	0.3	455.0	-	6.4	(188.0)	273.7
Loss for the period	-	-	-	-	(82.6)	(82.6)
Other comprehensive gains / (losses) for the period	-	-	291.0	-	(6.6)	284.4
Total comprehensive income / (loss) for the period attributable to owners of the parent company	-	-	291.0	-	(89.2)	201.8
Share issue	1.8	245.0	-	-	-	246.8
Share based payments	-	-	-	0.1	0.1	0.2
Total equity at 22 August 2015	2.1	700.0	291.0	6.5	(277.1)	722.5
Profit for the period	-	-	-	-	65.3	65.3
Other comprehensive gains / (losses) for the period	-	-	1.4	-	(5.2)	(3.8)
Total comprehensive income for the period attributable to owners of the parent company	-	-	1.4	-	60.1	61.5
Transfers on disposal of property, plant and equipment and non-current assets classified as held for sale	-	-	(9.0)	-	9.0	-
Share based payments	-	-	-	0.4	0.1	0.5
Total equity at 20 August 2016	**2.1**	**700.0**	**283.4**	**6.9**	**(207.9)**	**784.5**

CASH FLOW STATEMENT
for the 52 weeks ended 20 August 2016

	52 weeks to 20 August 2016 £m	52 weeks to 22 August 2015 £m
Cash flows from operating activities		
Operating profit / (loss)	**213.5**	(321.8)
Share of post-tax profit from joint venture	**(0.4)**	(7.8)
Depreciation and amortisation	**9.8**	12.5
Profit on sale of property, plant and equipment and non-current assets classified as held for sale	**(28.8)**	(21.9)
Profit on disposal of joint venture	**(46.1)**	-
Impairment	**4.6**	16.4
Movement in valuation of properties	**10.5**	483.8
Goodwill charge	**13.9**	9.1
Share based payment expense recognised in profit	**0.5**	0.2
Increase in inventories	**(0.6)**	(0.1)
(Increase) / decrease in trade and other receivables	**(0.1)**	1.2
(Decrease) / increase in trade and other payables	**(4.5)**	5.1
Difference between pension contributions paid and amounts recognised in the income statement	**(1.0)**	(1.4)
Decrease in provisions and other liabilities	**(1.8)**	(0.8)
Cash generated from operations	**169.5**	174.5
Dividend received from joint venture	**-**	6.0
Income tax received	**-**	1.3
Net cash from operating activities	**169.5**	181.8
Cash flows from investing activities		
Purchase of property, plant and equipment		
- acquisitions	**(2.2)**	-
- investments	**(59.6)**	(46.2)
Proceeds from sale of property, plant and equipment	**21.7**	31.3
Cost on sale of operating leases	**-**	(0.2)
Proceeds from sale of non-current assets classified as held for sale	**113.8**	58.3
Proceeds from disposal of joint venture	**98.8**	-
Purchase of other intangible assets	**(0.6)**	(0.2)
Interest received	**2.1**	2.4
Net cash generated from investing activities	**174.0**	45.4
Cash flows from financing activities		
Proceeds from issue of ordinary share capital	**-**	50.0
Proceeds from issue of borrowings	**-**	7.0
Repayment of borrowings	**(142.7)**	(346.5)
Repayment of derivative financial instruments	**-**	(8.0)
Interest paid	**(106.4)**	(120.4)
Repayments of obligations under finance leases	**(0.2)**	(0.3)
Interest element of finance lease rental payments	**(0.1)**	(0.2)
Other restructuring cash flows	**-**	15.7
Net cash used in financing activities	**(249.4)**	(402.7)
Net increase / (decrease) in cash and cash equivalents	**94.1**	(175.5)
Cash and cash equivalents at beginning of period	**140.1**	315.6
Cash and cash equivalents at end of period	**234.2**	140.1

1. ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements presented in this document have been prepared in accordance with IFRS as adopted by the European Union. The Company's financial statements have been prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. The Company has taken advantage of the exemption provided under s408 of the Companies Act 2006 not to publish its individual income statement and related notes.

The consolidated financial statements of Punch Taverns plc and its subsidiary undertakings (together "the Group") are prepared under the historical cost convention, except where adopted IFRSs require an alternative treatment. The principal variations relate to financial instruments (IAS 39 "Financial instruments: recognition and measurement") and Property (IAS 16 "Property, Plant and Equipment")

New standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), becoming effective during the year, have not had a material impact on the Group's financial statements. The preliminary statement of results was approved by the Board on 8 November 2016. The preliminary statement is derived from but does not represent the full Group statutory financial statements of Punch Taverns plc and its subsidiaries which will be delivered to the Registrar of Companies in due course. The financial information for the 52 weeks ended 22 August 2015 has been extracted from the Annual Report and Financial Statements 2015, as filed with the Registrar of Companies. The audit reports for both periods presented were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain statements under section 498(2) or (3) Companies Act 2006 or equivalent preceding legislation.

Going Concern

The financial statements have been prepared on a going concern basis. The Directors have prepared detailed operating and cash flow forecasts, which cover a period of more than 12 months from the date of approval of these financial statements. These show that the Group has adequate funds for the foreseeable future to meet its liabilities as they fall due.

The Group is financed through two whole business securitisations, the Punch A Securitisation (£851 million of gross debt secured against 1,895 pubs) and the Punch B Securitisation (£566 million of gross debt secured against 1,329 pubs), as well as certain cash resources held across the Group.

On the 8 October 2014 the Group announced the successful completion of the restructuring of its securitisation arrangements, including the resetting of its financial covenants, with a £0.6 billion reduction in total net debt (including mark-to-market interest rate swaps).

Further details of the debt structure of the Punch A and Punch B securitisations following completion of the restructuring can be found in note 4 and also on the Punch Taverns website www.punchtavernsplc.com.

2. SEGMENTAL ANALYSIS

During the period, the Group reassessed its segments based on how the Group's operations are reviewed and managed. The business has been restructured into Core and Mercury divisions, each having its own clear strategy. The results for the 52 weeks to 22 August 2015 has been restated to reflect these revised segments. Each of these strategic business units consists of a number of cash generating units (CGUs), which are individual pubs. These CGUs generate their own revenues, which are consolidated to give the Group revenue and as a result, Group revenue is not reliant on one significant customer.

The Chief Operating Decision Maker, represented by the Board, reviews the performance of the Core and Mercury divisions separately, at an underlying EBITDA level, as included in the internal management reports.

The Group operates solely in the United Kingdom.

	52 weeks to 20 August 2016			
	Core £m	**Mercury £m**	**Unallocated £m**	**Total £m**
Drink revenue	**265.3**	**36.8**	**-**	**302.1**
Rental income	**83.7**	**9.0**	**-**	**92.7**
Other revenue	**9.8**	**2.2**	**-**	**12.0**
Underlying revenue	**358.8**	**48.0**	**-**	**406.8**
Underlying operating costs[1]	**(167.3)**	**(27.9)**	**(34.1)**	**(229.3)**
Share of post-tax profit from joint venture	**-**	**-**	**0.4**	**0.4**
EBITDA before non-underlying items	**191.5**	**20.1**	**(33.7)**	**177.9**
Underlying depreciation and amortisation				**(9.8)**
Goodwill charge	**(2.4)**	**(11.5)**		**(13.9)**
Operating non-underlying items				**59.3**
Net finance costs				**(115.2)**
Movement in fair value of interest rate swaps				**(38.2)**
UK income tax credit				**5.2**
Profit for the financial period attributable to owners of the parent company				**65.3**

	52 weeks to 22 August 2015 (Restated)			
	Core £m	Mercury £m	Unallocated £m	Total £m
Drink revenue	254.1	51.1	-	305.2
Rental income	89.0	13.8	-	102.8
Other revenue	9.8	3.0	-	12.8
Underlying revenue	352.9	67.9	-	420.8
Underlying operating costs[1]	(160.3)	(37.7)	(34.2)	(232.2)
Share of post-tax profit from joint venture	-	-	7.8	7.8
EBITDA before non-underlying items	192.6	30.2	(26.4)	196.4
Underlying depreciation and amortisation				(12.5)
Goodwill charge	(9.1)			(9.1)
Operating non-underlying items				(496.6)
Net finance costs				251.6
Movement in fair value of interest rate swaps				(35.0)
UK income tax credit				22.6
Loss for the financial period attributable to owners of the parent company				(82.6)

[1] Unallocated underlying operating costs represent corporate overheads that are not allocated down to the divisional performance.

3. NON-UNDERLYING ITEMS

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

	52 weeks to 20 August 2016 £m	52 weeks to 22 August 2015 £m
Operating non-underlying items		
Capital restructuring, redundancy and other one-off related costs	**(0.5)**	(18.3)
Profit on sale of property, plant and equipment and non-current assets classified as held for sale	**28.8**	21.9
Profit on sale of joint venture	**46.1**	-
Impairment losses	**(4.6)**	(16.4)
Movement in valuation of properties[1]	**(10.5)**	(483.8)
Goodwill charge[2]	**(13.9)**	(9.1)
	45.4	(505.7)
Finance income		
Profit on capital restructuring (note 4)	**-**	374.6
	-	374.6
Movement in fair value of interest rate swaps[3]	**(38.2)**	(35.0)
Total non-underlying items before tax	**7.2**	(166.1)
Tax		
Tax impact of non-underlying items	**13.3**	34.0
Change in standard rate of tax	**-**	(0.6)
Adjustments to tax in respect of prior periods	**3.0**	0.6
	16.3	34.0
Total non-underlying items after tax	**23.5**	(132.1)

[1] The movement in the valuation of properties of £10.5m (2015: £483.8m) comprises a downward valuation of £58.9m (2015: £523.8m) where the fair value of an asset is less than the net book value, offset by a credit of £48.4m (2015: £40.0m) where the fair value of an asset is greater than the net book value and the credit reverses a previous charge to the income statement for impairment.

[2] Represents the goodwill relating to those core pubs disposed of in the period and also the goodwill relating to pubs transferred or identified for transfer to Mercury.

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

4. CAPITAL RESTRUCTURING

Completion of restructuring in the prior period

On 8 October 2014 Punch Taverns plc announced the successful completion of restructuring proposals for the Punch A and Punch B securitisations. The impact of the restructuring reduced total net debt (including mark-to-market on interest rate swaps) by £0.6 billion. The Group also issued a total of 3,771,151,200 new ordinary shares in connection with the restructuring proposals, of which 1,273,005,000 was a firm placing at 3.93 pence per share.

On 13 October 2014 Punch Taverns plc announced the consolidation of its ordinary shares, as described in the combined circular and prospectus dated 18 August 2014, were effective. As a result of the share consolidation, the existing ordinary shares in Punch Taverns plc have been consolidated into consolidated ordinary shares on the basis of one consolidated ordinary share for every 20 existing ordinary shares.

Punch A debt structure:

Immediately following completion of the restructuring, the revised debt structure of the Punch A securitisation was as set out below:

Class of Notes	Notional	Cash coupon	PIK coupon	Maturity
Super Senior Hedge Notes	£123.4m	Libor	-	2021
A1 (F)	£202.5m	7.274%	-	2026
A1 (V)	£67.5m	7.274%	-	2026
A2 (F)	£137.4m	7.320%	-	2025
A2 (V)	£45.8m	7.320%	-	2025
M3	£300.0m	Libor+5.500%[1]	-	2027
B4	£89.9m	1.500%	13.500%	2028
Gross debt	£966.4m			

[1] An interest rate swap is in place to swap the Libor interest rate on the Class M3 floating rate note to a fixed rate of 5.954%

Punch B debt structure:

Immediately following completion of the restructuring, the revised debt structure of the Punch B securitisation was as set out below:

Class of Notes	Notional	Cash coupon	PIK coupon	Maturity
Super Senior Swap Loan	£49.0m	Libor+0.400%	-	2019
A3	£146.9m	7.369%	-	2021
A6	£220.0m	5.943%	-	2022
A7	£149.1m	5.267%	-	2024
B3	£72.9m	7.750%	-	2025
Gross debt	£637.9m			

Profit on capital restructuring:

	52 weeks to 22 August 2015 £m
Reduction in nominal debt	794.0
Cash payments	(271.1)
Equity issued	(196.5)
Class B3 note issued	7.0
Deferred issue costs written off	22.6
Loan fair value premiums written off	(1.9)
Other profits on capital restructuring	20.5
Profit on capital restructuring (note 3)	**374.6**

The £196.5m equity consideration comprised 2,498,146,197 shares issued at 7.86p. The firm placing of 1,273,005,000 shares at 3.93p generated £50.0m of cash to be used in the restructuring. Three new Ordinary shares were issued to the Company Secretary at the time, to facilitate a 1 for 20 share consolidation.

Further details of the debt structure of the Punch A and Punch B securitisations following completion of the restructuring can be found on the Punch website www.punchtavernsplc.com.

5. TAXATION

The effective rate of tax is different to the full rate of corporation tax. The differences are explained below:

	52 weeks to 20 August 2016			52 weeks to 22 August 2015		
	Underlying items £m	**Non-underlying items (note 3) £m**	**Total £m**	Underlying items £m	Non-underlying items (note 3) £m	Total £m
Profit / (loss) on ordinary activities before tax	**52.9**	**7.2**	**60.1**	60.9	(166.1)	(105.2)
Tax at current UK tax rate of 20.00% (August 2015: 20.61%)	**10.6**	**1.4**	**12.0**	12.6	(34.2)	(21.6)
Effects of:						
Net effect of expenses not deductible for tax purposes and non-taxable income (underlying items)	**0.5**	**-**	**0.5**	(1.2)	-	(1.2)
Adjustments to tax in respect of prior periods (non-underlying items)	**-**	**(3.0)**	**(3.0)**	-	(0.6)	(0.6)
Current period non-underlying charges / (credits):						
- Change in standard rate of tax	**-**	**-**	**-**	-	0.6	0.6
- (Income not chargeable for tax purposes) / expenses not deductible for tax purposes	**-**	**(14.7)**	**(14.7)**	-	0.2	0.2
Total tax charge / (credit) reported in the income statement	**11.1**	**(16.3)**	**(5.2)**	11.4	(34.0)	(22.6)

6. EARNINGS PER SHARE

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

Diluted earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive options).

As part of the restructuring proposals the Group issued 3,771,151,200 new ordinary shares on 8 October 2014, prior to the share consolidation. The weighted average number of ordinary shares outstanding in the periods leading up to the share issue has not been retrospectively adjusted for as per IAS 33: Earnings per share. The share issue resulted in an increase in cash resources and as the share issue was not offered to all existing shareholders it was deemed that there was no bonus element associated with this issue.

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

	52 weeks to 20 August 2016		52 weeks to 22 August 2015	
	Earnings £m	**Per share amount pence**	Earnings £m	Per share amount pence
Results attributable to ordinary shareholders:				
Basic earnings per share	**65.3**	**29.4**	(82.6)	(41.7)
Diluted earnings per share	**65.3**	**29.3**	(82.6)	(41.7)
Supplementary earnings per share figures:				
Basic earnings per share before non-underlying items	**41.8**	**18.8**	49.5	25.0
Diluted earnings per share before non-underlying items	**41.8**	**18.8**	49.5	25.0

The impact of dilutive ordinary shares is to increase weighted average shares by 836,807 (August 2015: 23,442) for employee share options.

	52 weeks to 20 August 2016 No. (m)	52 weeks to 22 August 2015 No. (m)
Basic weighted average number of shares	**221.9**	198.0
Long Term Incentive Plan	**0.8**	0.1
SAYE scheme	**0.1**	-
Diluted weighted average number of shares	**222.8**	198.1

7. NET DEBT

(a) Analysis of net debt

	20 August 2016 £m	22 August 2015 £m
Secured loan notes	**(1,416.6)**	(1,545.9)
Cash and cash equivalents	**234.2**	140.1
Nominal value of net debt	**(1,182.4)**	(1,405.8)
Capitalised debt issue costs	**1.2**	1.4
Fair value adjustments on acquisition of secured loan notes	**(10.5)**	(12.8)
Fair value of interest rate swaps	**(169.7)**	(132.3)
Finance lease obligations	**(2.0)**	(2.1)
Net debt	**(1,363.4)**	(1,551.6)
Balance sheet:		
Borrowings	**(1,427.9)**	(1,559.4)
Derivative financial instruments	**(169.7)**	(132.3)
Cash and cash equivalents	**234.2**	140.1
Net debt	**(1,363.4)**	(1,551.6)

(b) Analysis of changes in net debt

	At 23 August 2014 £m	Cash flow £m	Non-cash movements £m	At 22 August 2015 £m	Cash flow £m	Non-cash movements £m	**At 20 August 2016 £m**
Current assets							
Cash at bank and in hand	315.6	(175.5)	-	140.1	94.1	-	**234.2**
Restricted cash	315.0	(315.0)	-	-	-	-	**-**
	630.6	(490.5)	-	140.1	94.1	-	**234.2**
Debt							
Borrowings	(2,269.8)	339.8	370.6	(1,559.4)	142.9	(11.4)	**(1,427.9)**
Cash-backed borrowings	(315.0)	315.0	-	-	-	-	**-**
Derivative financial instruments	(278.5)	8.0	138.2	(132.3)	-	(37.4)	**(169.7)**
	(2,863.3)	662.8	508.8	(1,691.7)	142.9	(48.8)	**(1,597.6)**
Net debt per balance sheet	(2,232.7)	172.3	508.8	(1,551.6)	237.0	(48.8)	**(1,363.4)**

Net debt incorporates the Group’s borrowings, cash-backed borrowings, derivative financial instruments and obligations under finance leases, less cash and cash equivalents and restricted cash.

Non-cash movements relate to amortisation of deferred issue costs and premium on loan notes (including amounts written off on capital restructuring (note 4)), accrued B4 PIK interest and fair value movement in derivative financial instruments and profit on the purchase of securitised debt.

8. OUR KEY RISKS AND UNCERTAINTIES

Market and economic risks

Economic climate and market risk

Punch's business operations rely upon the spending capacity of consumers. The basic cost of living could rise at a faster rate than income and further challenges such as duty increases or the national living wage could affect our publican's businesses and Punch's revenue.

On 23 June 2016, the United Kingdom (UK) voted to leave the European Union (EU) ("Brexit"). The exact nature, process and timing of the UK's exit from the EU are unknown. Brexit could have impact on consumer spending habits, and therefore our publican's sales, either due to economic slowdown, increased inflation or increases in interest rates. Similarly, the cost of running pubs could increase as import prices in the supply chain rise, or the cost of labour increases.

Social and demographic changes and the public attitudes towards the consumption of alcohol may continue to change and the Group may be unable to respond to changing consumer habits and taste.

Mitigating actions and controls
- We carry out regular reviews of the impact of economic conditions on our budget and strategic plans.
- We continue to monitor our publicans via a Support Tool, together with analysis to highlight potential failures, and our Punch Development Managers continue to grow and diversify our publicans' business.
- We are committed to developing an estate of well invested, high quality pubs. We have an experienced Concept Development Team, supported by marketing and training teams which is expected to drive further concept development in the estate over the coming years.

Property valuation

Fluctuations in the UK property market as well as the current uncertain market conditions and planning restrictions which affect the ability to convert pubs for alternative use could impact the value of Punch's portfolio and our ability to dispose of pubs at an appropriate value.

Property valuations also have an implication for the overall value of the group and impact on financial covenants.

Mitigating actions and controls
- The Group commissioned an open market valuation of our properties during the second half of the year by qualified external valuers in accordance with RICS Valuation Standards. These valuations comply with the requirements of International Financial Reporting Standards.
- We have conducted full estate reviews and regularly update these to allow us to assess the future strategy for pubs within the estate.
- This has allowed us to invest where appropriate; consider possible alternative use; or dispose of those pubs which no longer fit our future strategy.
- We invested £60 million on developing and improving the quality of our estate during the year.
- We carry out an annual review for any indicators of impairment.

Financial risks

Liquidity and covenant risk

Punch's capital structure is made up of debt, issued share capital and reserves. Punch is financed through two whole business securitisation, the Punch A Securitisation and the Punch B Securitisation, as well as cash resources held across the Group. The key short-term liquidity risk is the requirement to meet scheduled debt service costs as they fall due.

Both of Punch's securitisation structures have financial covenants.

Mitigating actions and controls

- Cash flow forecasts are regularly produced to assist management in identifying liquidity requirements and are stress-tested for possible scenarios.
- Cash balances are invested in short-term deposits such that they are readily available to settle short-term liabilities or fund capital additions.
- Covenants are closely monitored and stress-tested to ensure we are able to generate sufficient returns to service our debt and meet our covenant requirements

Interest rate risk

Punch is exposed to interest rate risk from loan notes and borrows at both fixed and floating rates of interest. The use of fixed rate borrowings and derivative financial instruments exposes Punch to fair value interest rate risk such that Punch would not benefit from falls in interest rates and would be exposed to unplanned costs, such as breakage costs, should debt or derivative financial instruments be restructured or repaid early.

Mitigating actions and controls

- Punch employs derivative financial instruments such as interest rate swaps to generate the desired interest rate profile.
- Punch has taken out derivative financial instruments such that 98% of all external debt (August 2015: 91%) was either at fixed rates or was converted to fixed rates as a result of swap arrangements, reducing our exposure to changes in interest rates.
- Future debt requirements are closely monitored to assist management in identifying the appropriate strategy for interest rate hedge arrangements.

Operational and people risks

People risks

Failure to recruit, train and retain successful publicans and high calibre employees for our support teams may impact on our ability to deliver our strategic plan.

Mitigating actions and controls

- We provide industry leading induction training and coaching programmes for our new publicans.
- We undertake succession planning at all levels to ensure we attract and retain high calibre people.
- We carry out an annual Employee Engagement Survey and regular listening groups to obtain direct feedback from our employees.
- We have a remuneration strategy to ensure our teams are paid fairly and competitively.

Implementation and retail contracts

There is a risk that there is not enough expertise, resource or time to successfully roll-out the new Retail contracts in the desired timeframe.

Mitigating actions and controls

- The Group has been developing the necessary infrastructure to support the new strategy, including the recruitment of high quality, experienced individuals into areas of the business such as operations and concept development and is closely monitoring results.

Regulatory risks

Regulation of the tied pub model

Business, Enterprise and Employment Act 2015, came into effect on 21 July 2016. The legislation has three key aspects, a statutory code, the appointment of an independent adjudicator and a Market Rent Only (MRO) option. The MRO option enables some occupational lessees to elect to opt-out of the drinks supply tie at certain points during the term of their lease agreement and therefore occupy the premises on a standard commercial property lease, paying rent only.

In the event that a lessee elected to invoke the MRO option, whilst our income derived from the supply of tied drinks products would be partially offset by increases in rent, we are aware of the potential for our total income to be adversely affected.

In addition, there is a risk that other changes to the regulations relating to the sale of alcohol could have an impact on the Group's business and the ability of our publicans to operate their pubs.

These risks include changes to licensing legislation, increases to alcohol duties imposed by the Government and the impact of social responsibility issues on the industry in general.

Mitigating actions and controls

- We have undertaken a number of actions, including the introduction of new systems for the recording of meetings, development of business plans and the information provided to new entrants to our business.
- While the take-up of the MRO option will only become clear over time through the cycle of five yearly rent reviews and renewals, our current expectations are that the majority of the estate will continue to operate under, and enjoy the benefits of the tied-drinks model.
- The Group has taken a number of operational actions to address the implications on the Group of the implementation of the legislation, including the introduction of new managed and Retail contract pub operating formats, modernisation of pub tenancy agreements and development of new commercial free-of-tie lease agreements.
- Punch works closely with our publicans and the rest of the industry to address the key issues facing the pub sector.
- We ensure that our training covers all aspects of licensing requirements and have due diligence in place to confirm that our pubs meet relevant licensing legislation.
- Punch works closely with local Licensing Authorities, to ensure individual pub licensing requirements are met and any issues are highlighted as soon as possible.