

IMPORTANT NOTICE

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IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached prospectus (the "**Second Issue Prospectus**") and you are therefore required to read this disclaimer page carefully before accessing, reading or making any other use of the Second Issue Prospectus. By accessing the Second Issue Prospectus, you agree (in addition to giving the representation below) to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from Spirit Issuer plc (the "**Issuer**"), Spirit Pub Company plc or any of its affiliates (together, the "**Spirit Group**") or Goldman Sachs International (the "**Lead Manager**") as a result of such access. Capitalised terms used but not otherwise defined in this disclaimer shall have the meaning given to them in the Second Issue Prospectus.

THIS ELECTRONIC TRANSMISSION DOES NOT CONTAIN OR CONSTITUTE AN OFFER OF, OR THE SOLICITATION OF AN OFFER TO BUY OR SUBSCRIBE FOR, SECURITIES TO ANY PERSON IN THE UNITED STATES OR IN ANY OTHER JURISDICTION IN WHICH SUCH AN OFFER OR SOLICITATION WOULD BE PROHIBITED BY LAW. SECURITIES MAY NOT BE OFFERED, SOLD OR DELIVERED IN THE UNITED STATES ABSENT REGISTRATION UNDER, OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF, THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"). THE SECURITIES REFERRED TO IN THE ATTACHED SECOND ISSUE PROSPECTUS HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE SECURITIES REFERRED TO IN THE SECOND ISSUE PROSPECTUS MAY NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT).

THE ATTACHED SECOND ISSUE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE SECOND ISSUE PROSPECTUS IS ONLY ADDRESSED TO PERSONS OUTSIDE THE UNITED STATES AND TO PERSONS TO WHOM IT IS OTHERWISE LAWFUL TO SEND THE SECOND ISSUE PROSPECTUS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF APPLICABLE LAWS.

Confirmation of your representation: In order to be eligible to view the attached Second Issue Prospectus or make an investment decision with respect to the securities described in the attached Second Issue Prospectus (the "**Second Issue Debenture Bonds**"), you must be outside the United States and otherwise able to acquire the Second Issue Debenture Bonds in compliance with applicable law and regulation. The Second Issue Prospectus was sent at your request and, by accessing the Second Issue Prospectus, you shall be deemed to have represented to the Issuer and the Lead Manager that (i) you are not a U.S. person (within the meaning of Regulation S) or acting for the account or benefit of a U.S. person, (ii) the electronic mail address that you have given to us and to which the Second Issue Prospectus has been delivered is not located in the United States, (iii) you are a person to whom it is lawful to send the Second Issue Prospectus under applicable laws, and (iv) you consent to delivery of the Second Issue Prospectus by electronic transmission to you.

The attached Second Issue Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, any member of the Spirit Group, the Lead Manager, Deutsche Trustee Company Limited (the "**Debenture Bond Trustee**") or any person who controls, or any director, officer, employee, agent or affiliate of, any such person accepts any liability or responsibility whatsoever in respect of any difference between the Second Issue Prospectus distributed to you in electronic format and the hard copy version available to you (subject to the restrictions set herein) on request from the Lead Manager.

You are also reminded that the Second Issue Prospectus has been sent to you on the basis that you are a person into whose possession the Second Issue Prospectus may lawfully be delivered in accordance with the laws of the jurisdiction in which you are located or resident and you may not, nor are you authorised to, distribute, publish or deliver the Second Issue Prospectus to any other person.

The Second Issue Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply.

Any materials relating to the Second Issue Debenture Bonds do not constitute, and may not be used in connection with, any form of offer or solicitation in any place where such offers or solicitations are not permitted by law. If a jurisdiction requires that an offering be made by a licensed broker or dealer and either the Lead Manager or any of its affiliates is such a licensed broker or dealer in that jurisdiction, such invitation shall be deemed to be made by the Lead Manager or such affiliate, as the case may be, on behalf of the Issuer in such jurisdiction.

The distribution of the Second Issue Prospectus in certain jurisdictions may be restricted by law. Persons into whose possession the Second Issue Prospectus comes are required by the Issuer and the Lead Manager to inform themselves about, and to observe, any such restrictions.

Prospectus dated 6 November 2013



SPIRIT ISSUER PLC

(incorporated in England and Wales with limited liability under registered number 05266745)

£101,293,000 Floating Rate Class A6 Secured Debenture Bonds due 2036

£58,352,000 Fixed/Floating Rate Class A7 Secured Debenture Bonds due 2036

Spirit Issuer plc, a public limited company incorporated under the laws of England and Wales (the **Issuer**), issued £101,293,000 Floating Rate Class A6 Secured Debenture Bonds due 2036 (the **Class A6 Debenture Bonds**) and £58,352,000 Fixed/Floating Rate Class A7 Secured Debenture Bonds due 2036 (the **Class A7 Debenture Bonds** and, together with the Class A6 Debenture Bonds, the **Second Issue Debenture Bonds**) on 21 October 2013 (the **Second Issue Date**).

It is anticipated that, on or about 7 November 2013 (the **Second Closing Date**), the Issuer will receive the proceeds of the issue of the Second Issue Debenture Bonds and, upon receipt, lend such proceeds to Spirit Pub Company (Managed) Limited (the **Managed Borrower**) and Spirit Pub Company (Leased) Limited (the **Leased Borrower** and, together with the Managed Borrower, the **Borrowers**) pursuant to a facility agreement between, among others, the Issuer and the Borrowers (the **Issuer/Borrower Facility Agreement**) and certain other Transaction Documents (as defined herein). The Borrowers, which each own an estate of public houses located in the United Kingdom, have granted security over their assets in support of their obligations under, among other things, the Issuer/Borrower Facility Agreement, and the Issuer has granted security over its assets (including its rights in respect of the security granted by the Borrowers) in support of its obligations under, among other things, the Second Issue Debenture Bonds, all as more particularly described in herein.

This document (the **Second Issue Prospectus**) comprises a prospectus for the purposes of Article 5 of Directive 2003/71/EC (the **Prospectus Directive**). This Second Issue Prospectus has been approved by the Central Bank of Ireland (the **Central Bank**), as competent authority under the Prospectus Directive. The Central Bank only approves this Second Issue Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive and such approval relates only to the Second Issue Debenture Bonds which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**) and/or which are to be offered to the public in any Member State of the European Economic Area. Application has been made to the Irish Stock Exchange for the Second Issue Debenture Bonds to be admitted to the official list (the **Official List**) and trading on its regulated market (the **Main Securities Market**). The Main Securities Market is a regulated market for the purposes of the Markets in Financial Instruments Directive.

The Second Issue Debenture Bonds have not been and will not be registered under U.S. federal securities laws. The Second Issue Debenture Bonds are being offered and sold only to non-U.S. persons outside of the United States in accordance with Regulation S under the U.S. Securities Act of 1933, as amended.

See “*Subscription and Sale*”, below for additional information regarding eligible offerees and transfer restrictions.

The Second Issue Debenture Bonds are constituted pursuant to a supplemental trust deed dated 21 October 2013 between the Issuer, Deutsche Trustee Company Limited (the **Debenture Bond Trustee**) as trustee for the holders from time to time of the Debenture Bonds (as defined below) and Ambac Assurance UK Limited (**Ambac**) (the **First Supplemental Trust Deed**) and a trust deed dated 25 November 2004 (the **Original Closing Date**) (as supplemented, amended and restated by the First Supplemental Trust Deed) between the Issuer, the Debenture Bond Trustee and Ambac (the **Trust Deed**).

The Class A6 Debenture Bonds are initially represented by a temporary global debenture bond in bearer form (the **Class A6 Temporary Global Debenture Bond**) and the Class A7 Debenture Bonds are initially represented by a temporary global debenture bond in bearer form (the **Class A7 Temporary Global Debenture Bond** and, together with the Class A6 Temporary Global Debenture Bond, the **Second Issue Temporary Global Debenture Bonds**), in each case without interest coupons or talons attached, which represent the aggregate principal amount outstanding of, respectively, the Class A6 Debenture Bonds and the Class A7 Debenture Bonds.

The Second Issue Temporary Global Debenture Bonds were on the Second Issue Date, deposited on behalf of the holders of the Second Issue Debenture Bonds with Deutsche Bank AG, London Branch, as common depositary (the **Common Depositary**) for Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) and Euroclear Bank S.A./N.V. (**Euroclear**). Interests in the Class A6 Temporary Global Debenture Bond and the Class A7 Temporary Global Debenture Bond will be exchangeable on the Exchange Date (as defined therein), upon certification of non-U.S. beneficial ownership by Euroclear or Clearstream, Luxembourg to the Issuer, for interests in a permanent global bond representing, respectively, the Class A6 Debenture Bonds (the **Class A6 Permanent Global Debenture Bond**) and the Class A7 Debenture Bonds (the **Class A7 Permanent Global Debenture Bond** and, together with the Class A6 Permanent Global Debenture Bond, the **Second Issue Permanent Global Debenture Bonds**), in each case in bearer form without coupons or talons attached, which will also be deposited with the Common Depositary. The Second Issue Permanent Global Debenture Bonds will be exchangeable for definitive bonds issued in bearer form in the limited circumstances described in the section entitled “*Global Second Issue Debenture Bonds*”, below.

The Second Issue Debenture Bonds are in bearer form for U.S. tax purposes and, therefore, are subject to U.S. tax law requirements. Accordingly, the Second Issue Debenture Bonds may not be offered, sold or delivered within the United States and its possessions or to U.S. persons.

Interest on the Second Issue Debenture Bonds will be payable by reference to successive Interest Periods (as defined in the terms and conditions of the Debenture Bonds (the **Conditions**)). Interest will be payable quarterly in arrear on 28 March, 28 June, 28 September and 28 December in each year subject to adjustment for non-business days (each, an **Interest Payment Date**). The first Interest Period in respect of the Second Issue Debenture Bonds will commence on (and include) the Second Closing Date and end on (but exclude) the Interest Payment Date falling in December 2013.

The rate of interest payable in respect of the Class A6 Debenture Bonds will be (i) up to (but excluding) the Interest Payment Date falling in September 2018 (the **Class A6 Step-Up Date**), the London Interbank Offered Rate (**LIBOR**) for three-month Sterling deposits (being, in the case of the first Interest Period, the rate applicable to the Original Debenture Bonds (as defined below) for such Interest Period) plus a margin of 1.80 per cent. per annum (the **Class A6 Margin**) and (ii) from (and including) the Class A6 Step-Up

Date, LIBOR plus the Class A6 Margin plus a further margin of 1.50 per cent. per annum (the **Class A6 Step-Up Margin**). The rate of interest payable in respect of the Class A7 Debenture Bonds will be (i) up to (but excluding) the Interest Payment Date falling in December 2014, 5.860 per cent., per annum; (ii) from (and including) the Interest Payment Date falling in December 2014 to (but excluding) the Interest Payment Date falling in September 2018 (the **Class A7 Step-Up Date**), LIBOR for three-month sterling deposits plus a margin of 3.95 per cent. per annum (the **Class A7 Margin**); and (iii) from (and including) the Class A7 Step-Up Date, LIBOR plus the Class A7 Margin plus a further margin of 1.50 per cent. per annum (the **Class A7 Step-Up Margin**).

The Second Issue Debenture Bonds will be redeemed in full on the Interest Payment Date falling in December 2036 and will be subject to optional redemption and partial redemption before their stated maturity date in the specific circumstances described in the Conditions.

If any withholding or deduction for or on account of tax is required by applicable law, payments of interest on, repayments of principal of, and payments of premium (if any) on the Second Issue Debenture Bonds will be made subject to such withholding or deduction, without the Issuer or any other party being obliged to pay any additional amount as a consequence.

Previous Debenture Bond issuance by the Issuer

The Issuer issued the £150,000,000 Floating Rate Class A1 Secured Debenture Bonds due 2028 (the **Class A1 Debenture Bonds**), the £200,000,000 Floating Rate Class A2 Secured Debenture Bonds due 2031 (the **Class A2 Debenture Bonds**), the £250,000,000 Fixed/Floating Rate Class A3 Secured Debenture Bonds due 2021 (the **Class A3 Debenture Bonds**), the £350,000,000 Fixed/Floating Rate Class A4 Secured Debenture Bonds due 2027 (the **Class A4 Debenture Bonds**) and the £300,000,000 Fixed/Floating Rate Class A5 Secured Debenture Bonds due 2034 (the **Class A5 Debenture Bonds** and, together with the Class A1 Debenture Bonds, the Class A2 Debenture Bonds, the Class A3 Debenture Bonds and the Class A4 Debenture Bonds, (the **Original Debenture Bonds**) on the Original Closing Date.

The Original Debenture Bonds are also constituted by the Trust Deed and governed by the Conditions and the Original Debenture Bonds and the Second Issue Debenture Bonds (together, the **Debenture Bonds**) form part of a single consolidated financing structure, as described in more detail in this Second Issue Prospectus. A number of the Transaction Documents governing that financing structure were, on the Second Issue Date, supplemented, amended and/or restated to reflect the constitution and issue of the Second Issue Debenture Bonds.

Tender offer for certain Class A1 Debenture Bonds and Class A3 Debenture Bonds

On 22 October 2013, Spirit Parent Limited (**SPL**) invited holders of the Class A1 Debenture Bonds to tender such Debenture Bonds to SPL in return for an equivalent amount of Class A6 Debenture Bonds and a cash payment equal to the accrued but unpaid interest on such Class A1 Debenture Bonds and invited holders of the Class A3 Debenture Bonds to tender such Debenture Bonds to SPL in return for Class A7 Debenture Bonds and a cash payment equal to the accrued but unpaid interest on such Class A3 Debenture Bonds (collectively, the **Tender Offer**). The Tender Offer was subject to a number of conditions (including as to the level of acceptances), as set out in a memorandum dated 22 October 2013 (the **Tender Offer Memorandum**). SPL announced on 4 November 2013 that such conditions had been satisfied and that it would be acquiring £101,293,000 in outstanding principal amount of the Class A1 Debenture Bonds and £58,352,000 in outstanding principal amount of the Class A3 Debenture Bonds pursuant to the Tender Offer. In connection with such acquisition, it is anticipated that SPL will acquire all

of the Second Issue Debenture Bonds from the initial subscriber on the Second Closing Date and deliver such Second Issue Debenture Bonds as consideration for the acquisition of the Class A1 Debenture Bonds and Class A3 Debenture Bonds pursuant to the Tender Offer.

It is anticipated that the Borrowers will, using the funds to be advanced to them under the Issuer/Borrower Facility Agreement by the Issuer on the Second Closing Date from the proceeds of the issue of the Second Issue Debenture Bonds and cash standing to the credit of their Operating Accounts, acquire any Class A1 Debenture Bonds and Class A3 Debenture Bonds acquired by SPL pursuant to the Tender Offer and then surrender them to the Issuer, in consideration for the repayment, discharge and release of the corresponding loans under the Issuer/Borrower Facility Agreement.

Obligations of the Issuer only

The Second Issue Debenture Bonds will be obligations of the Issuer only and will not be guaranteed by, or be the responsibility of, any other person. It should be noted, in particular, that the Second Issue Debenture Bonds will not be obligations of, and will not be guaranteed by, Ambac, the Debenture Bond Trustee, the Borrower Group Security Trustee, the Issuer Security Trustee, the Lead Manager, the Liquidity Facility Provider, the Liquidity Facility Agent, the Hedge Provider, the Account Bank, the Agent Bank, the Paying Agents, any Obligor (each as referred to herein) or any other company in the Spirit Group (as referred to herein).

Without limiting the generality of the foregoing, potential investors in the Second Issue Debenture Bonds should note that the Second Issue Debenture Bonds do not benefit from the Ambac Financial Guarantee (as defined in the Conditions).

Ratings

It is expected that the Second Issue Debenture Bonds will, on the Second Closing Date, be assigned a “BB (sf)” rating by Standard & Poor’s Credit Market Services Europe Limited (being one of the entities through which Standard & Poor’s Ratings Services’s business operations in the European Union are currently conducted) (**S&P**), a “BB” rating by Fitch Ratings Limited (**Fitch**) and a “Ba2 (sf)” rating by Moody’s Investors Service Limited (**Moody’s** and, together with S&P and Fitch, the **Rating Agencies**). **Such ratings do not address the likelihood of payment of Step-Up Amounts (as defined in the Conditions) or any redemption premium in respect of the Second Issue Debenture Bonds. The payment of Step-Up Amounts and redemption premia in respect of the Second Issue Debenture Bonds is subordinated to, among other things, the payment of interest on and the repayment of principal of the Debenture Bonds. The ratings also do not address the likelihood or timing of any payments under the “cash sweep” provisions in Condition 6(b)(B)(iii) (Repayment, Purchase and Cancellation – Scheduled and mandatory redemption – Mandatory redemption). A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation, and each security rating should be evaluated independently of any other rating. A security rating, among other things, will depend on certain underlying characteristics of the Borrowers’ business from time to time.**

Risk Factors

For a discussion of certain risks and other factors that should be considered in connection with an investment in the Second Issue Debenture Bonds, see the section entitled “Risk Factors”, below.

This Second Issue Prospectus may only be used for the purposes for which it is published.

Lead Manager

GOLDMAN SACHS INTERNATIONAL

The date of this Second Issue Prospectus is 6 November 2013

NOTICE TO INVESTORS

Responsibility Statement

The Issuer accepts responsibility for the information contained in this Second Issue Prospectus, and confirms that, to the best of its knowledge (having taken all reasonable care to ensure that such is the case), the information contained in this Second Issue Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Colliers International Property Advisors UK LLP accepts responsibility for the information contained in the Second Issue Valuation Report as set out in this Second Issue Prospectus, and confirms that, to the best of its knowledge (having taken all reasonable care to ensure that such is the case), the information contained in this Second Issue Valuation Report is in accordance with the facts and does not omit anything likely to affect the import of such information.

For the avoidance of doubt, Ambac does not accept any responsibility for the contents of this Second Issue Prospectus or for any other statements made or purported to be made by the Issuer, any member of the Spirit Group or the Lead Manager (or any of their affiliates) or on its behalf in connection with the Issuer, the other parties to the Transaction Documents, any Borrower, any Charging Company, any other member of the Spirit Group, or the issue and offering of the Second Issue Debenture Bonds. Ambac accordingly disclaims all and any liability, whether arising in tort or contract or otherwise, which it might otherwise have in respect of this Second Issue Prospectus or any such statement.

Representations about the Second Issue Debenture Bonds

No person is authorised to give any information or to make any representation in connection with the offering or sale of the Second Issue Debenture Bonds other than those contained in this Second Issue Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Borrowers or any other member of Spirit Group, the Debenture Bond Trustee, the Borrower Group Security Trustee, the Issuer Security Trustee, the Lead Manager, Ambac or any other party to the Transaction Documents or any of their respective affiliates or advisers. Neither the delivery of this Second Issue Prospectus nor any sale, allotment or solicitation made in connection with the offering of the Second Issue Debenture Bonds shall, under any circumstances, create any implication or constitute a representation that there has been no change in the affairs of the Issuer or any member of the Spirit Group, or in the other information contained herein, since the date hereof.

Financial condition of the Issuer

Neither the delivery of this Second Issue Prospectus nor any offer, sale or solicitation made in connection with the issue or subsequent re-sale of the Second Issue Debenture Bonds 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 Spirit Group or in any of the other information contained herein, since the date hereof or that the information contained herein is correct at any time subsequent to the date hereof.

Summary of selling restrictions

This Second Issue Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Second Issue Debenture Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The distribution of this Second Issue Prospectus and the offer or sale of the Second Issue Debenture Bonds may be restricted by law in certain jurisdictions. Neither the Issuer nor the Lead Manager represent that this Second Issue Prospectus may be lawfully distributed, or that the Second Issue Debenture Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Lead Manager which is intended to permit a public offering of the Second Issue Debenture Bonds or the distribution of this Second Issue Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Second Issue Debenture Bonds may be offered or sold, directly or indirectly, and neither this Second Issue Prospectus nor any advertisement or other offering material may be distributed or published, in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Second Issue Prospectus or any Second Issue Debenture Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Second Issue Prospectus and the offering and sale of Second Issue Debenture Bonds. In particular, there are restrictions on the distribution of this Second Issue Prospectus and the offer and sale of Second Issue Debenture Bonds in the United Kingdom and the United States. See “*Subscription and Sale*”, below.

Currency

References in this Second Issue Prospectus to **£, pounds, Sterling** or **GBP** are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland (the **United Kingdom**). References in this Second Issue Prospectus to **€, euro** or **EUR** are to the single currency introduced at the third stage of European Economic and Monetary Union pursuant what is now the Treaty on the Functioning of the European Union, as amended from time to time. References in this Second Issue Prospectus to **\$, dollars** or **USD** are to the lawful currency for the time being of the United States of America (the **United States**).

Interpretation

Capitalised terms used in this Second Issue Prospectus, unless otherwise indicated, have the meanings set out in this Second Issue Prospectus. An index of terms defined in this Second Issue Prospectus is included in the section entitled “*Index of Defined Terms*”, below.

Forward looking statements

This Second Issue Prospectus contains forward looking statements. These forward looking statements include certain of the statements under the headings “*Risk Factors*”, “*Overview*”, “*Business of the Spirit Group*” and “*Overview of the United Kingdom Pub Industry*” and elsewhere regarding future events or prospects. Statements containing the words “believe”, “expect”, “intend”, “anticipate”, “will”, “positioned”, “project”, “risk”, “plan”, “may”, “estimate” or, in each case, their negative and words of similar meaning are forward looking statements.

By their nature, forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward looking statements are not guarantees of future performance and the Issuer's and the Spirit Group's actual financial condition, results of operations and cash flows, and the development of the industry in which the Spirit Group operates, may differ materially from those made in or suggested by the forward looking statements contained in this Second Issue Prospectus. In addition, even if the Issuer's and the Spirit Group's financial condition, results of operations and cash flows, and the development of the industry in which the Spirit Group operates, are consistent with the forward looking statements contained in this Second Issue Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. Important facts that could cause the Issuer's and the Spirit Group's actual results of operations, financial condition or cash flows to differ from their current expectations or otherwise adversely affect holders of the Second Issue Debenture Bonds include, but are not limited to:

- the Spirit Group's and the Issuer's substantial leverage and ability to service their debts;
- the Spirit Group's and the Issuer's exposure to changes in interest rates;
- the Spirit Group's and the Issuer's incurrence of substantially more debt;
- restrictions imposed by the Spirit Group's and the Issuer's debt obligations and their corresponding limitations on their ability to take various actions;
- the Spirit Group's failure to generate sufficient cash flow to fund its operations or capital expenditures;
- competition from other companies in the Spirit Group's industry and the Spirit Group's ability to retain or increase its market share;
- the difficulty of predicting future demand for pubs;
- the Spirit Group's failure to introduce successfully enhanced products and services;
- the Spirit Group's reliance on others to provide it with quality goods and services;
- the Spirit Group's failure to attract or retain employees and/or licensees of a sufficient calibre; and
- risks relating to the structure and terms of the Debenture Bonds and other considerations in connection therewith.

Consequently, the Spirit Group's current business plan, anticipated actions and future financial condition, results of operations and cash flows, as well as the anticipated development of the industry in which it operates, may differ from those expressed in any forward looking statements made herein. These forward looking statements are uncertain and any such statements may prove to be incorrect. Actual results and developments may be materially different from those expressed or implied by such statements.

This Second Issue Prospectus, including the sections entitled “*Risk Factors*”, “*Overview*”, “*Business of the Spirit Group*” and “*Overview of the United Kingdom Pub Industry*”, below, should be read in full for a more complete discussion of the factors that could affect the Issuer’s and the Spirit Group’s future performance and the industry in which the Spirit Group operates.

The Issuer is currently subject, with respect to the Original Debenture Bonds, to the ongoing reporting requirements of the Luxembourg Stock Exchange. It is intended that it will, on and from the Second Issue Date and with respect to the Second Issue Debenture Bonds, become subject to the ongoing reporting requirements of the Main Securities Market of the Irish Stock Exchange.

Apart from any requirements pursuant to the laws and regulations discussed above, the Issuer has no obligation to, and does not intend to, publicly update or revise any forward looking statements in this Second Issue Prospectus, whether as a result of new information, future events or otherwise. Readers are cautioned not to rely unduly on forward looking statements when evaluating the information presented in this Second Issue Prospectus.

Arthur Cox Listing Services Limited

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Second Issue Debenture Bonds and is not itself seeking admission of the Second Issue Debenture Bonds to the Official List of the Irish Stock Exchange or to trading on the Main Securities Market of the Irish Stock Exchange for the purposes of the Prospectus Directive.

Rating Agencies

Standard & Poor’s Credit Market Services Europe Limited, Moody’s Investors Service Limited and Fitch Ratings Limited are established in the EU and are registered under Regulation (EC) No. 1060/2009.

Spirit Group

In this Second Issue Prospectus:

Spirit Group means Spirit Pub Company plc, a public limited company incorporated in England and Wales (registered number 07662835), and each of its subsidiary undertakings, as such term is defined in section 1162 of the Companies Act 2006 (and a company shall be treated, for the purposes only of the membership requirement contained in sub-sections 1162(2)(b) and (d) respectively, as a member of another company even if its shares in that other company are registered in the name of (a) another person (or its nominee), whether by way of security or in connection with the taking of security, or (b) its nominee); and

Borrower Group means the Borrowers, Spirit Pubs Debenture Holdings Limited (referred to as the ***Borrower Group Parent***), Spirit Pubs Parent Limited (referred to as ***New ParentCo***), Spirit (SGL) Limited and Spirit Retail BidCo Limited and its subsidiaries (all of which are members of the Spirit Group).

The recourse of holders of the Debenture Bonds (including the Second Issue Debenture Bonds) to the Spirit Group is (with certain specific exceptions) limited to their indirect interest (via the security granted by the Issuer which is held on trust in favour of, *inter alios*, such Debenture Bondholders) in the Issuer's rights against the Borrowers (in respect of the loans advanced to them, and as guarantors of each other's obligations, under the Issuer/Borrower Facility Agreement and providers of security in respect thereof), the Borrower Group Parent and New ParentCo (as guarantors of the Borrowers' obligations under the Issuer/Borrower Facility Agreement and providers of security in respect thereof) and certain other members of the Borrower Group (as providers of security in respect of the Borrowers', the Borrower Group Parent's and New ParentCo's obligations). However, the Borrower Group is dependent upon, and affected by the performance of, the wider Spirit Group in certain respects (as discussed in "*Risk Factors*", below), and so certain sections of this Second Issue Prospectus disclose information about the whole Spirit Group, or specific companies within it which are not within the Borrower Group.

The companies within the Borrower Group, and the key companies within the Spirit Group which are outside the Borrower Group, are described in "*Summary Details of Certain Members of the Spirit Group*", below, and the overall corporate structure of the Spirit Group is set out in "*Corporate Structure as at the Second Closing Date*", below.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

This document should be read and construed in conjunction with:

- (a) the audited annual financial statements of the Issuer for the financial year ended 18 August 2012, together with the audit report thereon, which appear on page 5 of the Issuer's annual report and accounts for such financial year, and which are available at:
<http://www.spiritpubcompany.com/spirit/uploads/debtinvestors/Slplc2012.pdf>
- (b) the audited annual financial statements of the Issuer for the financial year ended 20 August 2011, together with the audit report thereon, which appear on page 4 of the Issuer's annual report and accounts for such financial year, and which are available at:
<http://www.spiritpubcompany.com/spirit/uploads/debtinvestors/Slplc2011.pdf>
- (c) the audited annual financial statements of the Managed Borrower for the financial year ended 18 August 2012, together with the audit report thereon, which appear on page 5 of the Managed Borrower's annual report and accounts for such financial year, and which are available at:
<http://www.spiritpubcompany.com/spirit/uploads/debtinvestors/SPCM2012.pdf>
- (d) the audited annual financial statements of the Managed Borrower for the financial year ended 20 August 2011, together with the audit report thereon, which appear on page 5 of the Managed Borrower's annual report and accounts for such financial year, and which are available at:
<http://www.spiritpubcompany.com/spirit/uploads/debtinvestors/SPCM2011.pdf>
- (e) the audited annual financial statements of the Leased Borrower for the financial year ended 18 August 2012, together with the audit report thereon, which appear on page 5 of the Leased Borrower's annual report and accounts for such financial year, and which are available at:
<http://www.spiritpubcompany.com/spirit/uploads/debtinvestors/SPCL2012.pdf>
- (f) the audited annual financial statements of the Leased Borrower for the financial year ended 20 August 2011, together with the audit report thereon, which appear on page 5 of the Leased Borrower's annual report and accounts for such financial year, and which are available at:
<http://www.spiritpubcompany.com/spirit/uploads/debtinvestors/SPCL2011.pdf>
- (g) the audited consolidated annual financial statements of the Borrower Group Parent for the financial year ended 18 August 2012, together with the audit report thereon, which appear on page 5 of the Borrower Group Parent's annual report and accounts for such financial year, and which are available at:
<http://www.spiritpubcompany.com/spirit/uploads/debtinvestors/SPDH2012.pdf>

- (h) the audited consolidated annual financial statements of the Borrower Group Parent for the financial year ended 20 August 2011, together with the audit report thereon, which appear on page 5 of the Borrower Group Parent's annual report and accounts for such financial year, and which are available at:

<http://www.spiritpubcompany.com/spirit/uploads/debtinvestors/SPDH2011.pdf>

each of which is incorporated by reference into, and forms part of, this Second Issue Prospectus, save that any statement therein which is incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this Second Issue Prospectus to the extent that any statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, form part of this Second Issue Prospectus.

The audited annual financial statements of the Issuer, the Managed Borrower and the Leased Borrower and the audited consolidated annual financial statements of the Borrower Group Parent for the financial year ended 17 August 2013, together (in each case) with the audit report thereon, are set out in "*2013 Financial Statements*", below.

The companies included within each set of consolidated annual financial statements of the Borrower Group Parent include New ParentCo, the Managed Borrower, the Leased Borrower and the other members of the Borrower Group which grant security in favour of, *inter alios*, the Issuer (with most of the other companies included within those accounts being dormant).

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RISK FACTORS

An investment in the Second Issue Debenture Bonds is subject to a number of risks. Prospective investors should carefully consider all the information set forth below, in addition to the other information set forth in this Second Issue Prospectus, and should reach their own views prior to making an investment in the Second Issue Debenture Bonds. There may also be other risks which are not listed below because their existence or their materiality was not fully understood as at the date of this Second Issue Prospectus. If any of the following risks, or any other risks, actually occurs, the Spirit Group's and/or the Issuer's business, financial condition or results of operations could suffer. In any such case, the value of the Second Issue Debenture Bonds could decline, and the Issuer may not be able to pay all or part of the interest, principal or other amounts due in respect of the Second Issue Debenture Bonds, causing Second Issue Debenture Bondholders to lose all or part of their investment.

Prospective investors in the Second Issue Debenture Bonds should consider all the information in this Second Issue Prospectus, make such other enquiries and investigations, and seek such advice, as they consider appropriate and reach their own views prior to making any investment decisions in relation to the Second Issue Debenture Bonds.

This Second Issue Prospectus contains "forward-looking" statements that involve risks and uncertainties. The Issuer's and the Spirit Group's results may differ significantly from the results discussed in the forward looking statements. See "*Notice to Investors – forward looking statements*", above.

1. RISKS RELATING TO THE ISSUER AND THE BORROWER GROUP

1.1 Spirit Issuer plc is a special purpose financing vehicle with no operations of its own and is dependent upon payments under the Issuer/Borrower Facility Agreement to meet its obligations under the Second Issue Debenture Bonds

The Issuer is a special purpose vehicle with no material business or revenue generating operations other than the issuance of the Debenture Bonds and the lending of the proceeds to the Borrowers under the Issuer/Borrower Facility Agreement. Therefore, the Issuer's ability to make principal and interest payments on the Second Issue Debenture Bonds is largely dependent on repayments to the Issuer of the amounts lent by it to the Borrowers under the Issuer/Borrower Facility Agreement (although there are certain additional limited sources of funding available to it, including the Liquidity Facility). The Borrowers' respective ability to make payments under the Issuer/Borrower Facility Agreement will depend on a number of factors, some of which may be beyond their control – see "*Risks Relating to Business Operations*", below.

Other than pursuant to the Issuer/Borrower Facility Agreement, the Issuer/Borrower Hedging Agreement and the related security thereunder, amounts available to be drawn under the Liquidity Facility Agreement, amounts receivable by the Issuer under the Hedging Agreement (other than certain amounts in respect of collateral) and interest on amounts standing to the credit of the Issuer's bank accounts, the Issuer is not expected to have any other material funds available to it to meet its obligations under the Debenture Bonds and/or any other payment obligations under the Issuer Deed of Charge ranking in priority to the Debenture Bonds.

1.2 The Borrowers' ability to meet their obligations in respect of the Issuer/Borrower Facility Agreement

The Borrowers' ability to meet their obligations under the Issuer/Borrower Facility Agreement following the Second Closing Date will depend upon the performance of the Borrowers' business. The performance of the business will be influenced by, among other factors, the competitive position of the Spirit Group as compared to other pub, bar, restaurant and night club operators in the United Kingdom, as well as the future prospects of the pub industry generally and the success of pub operators in general, in the Spirit Group in particular, in competing with other retailers, including supermarkets, offering a wider range of beer and other alcoholic and non-alcoholic drinks, food and related products, increasing competition in the casual dining market, and general economic factors affecting the economic well-being and confidence of consumers such as interest rates, inflation, levels of direct taxation on alcoholic and non-alcoholic beverages and the value added tax treatment of alcoholic, non-alcoholic and food items sold in pubs. See "*Risks Relating to Business Operations*", below.

2. RISKS RELATING TO THE SECOND ISSUE DEBENTURE BONDS

2.1 Issuer security

Although the Debenture Bondholders will, as Issuer Secured Creditors, have the benefit of the security interests created under the Issuer Deed of Charge, the obligations of the Issuer to the Liquidity Facility Provider, the Hedge Provider and certain of the other Issuer Secured Creditors (including the Debenture Bond Trustee) will rank in priority to the obligations of the Issuer to the Debenture Bondholders (including the Second Issue Debenture Bondholders).

2.2 Priorities in respect of the Debenture Bonds

Payments of interest on each class of Debenture Bonds will rank *pari passu* between themselves and (except in the case of Step-Up Amounts) before repayments of principal thereon. Scheduled repayments of principal on each class of Debenture Bonds will rank *pari passu* between themselves. Payment of Step-Up Amounts will rank subordinate to scheduled payments of principal and scheduled payments of interest on the Debenture Bonds. Scheduled repayments of principal and scheduled payments of interest on each class of Debenture Bonds will rank subordinate to, among other things, payments to the Liquidity Facility Provider, payments to the Hedge Provider, payments of fees, remuneration and expenses to certain third parties.

Further Debenture Bonds or New Debenture Bonds may, in accordance with Condition 17 (*Further Issues*) and the Transaction Documents, be issued without the consent of existing Debenture Bondholders.

If, following the Second Closing Date, Further Debenture Bonds were issued under Condition 17(a) (*Further Issues – Further Debenture Bonds*), such Further Debenture Bonds would rank *pari passu* with the class of Debenture Bonds of which they were to form part (which could be one of the classes of Second Issue Debenture Bonds).

If, following the Second Closing Date, New Debenture Bonds were issued under Condition 17(b) (*Further Issues – New Debenture Bonds*) and such New Debenture Bonds were to rank *pari passu* with a class of Debenture Bonds, including the Second Issue Debenture Bonds, then scheduled repayments of principal and payments of interest on such class of Debenture Bonds would be made, both before and after the delivery of a Debenture Bond Acceleration Notice by the Debenture Bond Trustee to the Issuer, *pari passu* with any scheduled repayments of principal and payments of interest on such New Debenture Bonds.

Although scheduled repayments of principal in respect of the Second Issue Debenture Bonds will rank *pari passu* with scheduled repayments of principal in respect of the Original Debenture Bonds, such repayments of principal in respect of the Second Issue Debenture Bonds are scheduled to commence only following the scheduled repayment in full of the Original Debenture Bonds. Notwithstanding that the Second Issue Debenture Bonds will, from the Interest Payment Date falling in September 2018, be subject to earlier redemption as a result of the operation of the “cash sweep” provisions contained in Condition 6(b)(B)(iii) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption – Mandatory redemption*) (as to which, see “2.3 Subordination of Step-up Amounts, Redemption Premium Amounts and “cash sweep” amounts”, below), Second Issue Debenture Bondholders may be disadvantaged by the later scheduled repayment of the principal amount of the Second Issue Debenture Bonds, should the Issuer become unable to meet its debt service obligations at some point in the future. The likelihood or timing of any payments under the “cash sweep” provisions in Condition 6(b)(B)(iii) (*Repayment, Purchase and Cancellation – Scheduled and mandatory redemption – Mandatory redemption*) is not rated by the Rating Agencies.

2.3 Subordination of Step-Up Amounts, Redemption Premium Amounts and “cash sweep” amounts

Payments of the Step-Up Amounts and Redemption Premium Amounts in respect of the Debenture Bonds (including the Second Issue Debenture Bonds) will only be made to the extent that the Issuer has available funds after payment of all amounts to be paid in priority thereto (including all other payments of interest and principal on the Debenture Bonds). The payment of Step-Up Amounts and Redemption Premium Amounts is not rated by the Rating Agencies.

If, on any Interest Payment Date, the Issuer has insufficient funds to make payments of any Step-Up Amounts or Redemption Premium Amounts (as the case may be) in respect of the Debenture Bonds (including the Second Issue Debenture Bonds), then the Issuer’s liability to make such payments will be deferred until the next Interest Payment Date and there will be no event of default for failure to make such payments. There can be no assurance that, at maturity of the Second Issue Debenture Bonds, the Issuer will have sufficient assets or income to pay in full any deferred payment of Step-Up Amounts or Redemption Premium Amounts (as the case may be) in respect of the Second Issue Debenture Bonds.

In addition, it should be noted that the amount of redemption premium payable to Debenture Bondholders (including the Second Issue Debenture Bondholders) is limited

in certain circumstances (see Condition 6 (*Redemption, Purchase and Cancellation*) and Condition 10(c) (*Issuer Events of Default – Acceleration*)).

On and from the Interest Payment Date falling in September 2018, the Second Issue Debenture Bonds will be subject to redemption as a result of the operation of the “cash sweep” provisions contained in Condition 6(b)(B)(iii) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption – Mandatory redemption*) and clause 8.2 (*Term A6/A7 cash sweep mandatory prepayment*) of the Issuer/Borrower Facility Agreement. The effect of such provisions will be that, on and from such Interest Payment Date, any cash which is standing to the credit of the Borrowers’ Operating Accounts above a certain level (see the definition of “Excess Cash Prepayment Amount” in “*Summary of Principal Transaction Documents – Issuer/Borrower Facility Agreement – Repayment*”, below), having paid or provided for all senior-ranking items (including, if required, and subject to certain limits, a debt service reserve) will, on each Interest Payment Date, be applied in the mandatory prepayment of the Term A6 Loan and the Term A7 Loan (and, if required, payment of any early termination amounts which are payable by the Borrowers under the Issuer/Borrower Hedging Agreement as a result of such prepayment) and, upon receipt by the Issuer, such sums will be applied in the mandatory redemption of the Class A6 Debenture Bonds and the Class A7 Debenture Bonds (and, if required, payment of any early termination amounts which are payable by the Issuer under the Hedging Agreement as a result of such redemption). The amounts (if any) which will be applied in the early redemption of the Second Issue Debenture Bonds in accordance with the above-mentioned “cash sweep” provisions will be entirely dependent upon the performance of the Borrowers’ business, and Second Issue Debenture Bondholders’ entitlement to receive such payments will be subordinated to all scheduled payments of interest and principal in respect of the Debenture Bonds (including Step-Up Amounts and Redemption Premium Amounts).

2.4 Priority and rights of certain other transaction parties

Issuer Deed of Charge

All amounts of interest, principal, commitment fees and increased costs payable in respect of the Liquidity Facility (other than Liquidity Facility Subordinated Amounts), all amounts due and payable to the Hedge Provider pursuant to the Hedging Agreement (other than any Hedging Agreement Subordinated Amounts) or to the Borrowers under the Issuer/Borrower Hedging Agreement (other than any Borrower IB Hedging Subordinated Amounts), all fees, costs and expenses (together with any indemnity payments) payable to the Debenture Bond Trustee under the Trust Deed and all fees, costs and expenses (together with any indemnity payments) payable to the Issuer Security Trustee under the Issuer Deed of Charge and certain other amounts will be paid in priority to the payment of interest and principal on the Debenture Bonds.

In addition, unless the Issuer Security Trustee is sufficiently indemnified at such time, it will have absolute discretion to refrain from taking any action under the Issuer Deed of Charge.

Borrower Group Deed of Charge

Although the Borrower Group Security Trustee will hold the benefit of the security interests created under and pursuant to the Borrower Group Deed of Charge on trust for the Issuer as a Borrower Group Secured Creditor, such security interests will also be held on trust for the other Borrower Group Secured Creditors, the claims of some of which will rank ahead of those of the Issuer. See “*Summary of Principal Transaction Documents – Borrower Group Deed of Charge*”, below.

In addition, unless the Borrower Group Security Trustee is sufficiently indemnified at such time, it will have absolute discretion to refrain from taking any action under the Borrower Group Deed of Charge.

2.5 Conflicts of interest

Issuer Deed of Charge

The Issuer Deed of Charge contains provisions requiring the Issuer Security Trustee to act only in accordance with the directions of the Debenture Bond Trustee prior to redemption in full of all of the Debenture Bonds. Following the redemption in full of all of the Debenture Bonds, the Issuer Security Trustee shall have regard to the interests of the person appearing highest in the order of priority of payments to whom any amount is owed under the Issuer Deed of Charge with respect to all powers, trusts, authorities, duties and discretions of the Issuer Security Trustee.

In exercising its powers, trusts, authorities, duties and discretions as described above, the Issuer Security Trustee or, as the case may be, the Debenture Bond Trustee shall disregard any amount owing or payable in relation to Step-Up Amounts and/or Redemption Premium Amounts for the purposes of determining whether any particular class of Debenture Bonds is outstanding. Accordingly, the Issuer Security Trustee or, as the case may be, the Debenture Bond Trustee may act in accordance with the interests of other creditors of the Issuer, notwithstanding that such amounts remain owing to Debenture Bondholders.

Trust Deed

The Trust Deed provides for the Debenture Bond Trustee:

- (i) whether or not there is any conflict of interest between two or more classes of Debenture Bondholders and/or any other Issuer Secured Creditor, to act only at the direction of Ambac if the aggregate Principal Amount Outstanding of the Guaranteed Debenture Bonds is more than 50 per cent. of the aggregate Principal Amount Outstanding of all of the Debenture Bonds and if no Ambac Termination Event has occurred; or
- (ii) if the aggregate Principal Amount Outstanding of the Guaranteed Debenture Bonds is less than or equal to 50 per cent. of the aggregate Principal Amount Outstanding of all of the Debenture Bonds and/or an Ambac Termination Event has occurred:

- (a) to act in such manner as it thinks fit, but subject to obtaining the consent of Ambac (provided that no Ambac Termination Event has occurred) where such action would, in the opinion of the Debenture Bond Trustee, affect the interests of the holders of the Guaranteed Debenture Bonds; and
- (b) to act at the direction of: (1) where expressly permitted, the holders of at least 25 per cent. in Principal Amount Outstanding of all of the Debenture Bonds then outstanding; or (2) an Extraordinary Resolution (as defined in the Conditions) of the Debenture Bondholders (subject to provisions for determining whether any such Extraordinary Resolution must be passed at a single Meeting (as defined in the Conditions) of all Debenture Bondholders or the affected Class (as the case may be) or at separate Meetings of each Class of Debenture Bondholders); but subject, in either case, to obtaining the consent of Ambac (except if an Ambac Termination Event has occurred), if the aggregate Principal Amount Outstanding of the Guaranteed Debenture Bonds is more than 25 per cent., but not more than 50 per cent., of the aggregate Principal Amount Outstanding of all of the Debenture Bonds, in the case of a direction to accelerate the Debenture Bonds or to enforce the Issuer Security,

subject, in all cases, to provisions for indemnification of the Debenture Bond Trustee as provided in the Trust Deed.

For the purposes of paragraph (ii)(b) above, Ambac shall be treated as the holder of all the then outstanding Guaranteed Debenture Bonds (except if an Ambac Termination Event has occurred).

The foregoing provisions requiring the Debenture Bond Trustee to act at the direction of Ambac or only subject to obtaining Ambac's consent or providing for Ambac to be treated as the holder of all the Guaranteed Debenture Bonds do not apply in relation to the taking of action against Ambac and certain other matters (together, **Debenture Bondholder Reserved Matters**) described in the Conditions.

In the event that the Debenture Bond Trustee receives conflicting directions under paragraph (ii)(b)(1) above or otherwise considers there may be a conflict between the interests of two or more Classes of Debenture Bondholders in respect of any action which the Debenture Bond Trustee proposes to take under paragraph (ii)(a) above, the Debenture Bond Trustee shall not be required to follow such directions or take such action unless such conflict is resolved by each of the relevant Classes of Debenture Bondholders approving such direction or action at separate Meetings of each relevant Class, provided that, where: (a) one of the conflicting directions under paragraph (ii)(b)(1) above is from Ambac; and (b) no Ambac Termination Event has occurred, the Debenture Bond Trustee shall act in accordance with such direction to the exclusion of any conflicting direction.

The Trust Deed provides for Ambac to indemnify the Debenture Bond Trustee against any losses, claims, damages, costs, expenses or liabilities whatsoever suffered or

incurred by the Debenture Bond Trustee as a result of acting in accordance with the directions of Ambac (whether in its own right under paragraph (i) above or by virtue of it being treated as the holder of the Guaranteed Debenture Bonds under paragraph (ii)(b) above).

Modifications of, waivers and authorisations of breaches or proposed breaches of, and consents under, any of the Transaction Documents may be sanctioned or given by the Debenture Bond Trustee (including by means of a direction to the Issuer Security Trustee and, through the Issuer Security Trustee, to the Borrower Group Security Trustee) if they are not, in the opinion of the Debenture Bond Trustee, materially prejudicial to the interests of:

- (i) the holders of the Debenture Bonds, other than the Guaranteed Debenture Bonds; and
- (ii) if an Ambac Termination Event has occurred or the modification, waiver, authorisation or consent constitutes a Bondholder Reserved Matter, the holders of the Guaranteed Debenture Bonds,

and (where the interests of the holders of the Guaranteed Debenture Bonds would, in the opinion of the Debenture Bond Trustee, be affected) Ambac has consented to such modification, waiver, authorisation or consent (except if an Ambac Termination Event has occurred or the modification, waiver, authorisation or consent constitutes a Debenture Bondholder Reserved Matter).

Where the Debenture Bond Trustee and/or the Issuer Security Trustee (as the case may be) is required to have regard to the interests of any Issuer Secured Creditor (other than the Debenture Bondholders, not being holders of the Guaranteed Debenture Bonds), the Debenture Bond Trustee and/or the Issuer Security Trustee (as the case may be) may consult with such Issuer Secured Creditor and may rely on the opinion of such Issuer Secured Creditor as to whether any act, matter or thing is or is not in the interests of, or materially prejudicial to the interests of, such Issuer Secured Creditor. For this purpose, the Debenture Bond Trustee and/or the Issuer Security Trustee (as the case may be) shall be entitled, in the absence of an Ambac Termination Event, to consult with and rely on the opinion of Ambac in relation to the interests of the holders of the Guaranteed Debenture Bonds.

Neither the Debenture Bond Trustee nor the Issuer Security Trustee shall have any liability for relying on an Issuer Secured Creditor's opinion in accordance with the above. No Issuer Secured Creditor shall have any claim against the Debenture Bond Trustee or the Issuer Security Trustee as a result of the application of the conflict provisions set out in the Trust Deed.

Following the anticipated purchase by the Borrowers of the Class A1 Debenture Bonds and the Class A3 Debenture Bonds which have been tendered to SPL pursuant to the Tender Offer and their surrender to the Issuer for cancellation, the Guaranteed Debenture Bonds will constitute less than 50 per cent., but more than 25 per cent., of the Principal Amount Outstanding of all the Debenture Bonds. Accordingly, whilst Ambac will not control the majority of the voting rights in respect of the Debenture

Bonds as of the Second Closing Date, as a result of the arrangements summarised above, and certain other specific consent or approval rights that Ambac is granted under the Transaction Documents (including in relation to the taking of enforcement action (as set out in Conditions 10 (*Issuer Events of Default*) and 11 (*Enforcement*)), Second Issue Debenture Bondholders may (even if, either separately or together with other Debenture Bondholders, they hold the majority or some other percentage of the Principal Amount Outstanding of the Debenture Bonds) be bound by certain action approved by, or unable to take (or direct the Debenture Bond Trustee to take) certain action which is not approved by, Ambac.

In any event, Second Issue Debenture Bondholders may (unless they hold a sufficient amount of Debenture Bonds to block the passing of an Extraordinary Resolution or a Written Resolution) be bound by action approved by an Extraordinary Resolution or a Written Resolution which is passed by other Debenture Bondholders, and may be unable to persuade other Debenture Bondholders to join with them in passing Extraordinary Resolutions or Written Resolutions which they wish to see passed.

2.6 Changes to covenants

The covenants contained in the Issuer/Borrower Facility Agreement and the Borrower Group Deed of Charge restrict the ability of each member of the Borrower Group, including the Borrowers, to change the way in which it operates its business. However, the pub industry in the United Kingdom has undergone many changes in recent years, and may undergo further changes in the future, that could make the continued operation of the Borrowers' business under these covenants more difficult or impractical.

Changes to the covenants, including the financial covenants, may be required over time due to changes in the business of the Borrowers or in the competitive environment in which they operate. The covenants may also be amended in connection with further bond issues by the Issuer.

In connection with any modification of, waiver or authorisation of any breach or proposed breach of, or consent under, any Transaction Document requested by the Borrowers or the Issuer, where the Rating Agencies have confirmed in writing to the Issuer that an action under or in relation to the Transaction Documents or the Debenture Bonds will not result in the withdrawal, downgrade or any other adverse action with respect to the then current rating of the Debenture Bonds and (for so long as there are any Guaranteed Debenture Bonds outstanding) the Underlying Rating (each a **Rating Confirmation**), the Issuer Security Trustee or the Debenture Bond Trustee, in considering whether such action is materially prejudicial to the interests of the Issuer Secured Creditors or, as the case may be, the Debenture Bondholders (the **No Material Prejudice Test**), shall be entitled to take into account such Rating Confirmation, provided that the Issuer Security Trustee and the Debenture Bond Trustee shall continue to be responsible for taking into account, for the purpose of the No Material Prejudice Test, all other matters which would be relevant to such No Material Prejudice Test.

2.7 Rating

It is expected that the Class A6 Debenture Bonds and the Class A7 Debenture Bonds will, upon the Second Closing Date, be assigned ratings of “BB(sf)” rating by S&P, “BB” by Fitch and “Ba2(sf)” by Moody’s. Such ratings will not include a rating of the payment of Step-Up Amounts, Redemption Premium Amounts or Class A6/A7 Cash Sweep Amounts.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation, and each security rating should be evaluated independently of any other rating. A security rating, among other things, will depend on certain underlying characteristics of the Borrowers’ business from time to time (see “*Risks Relating to Business Operations*”, below).

In addition, where a particular matter (including the determination of material prejudice by the Issuer Security Trustee and/or the Debenture Bond Trustee and changes to certain of the operational covenants) involves the Rating Agencies being requested to provide a Rating Confirmation, such Rating Confirmation may or may not be given at the sole discretion of the Rating Agencies in the particular circumstances. It should be noted that, depending on the timing of delivery of the request and any information needed to be provided as part of any such request, it may be the case that the Rating Agencies cannot provide their Rating Confirmations in the time available or at all, and they will not be responsible for the consequences thereof. There can, therefore, be no assurance that the Rating Agencies will provide a Rating Confirmation and, accordingly, the Borrower Group may not be able to make a modification to or obtain a consent or waiver in respect of a provision contained in a Transaction Document.

Any Rating Confirmation given by a Rating Agency:

- (i) only addresses the effect of any relevant event, matter or circumstance on the current ratings assigned by the relevant Rating Agency to the Debenture Bonds;
- (ii) does not address whether any relevant event, matter or circumstance is permitted by the Transaction Documents; and
- (iii) does not address whether any relevant event, matter or circumstance is in the best interests of, or prejudicial to, some or all of the Debenture Bondholders, the other Issuer Secured Creditors or the Borrower Group Secured Creditors.

A Rating Confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time and in the context of cumulative changes to the transaction of which the Debenture Bonds form part after the Second Closing Date. A Rating Confirmation represents only a restatement of the opinions previously given, and cannot be construed as advice for the benefit of any parties to the transaction. No assurance can be given that a requirement to seek a Rating Confirmation will not have a subsequent impact upon the business of the Borrowers.

2.8 Monitoring of compliance with warranties, covenants and the occurrence of a Borrower Group Event of Default or Potential Borrower Group Event of Default or an Issuer Event Default or a Potential Issuer Event of Default

Neither the Borrower Group Security Trustee nor the Issuer Security Trustee will itself monitor whether any Borrower Group Event of Default, Potential Borrower Group Event of Default, Issuer Event of Default or Potential Issuer Event of Default has occurred but will rely on compliance certificates delivered by the Borrowers (or on their behalf by AdminCo) to determine whether a Borrower Group Event of Default, a Potential Borrower Group Event of Default, an Issuer Event of Default or a Potential Issuer Event of Default has occurred. Furthermore, as the Issuer is a special purpose company, it does not and will not possess the resources to monitor actively whether a Borrower Group Event of Default, a Potential Borrower Group Event of Default, an Issuer Event of Default or a Potential Issuer Event of Default has occurred. Accordingly, it will fall to the Obligors themselves (or the Borrowers on their behalf) to make these determinations. In this context, a number of the representations, warranties, covenants, undertakings and Borrower Group Events of Default, Potential Borrower Group Events of Default, Issuer Events of Default and Potential Issuer Events of Default will be qualified by reference to a materiality threshold. While the criteria set out in the materiality test are prima facie objective, it will fall to the Obligors themselves (or the Borrowers on their behalf) to determine whether or not the relevant fact, matter or circumstances falls within any of the criteria and, as such, the determination will be subjective for so long as such determination is made by the Obligors (or the Borrowers on their behalf).

2.9 Liquidity Facility

Downgrade of Liquidity Facility Providers

The Transaction Documents provide that, if, at any time (a) the credit rating assigned by a Rating Agency in respect of the short-term and/or long-term unsecured, unsubordinated and unguaranteed debt obligations (as applicable) of any of the Liquidity Facility Providers falls below the relevant Liquidity Facility Requisite Rating or (b) a Liquidity Facility Provider fails or is unable to perform its obligations or exercises a termination right under the Liquidity Facility, the Issuer will be obliged to enter into a replacement liquidity facility agreement with another appropriately rated entity (as described in “*Summary of Principal Documents – Liquidity Facility Agreement*”, below). A failure on the part of the Borrowers to make available sufficient resources to the Issuer to procure such a replacement liquidity facility agreement may constitute an event of default under the Issuer/Borrower Facility Agreement. In such circumstances, there may also be a downgrading of the rating of the Second Issue Debenture Bonds or either class of them.

Absence of Liquidity Facility post-2034

The latest potential maturity date of the Liquidity Facility Agreement is the Interest Payment Date falling in December 2034. This means that it is not currently expected that the Liquidity Facility, or any liquidity facility, will be available for drawdown in the event of a liquidity shortfall arising between the Interest Payment Date falling in December 2034 and the Final Maturity Date of the Class A6 Debenture Bonds and the

Class A7 Debenture Bonds, which falls in December 2036. The absence of a liquidity facility will mean that the Issuer will be reliant on the Borrowers making timely payment of all amounts due under the Issuer/Borrower Facility Agreement, as it will not have the option of covering any shortfall between the amounts received by it and the amounts owed by it under the Second Issue Debenture Bonds by way of a drawing on such a facility.

2.10 Hedging Agreement

Downgrade of Hedge Provider

The Transaction Documents provide that, if, at any time (a) the credit rating assigned by a Rating Agency in respect of the short-term and/or long-term unsecured, unsubordinated and unguaranteed debt obligations (as applicable) of the Hedge Provider falls below the relevant Hedge Provider Requisite Rating (and the Hedge Provider does not take the remedial action required under the Hedging Agreement); or (b) the Hedge Provider fails or is unable to perform its obligations under or exercises a termination right under the Hedging Agreement resulting in a termination of any transaction thereunder, the Issuer will be obliged to enter into a replacement hedging agreement with another appropriately rated entity (as described in “*Summary of Principal Documents – Hedging Agreement*”, below). A failure on the part of the Borrowers to make available sufficient resources to the Issuer to procure such a replacement hedging agreement may constitute an event of default under the Issuer/Borrower Facility Agreement. In such circumstances, there may also be a downgrading of the rating of the Second Issue Debenture Bonds or either class of them.

The long term, unsecured, unsubordinated and unguaranteed credit ratings of American International Group, Inc. (as the guarantor of the Initial Hedge Provider under the Hedging Agreement) (being “A-” (S&P), “Baa1” (Moody’s) and “BBB” (Fitch) as at the date of this Second Issue Prospectus) are currently, and have for some time been, below those originally required by the terms of the Hedging Agreement. As a result, in October 2012, the Issuer, the Hedge Provider and Ambac agreed to a reduction in the credit rating requirements in the Hedging Agreement for so long as the aggregate mark-to-market value of the transactions under the Hedging Agreement remains not less than £25 million in favour of the Initial Hedge Provider, in consideration for a reduction in certain of the fixed rates paid by the Issuer in respect of such transactions under the Hedging Agreement. At the time of these amendments, S&P and Moody’s each confirmed that the then current ratings of American International Group, Inc. would not result in a downgrade or withdrawal of the then current ratings of the Original Debenture Bonds.

Whilst, as a result of these amendments, American International Group, Inc. (and therefore the Initial Hedge Provider) is, as at the date of this Second Issue Prospectus, currently in compliance with the amended credit rating requirements in the Hedging Agreement, there is a risk that its credit ratings may be downgraded further and/or that the aggregate mark-to-market value of the transactions under the Hedging Agreement may (as a result of changes in market interest rates) cease to be not less than £25 million in favour of the Initial Hedge Provider. In these circumstances, the Initial Hedge Provider would cease to be in compliance with the revised credit ratings requirements of

the Hedging Agreement. However, the Issuer may be unable to find another financial institution with the required credit ratings to replace the Initial Hedge Provider or guarantee its obligations under the Hedging Agreement. In such circumstances, there may be a downgrading of the rating of the Second Issue Debenture Bonds or either class of them. Furthermore, any default by the Initial Hedge Provider under the Hedging Agreement would, if no replacement could be found, leave the Issuer (and, indirectly, the Borrowers) exposed to changes in interest rates, which could leave the Issuer unable to meet its obligations in respect of the Debenture Bonds (including the Second Issue Debenture Bonds).

If any transaction under the Hedging Agreement is terminated, whether in whole or in part, prior to its stated termination date, a termination amount may be payable by one party to the other. Any such termination amount may be substantial and, if payable to the Hedge Provider, will, other than in limited circumstances, rank in priority to amounts due to the Debenture Bondholders. Payment by the Issuer of such termination amount may, therefore, affect the ability of the Issuer to make full and timely payment of amounts due to the Debenture Bondholders (including the Second Issue Debenture Bondholders).

Overhedging and underhedging

The Debenture Bonds are currently significantly overhedged. As at the Second Issue Date, the aggregate notional amount of the interest rate swap transactions under the Hedging Agreement exceeded the aggregate outstanding principal amount of the Debenture Bonds by approximately £87.3 million. This means that the net amount payable by the Issuer or the Hedge Provider (as the case may be) under the Hedging Agreement is currently calculated by reference to a greater aggregate notional amount than the aggregate outstanding principal amount of the Debenture Bonds. Although the back-to-back swaps between the Issuer and the Borrowers under the Issuer/Borrower Hedging Agreement will result in any impact of this overhedge being passed on to the Borrowers, whether the overhedge results in a net benefit or a net detriment to the Borrower Group will depend upon prevailing interest rates from time to time. As at the date of this Second Issue Prospectus, the overhedge represents a net cost to the Borrower Group.

On the Second Issue Date, the swap transaction under the Hedging Agreement which relates to the Class A1 Debenture Bonds was amended and restated (as so amended and restated, the ***Class A1/A6 Swap***) so as to hedge the interest rate on both the Class A1 Debenture Bonds and the Class A6 Debenture Bonds and the swap transaction under the Hedging Agreement which relates to the Class A3 Debenture Bonds was amended and restated (as so amended and restated, the ***Class A3/A7 Swap***) so as to hedge the interest rate on both the Class A3 Debenture Bonds and the Class A7 Debenture Bonds. However, the notional amount under the Class A1/A6 Swap and the Class A3/A7 Swap will continue to follow the scheduled amortisation profile of, respectively, the Class A1 Debenture Bonds and the Class A3 Debenture Bonds. As a result, from (and including) the Interest Payment Date falling in March 2014, the aggregate notional amount of the swap transactions under the Hedging Agreement will decrease at a quicker rate than the aggregate outstanding principal amount of the Debenture Bonds will amortise and, in addition, there will be scheduled reductions of

the overhedge on the Second Closing Date and, to the extent any overhedge remains, on the Interest Payment Date falling in September 2016 and the Interest Payment Date falling in September 2018 (see “*Summary of Principal Documents – Hedging Agreement*”, below). As a result, the Class A6 Debenture Bonds and the Class A7 Debenture Bonds may become significantly underhedged from September 2018, if not before, depending on the timing and amount of any payments under the “cash sweep” provisions in Condition 6(b)(B)(iii) (*Repayment, Purchase and Cancellation – Scheduled and mandatory redemption – Mandatory redemption*). An underhedge will mean that the net amount payable by the Issuer or the Hedge Provider (as the case may be) under the Hedging Agreement will be calculated by reference to a lower aggregate notional amount than the aggregate outstanding principal amount of the Debenture Bonds. As noted above in relation to the existing overhedge, the impact of any underhedge, and of any payments associated with the reduction of the overhedge, will be passed on to the Borrowers via the Issuer/Borrower Hedging Agreement, and whether the same results in a net benefit or a net detriment to the Borrower Group will depend upon prevailing interest rates from time to time.

2.11 An active trading market may not develop for the Second Issue Debenture Bonds, in which case Second Issue Debenture Bondholders’ ability to transfer the Second Issue Debenture Bonds will be more limited

An application has been made to the Irish Stock Exchange for the Second Issue Debenture Bonds to be admitted to the Official List and to trading on its Main Securities Market, however the Second Issue Debenture Bonds may not remain listed. The Second Issue Debenture Bonds will be new securities for which there is no established market and it is possible that no active market will develop. If a market develops, the Second Issue Debenture Bonds could trade at prices that are lower than the initial consideration provided for the Second Issue Debenture Bonds. Historically, the markets for non-investment grade debt such as the Second Issue Debenture Bonds have been subject to disruptions that have caused substantial volatility in their prices. The market, if any, for the Second Issue Debenture Bonds may be subject to similar disruptions. Any disruptions may have an adverse effect on the Second Issue Debenture Bondholders. The trading price for the Second Issue Debenture Bonds will depend on many factors, including prevailing interest rates, general economic conditions, the Borrowers’ (and the wider Spirit Group’s) performance and financial results and the markets for similar securities.

2.12 Second Issue Debenture Bondholders’ rights to receive payments under the Second Issue Debenture Bonds may be structurally or effectively subordinated to the claims of certain existing and future creditors of the Borrower Group or of the Issuer

All amounts of interest, principal, commitment fees and increased costs to be paid under or in connection with the Liquidity Facility Agreement (other than Liquidity Subordinated Amounts), all amounts to be paid under the Hedging Agreement (other than Hedging Agreement Subordinated Amounts), all amounts to be paid under the Issuer/Borrower Hedging Agreement (other than the Borrower IB Hedging Subordinated Amounts), all amounts in respect of fees to be paid to Ambac under the Ambac Guarantee and Reimbursement Agreement and all fees, costs and expenses (together with any

indemnity payments) payable to the Debenture Bond Trustee and to the Issuer Security Trustee under the Transaction Documents and certain other fees and expenses of third parties will, in accordance with the Issuer Deed of Charge, be paid in priority to the payment of interest on and repayment of principal of the Debenture Bonds (including the Second Issue Debenture Bonds).

In addition, certain creditors of the Borrowers may be preferred by law. The Borrowers are also entitled to incur Additional Financial Indebtedness, subject to certain conditions, and the lender(s) thereof will be entitled to accede to the Borrower Group Deed of Charge as a Borrower Group Secured Creditor, ranking either senior to (in the case of a working capital facility) or *pari passu* with or after the Issuer both prior to and on enforcement of the security created thereunder. To the extent such debt ranks senior to or *pari passu* with the Borrowers' obligations under the Issuer/Borrower Facility Agreement, the interests of the Second Issue Debenture Bondholders may be adversely affected. Furthermore, payments of Step-Up Amounts, Redemption Premium Amounts and "cash sweep" amounts in respect of the Debenture Bonds (including the Second Issue Debenture Bonds) will only be made to the extent that the Issuer has available funds after payment of all amounts to be paid in priority thereto (including all other payments of interest and principal on the Debenture Bonds).

2.13 The security interests over the assets of the Borrower Group and the Issuer will be held on the Second Issue Debenture Bondholders' behalf, rather than granted to them directly

The Second Issue Debenture Bondholders will not have direct security interests in the assets of the Borrower Group or the Issuer and will not be entitled to take enforcement action against the Issuer or the assets of the Issuer or any member of the Borrower Group or the assets of the Borrower Group other than through the Debenture Bond Trustee who will (subject to the provisions of the Trust Deed and the Issuer Deed of Charge) issue instructions to the Issuer Security Trustee. The Issuer Security Trustee will (subject to the provisions of the Issuer Deed of Charge and the Borrower Group Deed of Charge) issue instructions to the Borrower Group Security Trustee.

2.14 Denominations involving integral multiples; Definitive Debenture Bonds

The Second Issue Debenture Bonds have denominations consisting of a minimum of £100,000 plus one or more integral multiples of £1,000 up to £199,000. It is possible that the Second Issue Debenture Bonds may be traded in amounts that are not integral multiples of £100,000. In such a case: a holder who, as a result of trading such amounts, holds an amount which is less than £100,000 in his account with the relevant clearing system at the relevant time may not receive a Definitive Debenture Bond in respect of such holding (should Definitive Debenture Bonds be printed) and would need to purchase a principal amount of Second Issue Debenture Bonds such that his holding amounts to £100,000.

If Definitive Debenture Bonds are issued, holders should be aware that Definitive Debenture Bonds which have a denomination that is not an integral multiple of £100,000 may be illiquid and difficult to trade.

2.15 As the Global Debenture Bonds are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer

The Second Issue Debenture Bonds will be represented by Global Debenture Bonds except in certain limited circumstances described in the Global Debenture Bonds. The Global Debenture Bonds will, on the Second Issue Date, be deposited with the Common Depositary (for Euroclear and Clearstream, Luxembourg).

Except in certain limited circumstances described in the Global Debenture Bonds, investors will not be entitled to receive Definitive Debenture Bonds. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Debenture Bonds and, while the Second Issue Debenture Bonds are represented by the Global Debenture Bonds, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Second Issue Debenture Bonds by making payments to or to the order of the Common Depositary for distribution to holders of interests in the Global Debenture Bonds through their accounts with Euroclear or Clearstream, Luxembourg. A holder of a beneficial interest in a Global Debenture Bond must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Second Issue Debenture Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Debenture Bonds.

3. RISKS RELATING TO BUSINESS OPERATIONS

3.1 Unfavourable general economic conditions and financial crises in the United Kingdom and elsewhere have had and may continue to have a negative effect on consumer confidence and discretionary spending and, as a result, on the Borrowers' business

All of the Borrowers' pubs are located in the United Kingdom and the results of the Borrowers' operations are therefore substantially influenced by general economic conditions in the United Kingdom. In particular, the Borrowers' revenues are affected by the levels of consumer confidence and discretionary spending (including expenditure on leisure activities). The persistence of potential or actual financial crises in the European Union the United States and elsewhere, including the March 2013 banking crisis in Cyprus, the October 2013 failure to agree a Federal budget in the United States (which led to concerns that the United States would default on its debts), the continuation of austerity measures with respect to government spending, and the uncertain results from fiscal stimulus measures by national and local government, indicate that the outlook for sustained economic growth in the United Kingdom remains uncertain. Any delay in economic recovery or further changes could affect consumer expenditure, the Borrowers' suppliers or tenants' businesses and the Borrowers' revenue and cash flows. Recent recessions in the United Kingdom, and the prevalence of systemic financial crises more generally, have had (and will likely continue to have) an adverse effect on consumer confidence and discretionary spending in the United Kingdom. In addition, economic factors such as a rise in interest rates, unemployment and tax rates, lack of

availability of consumer credit, falling house prices, a continuation of government policies that favour fiscal austerity and a decrease in spending and fiscal stimulus, could all, individually or in the aggregate, adversely affect levels of consumer confidence and discretionary spending. Any reduction in levels of consumer confidence or discretionary spending could further adversely affect the Borrowers' operating results, financial condition and prospects, including the ability of the Borrowers to service their debt and comply with key debt covenants in the future.

3.2 Consumer perceptions towards, and tastes relating to, the consumption of food and alcohol may continue to change

In the United Kingdom, consumption of alcoholic beverages has become the subject of considerable social and political attention in recent years due to increasing public concern over adverse health consequences associated with the misuse of alcohol (including alcoholism) and alcohol-related social problems (including drink-driving, binge drinking and under-age drinking). Changes in consumer tastes in both food and drink, and demographic trends over time, may adversely affect the appeal of the Borrowers' pubs to consumers, especially if the Spirit Group does not anticipate, identify and respond to such changes by updating and improving its offerings and premises. This, in turn, would have an adverse effect on the Borrowers' operating results, financial condition and prospects. In addition, any increased focus on the potentially harmful effects of alcohol, such as a public service advertising campaign by the United Kingdom government, might reduce sales of alcoholic beverages and therefore negatively affect the Borrowers' operating results, financial condition and prospects.

3.3 The Spirit Group may not, or may not be able to, effectively implement its current business plan

The current business plan for the Spirit Group is centred on the objective to be regarded as the best employer in the hospitality industry, to consistently deliver the best experiences for its customers and to create the best returns in the sector for its shareholders by (*inter alia*): (i) utilising its scale and core skills to generate superior results across multiple assets; (ii) utilising the minimum number of brands and operating models, to maintain a simple, efficient and effective business; and (iii) moving progressively towards a more integrated retail business approach across both the managed pubs business and its leased and tenanted pub business, including the development of new and innovative operating models for the Leased Estate. It is intended that, over time, a number of pubs which the Spirit Group believes are not suitable for operation within the Managed Estate or the Leased Estate will be sold, with the speed and timing of such disposals to be balanced against other factors, such as the value which can be obtained by the Spirit Group. The Spirit Group's ability to acquire pubs or development sites may be adversely affected by competition for suitable sites from other pub companies, other retailers or those seeking alternative uses for such sites. Any failure of the Spirit Group to execute its business plan effectively could have a material adverse effect on the Spirit Group's, and, in particular, the Borrowers', business, reputation, financial condition and/or operating results.

3.4 Poor return on investment sites

The Spirit Group has recently invested considerable amounts of capital in improving the quality of the Managed Estate and the Leased Estate. There is a risk that investment sites do not perform due to inappropriate site selection, inappropriate allocation of expenditure or poor brand development and execution, which, individually or in the aggregate, could result in such sites generating insufficient returns on such investment sites.

3.5 Sales of beer may continue to decline in the United Kingdom and negatively impact the Borrowers' business performance

A significant portion of the Borrowers' revenue is currently derived from the sale of beer to its customers. Beer sales (by volume) have been in decline for a number of years, with a disproportionate impact on the on-trade market. Total beer volumes sold in the United Kingdom fell 4.7 per cent. in 2012, compared to total beer volumes sold in the United Kingdom in 2011 (according to figures published by the British Beer and Pub Association). From 2006 to 2011, total on-trade beer volumes sold in the United Kingdom declined by 28 per cent. as a result of a number of factors. These factors include: (i) a decrease in the frequency of male visitors to pubs; (ii) an increase in beer sales in the off-trade market, including at supermarkets, which have generally extended their trading hours and which may sell beer at a significant discount to prevailing on-trade prices; (iii) growing health concerns; (iv) stricter regulations, including the smoking ban that was implemented in 2006 (in Scotland) and 2007 (in England, Wales and Northern Ireland); and (v) stricter drink-driving regulations.

If the Spirit Group is not able to develop its revenue streams from products other than beer, a continued decline in the United Kingdom beer market could have an adverse effect on the Borrowers' revenues. A general decline in the United Kingdom beer market or in the ability of pubs to attract customers to drink alcoholic beverages on their premises could result in an increase in defaults and business failures among retailers within the Leased Estate, which could adversely affect the Borrowers' operating results, financial condition and prospects.

3.6 Sales of beer in the United Kingdom are affected by fiscal matters

The sale of beer and other drink products by the Borrowers is also affected by fiscal policy. Relevant fiscal matters include, among other things, duties on alcoholic beverages, VAT, and other business taxes. Changes in legislation which affect all or any of these matters may adversely affect the financial performance of the Borrowers.

3.7 The Borrowers' pubs face a high level of competition for consumers

The Borrowers' pubs compete for consumers with a wide variety of pubs and restaurants (including, in particular, casual dining outlets) as well as off-licences, supermarkets and takeaways and other leisure opportunities, some of which may offer higher amenity levels or lower prices or may be backed by greater financial and operational resources. Any provider of leisure facilities or services which could draw consumers away from the Borrowers' pubs is potentially a competitor of the Borrower

Group. This includes providers of certain products and services for the family home, which has become an increasingly attractive option for consumers, with improvements in home entertainment, the availability of cable and satellite television and the expansion of internet usage. The on-trade beer market in the United Kingdom has been adversely affected by the pricing policies of the large supermarket groups, with the off-trade accounting for a greater proportion of United Kingdom beer sales than in the past, and by the smoking ban. The Borrowers' business also faces increasing competition from other pub operators. The Borrowers' pubs may not be successful in competing against any or all of these alternatives and a sustained loss of customers to other operators' pubs or other leisure activities, a decline in beer prices as a result of increased competition or increased consumption of alcohol at home could have an adverse effect on the Borrowers' operating results, financial condition and prospects.

3.8 The Spirit Group is dependent on key executives and personnel and licensees for its future success

The Spirit Group's future success is substantially dependent on the continuing services and performance of key executives and its ability to continue to attract and retain highly skilled senior management and high calibre and appropriately skilled general managers, deputy general managers and kitchen managers for its managed pubs and high calibre and appropriately skilled licensees for its leased pubs. The failure of the Spirit Group to successfully implement its recruitment and retention strategies could have an adverse effect on the Spirit Group's operating results, financial condition and prospects.

3.9 Further consolidation in the pub industry in the United Kingdom may result in the Spirit Group being unable to compete with larger competitors

The pub industry in the United Kingdom has undergone periods of consolidation through joint ventures, mergers and acquisitions. Further consolidation in the pub industry in the United Kingdom could lead to the emergence of competitors who may have greater financial and operational resources than the Spirit Group or who may target niche markets which form part of the Spirit Group's overall market. The Spirit Group may not be able to respond to the pricing or other pressures that may result from further consolidation of the pub industry in the United Kingdom and may not be able to compete successfully for the acquisition of pubs and pub-owning companies with competitors. If the Spirit Group does not continue to be a major participant in the pub industry in the United Kingdom, it may not be able to secure favourable pricing from suppliers or attract, and/or retain, suitable employees to operate the pubs in the Managed Estate or retailers to lease the pubs in the Leased Estate, which could have an adverse effect on the operating results, financial condition and prospects of the Borrowers.

3.10 An increase in operating costs, including global food and drink prices, labour costs and utility costs, may negatively affect the profitability of the Borrowers' pubs

Food and drink purchases account for a significant portion of the operating expenses of the Managed Estate. The Managed Estate is also a large commercial user of gas and electricity, and is subject to fluctuations in energy costs. Volatility in global food and

drink prices and energy costs have in the past had a negative impact on operating margins for the Managed Borrower's business. Prices remain subject to volatility and, if further rises were to occur (including as a result of a depreciation of the pound sterling), this could result in a reduction of margins and profits from the Managed Estate, which in turn could have an adverse effect on the Managed Borrower's operating results, financial condition and prospects. The Managed Borrower may also not be able to increase its prices to offset any future or further increases in such costs without suffering reduced sales and revenue, which could in turn, also have an adverse effect on the Managed Borrower's operating results, financial condition and prospects. The Leased Borrower is subject to similar pricing pressure in respect of the food, drink and other services which it supplies to the tenants of its leased pubs, and any price increases may not always be able to be passed on, in whole or in part or at an appropriate time, to its licensees.

3.11 The Borrowers' revenue is affected by the weather and the timing of major sporting events

Attendance levels at the Borrowers' pubs are affected by the weather and the timing of major sporting events. Persistent rain, lower than normal average temperatures or other inclement weather, including, but not limited to, during the summer months or over the Christmas period, which are peak trading times, can have a negative effect on revenue generated by the Borrowers' pubs and this can, in turn, have an adverse effect on the Borrowers' operating results, financial condition and prospects. The absence of major events which attract customers or the presence of major events which divert customers, or the occurrence of abnormally cold or inclement weather, could have an adverse effect on the Borrowers' operating results, financial condition and prospects.

3.12 Incidents involving the abuse of alcohol, use of illegal drugs and violence are a significant risk to the Borrowers' operations

Incidents involving the abuse of alcohol, use of illegal drugs and violence on the Borrowers' premises may continue to occur or may increase in frequency or severity. Such activity may, if it occurs in a sufficient number of pubs, directly interrupt the operations of the Borrowers and could result in litigation or regulatory action, either of which could adversely affect the Borrowers' operating results, financial condition and prospects.

3.13 Food or beverage contamination or other health and safety incidents could adversely affect the Borrowers' operations

The Borrowers' business is susceptible to major local, national or international food or beverage contamination or other health scares (for example, salmonella and E. coli, "swine flu" or "H1N1" and other airborne diseases, and issues surrounding the integrity and traceability of food supplies) affecting the type of food and beverages sold in, and attendance levels at, the Borrowers' pubs. Such contamination or scares could affect consumer confidence and preferences, resulting in reduced attendance or expenditure at the Borrowers' pubs, or could lead to increased costs for the Borrowers (including in relation to sourcing alternative suppliers or products). In addition, a serious

contamination or scare at one of the Borrowers' branded pubs could negatively affect the reputation of that brand.

As a result of the nature of their business, pub operators, including the Spirit Group, are exposed to the risk of other health and safety incidents, including, for example, accidents occurring on its premises. Accordingly, the Spirit Group is required to adopt and maintain rigorous health and safety policies. However, given the access members of the public have to the Borrowers' premises, the Spirit Group's health and safety policies may not be able to prevent a serious health and safety incident from occurring. The occurrence of a serious health and safety incident at one of the Borrowers' branded pubs could negatively affect the reputation of that brand.

A serious food or beverage contamination or other health and safety incident could therefore negatively impact the Borrowers' operating results, financial condition and prospects.

3.14 The Spirit Group relies on key suppliers and distributors and, if such suppliers and distributors continue to consolidate, or face business difficulties, prices paid by the Spirit Group to suppliers and distributors may rise or the Spirit Group's operations may be disrupted

The brewing and distribution industry in the United Kingdom has seen a movement towards consolidation in recent years, which reduces the number of suppliers available to the Spirit Group and may have the effect of raising prices paid by the Spirit Group, including the Borrowers. The Spirit Group relies on a limited number of major brewing companies to supply it with most of its requirements for beer and other drink products, with the majority of the Spirit Group's beer supplied by Heineken UK, Molson Coors (UK), AB InBev UK, Carlsberg UK and Diageo during the financial year ended 17 August 2013.

In addition, the Spirit Group uses Kuehne + Nagel for food warehousing and distribution services for its managed pubs and Carlsberg UK for drink warehousing and distribution services, and if either of these suppliers, or any of the Spirit Group's other key suppliers, failed to meet agreed service levels or otherwise delivered goods or provided services of poor quality, this could create difficulties for the Spirit Group, including the Borrowers. Furthermore, replacing the Spirit Group's suppliers of drinks and warehousing and distribution services could be difficult and disruptive and lead to significant costs and expenses being incurred by the Spirit Group, including the Borrowers. Further consolidation could increase the Spirit Group's reliance on a limited number of suppliers, who might then be able to exert additional pressures on the Spirit Group, which could have the effect of raising prices paid by the Spirit Group, including the Borrowers, for goods bought or delivered. The Spirit Group's costs could increase and its business could be disrupted to the extent the Spirit Group's suppliers face business or financial difficulties due to the current economic environment, which could adversely affect the Borrowers. Furthermore, if the Spirit Group were required to replace any of its key suppliers on short notice as a result of a breach of contract by the relevant supplier, this could be difficult and disruptive and lead to significant costs and expenses being incurred by the Spirit Group, including the Borrowers. These risks could result in an increase in the Borrowers' operating costs which would, in turn, have an adverse effect

on the Borrowers' profitability, financial condition and prospects. In addition, the Spirit Group's supply and logistics contracts have expiry dates ranging from 2014 to 2022 and some may be terminated on short notice prior to their normal expiry date in certain circumstances. Whilst it is anticipated that these contracts are likely to be renegotiated and/or extended on a rolling basis rather than terminated on short notice, a requirement to replace a key supplier on short notice could have similar consequences to those outlined above.

3.15 The Borrowers are exposed to fluctuations in the property market

Future fluctuations in the UK property market as well as continuing uncertain market conditions could adversely affect the value of the property portfolio of the Borrowers and the ability to dispose of pubs at an appropriate value, which could have an adverse effect on the Borrowers' operating results, financial condition and prospects or the ability to sub-let leased sites, as well as their ability to comply with financial covenants, including the loan-to-value covenant set out in clause 15.1 (*Financial condition*) of the Issuer/Borrower Facility Agreement. In addition, in the event of any action being taken to enforce the security over the Borrower Group Estate, the value of the assets, and therefore the amount realised which is available to be applied in satisfying the Issuer's obligations to, among others, the Debenture Bondholders (including Second Issue Debenture Bondholders), may be insufficient.

3.16 The value realised by the Borrowers on disposals of pubs may be adversely impacted by fluctuations in the property market, the inherently illiquid nature of pubs and other factors

The strategy for the Spirit Group includes the disposal, over time, of those pubs that the Spirit Group does not consider suitable for continued operation within the Managed Estate or the Leased Estate. During a downturn in the property market, such as the current national downturn, the proceeds received by the Borrowers from such disposals may be reduced. As valuations of pub assets are affected by the trading performance of the pubs, a weak economic climate, such as in the United Kingdom at present, which results in poorer trading, will generally lead to lower valuations for pub assets and, in turn, could adversely impact the proceeds received by the Borrowers from disposals. In addition, portfolios of pubs are inherently illiquid and cannot be sold quickly, which means that the Borrowers may not be able to vary their respective portfolios of pubs quickly in response to changes in economic or other conditions. The Issuer/Borrower Facility Agreement also contains limitations on the ability of the Borrowers to dispose of pubs and restrictions on how the proceeds from disposals are applied, and these limitations may adversely affect the value realisable by the Borrowers from pub disposals or their ability to effectively deploy the disposal proceeds in their business.

Following the amendment of the Issuer/Borrower Facility Agreement in May 2009, the Borrowers are, within certain parameters, able to agree more relaxed restrictions on disposals with Ambac (which agreement does not require the approval of the Debenture Bond Trustee or any other person). In connection with the issue of the Second Issue Debenture Bonds, the Borrowers and Ambac have agreed that, where disposals would otherwise not be permitted pursuant to the Permitted Disposals (OpFlex) Conditions in the Issuer/Borrower Facility Agreement, (a) the maximum value of Borrower Mortgaged

Properties disposed of since the later of the most recent Cure Date or the Original Closing Date shall be 15 per cent. of the aggregate value of all the Borrower Mortgaged Properties (as at the date of the relevant disposal), and (b) the maximum number of Borrower Mortgaged Properties that may be disposed of since the later of the most recent Cure Date or the Original Closing Date is 15 per cent. of the number of all the Borrower Mortgaged Properties (as at the date of the relevant disposal) (see “*Summary of Principal Documents – Issuer/Borrower Facility Agreement – Permitted Disposals*”, below). The foregoing restrictions are (subject to the parameters specified in the Issuer/Borrower Facility Agreement), subject to change by agreement between the Borrowers and Ambac.

If, whether as a result of the foregoing or otherwise, the value realised from pub disposals is lower than expected, or if the Borrowers are unable to effectively deploy the proceeds of such disposals, their cash flow, financial condition and prospects in the longer term could be adversely affected.

3.17 The Spirit Group may have to bear liability for leasehold properties which it has sold to third parties

Over time, a number of pubs have been sold by members of the Spirit Group to third parties. Disposals have been by way of sale of individual pubs or as portfolios. Where the properties disposed of are leasehold, the Spirit Group will remain liable to perform the tenant’s obligations under the lease (including the obligation to pay rent) if the relevant purchaser fails to perform them where: (a) the relevant lease has been entered into before 1 January 1996; or (b) the relevant lease has been entered into on or after 1 January 1996 and the relevant member of the Spirit Group has entered into an “authorised guarantee agreement” or otherwise given a guarantee of the tenant’s obligations. In the case of (a), the Spirit Group’s potential liability in relation to the relevant lease will continue for the length of the lease but, in the case of (b), the Spirit Group’s potential liability in relation to the relevant lease will end if and when the relevant purchaser transfers the lease to a third party. As part of past disposals, purchasers have been required to indemnify the Spirit Group against this contingent liability. However, in the event that a purchaser fails to comply with the tenant’s obligations in a lease, the Spirit Group will most likely be unable to recover pursuant to the indemnity (most usually because a purchaser becomes insolvent) and the Spirit Group may suffer a loss as a result of its obligation to continue performing the tenant’s obligations (including the payment of rent) under the lease.

In these circumstances, to try to limit the potential losses, the Spirit Group is most likely to take an assignment or assignation back of the leases to the relevant properties in consideration for the assumption by the Spirit Group of the tenant’s obligations under each lease. During the period covered by the historical financial information incorporated by reference into this Second Issue Prospectus, 85 leasehold pubs have reverted to the Spirit Group as a result of such assignments or assignations back. Whilst all of these leasehold pubs have reverted to a member of the Spirit Group other than the Leased Borrower and the Managed Borrower, there is a risk that leasehold pubs reverting to the Spirit Group in this manner in the future will revert to the Leased Borrower and/or the Managed Borrower. Since such leases are frequently onerous (for example, because they provide for the payment of rents which are above current market

rates), further reversions of this type of leasehold pub to the Spirit Group could result in losses which would adversely affect the Borrowers' operating results, financial condition and prospects. The Spirit Group estimates that, as at the date of this Second Issue Prospectus, the aggregate annual rent for leasehold properties which might revert to the Spirit Group in this manner is approximately £6,000,000. Even where onerous leasehold properties are reacquired by a member of the Spirit Group outside the Borrower Group, they may represent a drain on the wider Spirit Group's finances, and absorb management time, which therefore cannot be deployed to the benefit of the Borrowers' business, which may have an adverse effect on the Borrowers' operating results, financial condition and prospects.

3.18 Computer or information system breakdowns could impair the Borrowers' ability to conduct their business

If any of the Spirit Group's financial, human resources, communication or other systems were to be disabled or did not operate properly (including as a result of computer viruses, problems with the internet, unauthorised use or sabotage), the Borrowers could suffer disruption to their business and supply chains or experience loss of data. This could have a significant effect on the Borrowers' ability to conduct their business which, in turn, could have an adverse effect on the Borrowers' operating results, financial condition and prospects.

3.19 The Borrowers are exposed to counterparty credit risk

The Borrowers are exposed, directly and indirectly, to counterparty credit risk in relation to key third parties with whom members of the Spirit Group (including AdminCo and SupplyCo) contract, for example suppliers, insurers and providers of derivatives used to hedge short-term energy prices. There is a risk of a loss being sustained by the Borrower Group as a result of either a payment default by the relevant counterparty or, in the case of suppliers, a default in supplying the relevant goods or services. In the case of insurers, the extent of the Borrowers' loss could be the full amount of the loss the Spirit Group has sought to insure against or, in the case of hedging counterparties, the Borrower Group may incur costs as a result of being exposed to price fluctuations or in replacing the relevant transactions, which it may not be able to do on the same terms, or at all. Any payment defaults by counterparties (including insurers and providers of hedging), or defaults by suppliers, could have an adverse impact on the Borrower Group's business, financial condition and/or operating results.

3.20 Capital expenditure is required to maintain the quality of outlets in order to attract consumers

The Borrowers need to invest cash generated from operations or pub disposals to both improve and maintain existing pubs in the estate. If the Borrowers do not generate sufficient levels of cash from their operations then they may not be able adequately to maintain their pubs at levels required to attract new, or retain existing, customers. This, in turn, may adversely affect their level of spending at such pubs, the result of which could materially and adversely affect the Borrowers' operating results, financial condition and prospects.

3.21 A material weakness in the Spirit Group's internal controls could impede its ability to produce timely and accurate financial statements

If there were to be a weakness in the Spirit Group's internal controls, it could lead to disruption in the timely and accurate production of financial statements. This could have a significant impact on the reputation of the Spirit Group and it could become more difficult for some suppliers to obtain credit insurance in respect of the Spirit Group, increasing the risk of suppliers requesting shorter payment terms or not being willing to contract with the Spirit Group at all. This, in turn, could have an adverse effect on the Spirit Groups' operating results, financial condition and prospects. It could also adversely affect the timing and/or quality of the information made available to holders of the Debenture Bonds (including the Second Issue Debenture Bonds).

3.22 The Spirit Group's insurance may be insufficient and certain types of loss may be uninsurable

The Borrowers (and AdminCo and SupplyCo) benefit from certain group-wide insurance policies which are maintained by the Spirit Group. There is a risk that the Borrowers' properties could suffer damage so extensive that it is not fully covered by the insurance the Spirit Group holds. Moreover, certain types of risk are not insured fully, either because such insurance is not available, or because the premium costs are disproportionate to the risks in question. If an uninsured loss (or a loss above the level of the Borrowers' insurance coverage) occurs at one or more of the Borrowers properties, the Borrower Group could lose all or a portion of the capital it had invested in, as well as any anticipated future revenue from, such properties. In addition, the Borrower Group could be liable to repair damage caused by uninsured risks, and could remain liable for any debt or other financial obligation related to those properties. Any such occurrence could have an adverse effect on the Borrowers' operating results, financial condition and prospects.

3.23 The Borrowers could be liable for environmental clean-up costs at their properties

The Borrowers may be liable for the costs of removal, investigation or remediation of hazardous or toxic substances located on or in a property owned or leased by them. The costs of any required removal, investigation or remediation of such substances may be substantial. The presence of such substances, or the failure to remediate such substances properly, may also adversely affect the relevant Borrowers' ability to sell or lease the affected property. Furthermore, publicity surrounding the discovery of such substances could harm the Spirit Group's reputation. Changes in law or regulation may impose further liabilities on the Borrowers, which may also form the basis for liability to third persons for personal injury or other damages. The discovery of previously unknown hazardous or toxic substances or the imposition of clean-up obligations at such sites could result in liabilities in the future. The costs of dealing with any such liabilities could adversely affect the Borrowers' operating results, financial condition and prospects.

3.24 The pub industry in the United Kingdom is highly regulated and pub operations require licences, permits and approvals

The Borrowers' pubs are subject to laws and regulations that affect their operations, including in relation to pub licensing, alcoholic drinks control, leisure (gaming) machines, competition, taxation and data protection. These laws and regulations impose a significant administrative burden on the Spirit Group. If additional or more stringent requirements were to be imposed in the future, it would increase this burden, and could also lead to an increase in material breaches and related enforcement action for failures to comply with such requirements, which could adversely affect the Borrowers' operating results, financial condition and prospects.

3.25 The Spirit Group may experience delays and failures in obtaining and retaining required licences, permits and approvals

Each of the Borrowers' pubs is licensed to permit, amongst other things, the sale of alcoholic drinks. Difficulties or failures in obtaining or maintaining required licences or approvals could, if carried through to a significant enough number of pubs, delay or prohibit the operation of the Borrowers' pubs. If any of the Borrowers' pub licences were withdrawn or amended, the profitability of the affected pubs could be adversely affected and this, in turn, may, if sufficient numbers of pubs were affected, have an adverse effect on the Borrowers' operating results, financial condition and prospects.

3.26 United Kingdom government legislation and campaigns relating to the consumption of alcohol and changes in drink-driving laws may reduce demand for the alcoholic drinks

The United Kingdom government (and, in some cases, the devolved administrations of Northern Ireland, Scotland and Wales) periodically contemplates imposing measures relating to the consumption of alcohol, including the reduction of licensing hours, raising the legal drinking age to 21, the introduction of minimum prices for alcoholic drinks and the introduction of a mandatory code imposing certain conditions on companies which let pubs to tenants. Any such measures could reduce the Spirit Group's flexibility to implement profitable business strategies and have a material effect on the Borrowers' operating results, financial condition and prospects.

Increasing press and public focus over recent years in areas such as binge drinking, under-age drinking, and the health consequences of excessive alcohol consumption, means that further regulation may be introduced which may significantly affect the Spirit Group.

As car drivers and passengers account for a significant proportion of pub customers in the United Kingdom, the implementation of any legislation to reduce further the legal blood alcohol limit for drivers in the United Kingdom could result in customers in the Borrowers' rural and suburban pubs drinking less, or frequenting pubs less often, which could lead to a reduction in revenue in those pubs and a decline in the Borrowers' income from the sale of alcoholic drinks. This, in turn, could have a negative impact on the Borrowers' operating results, financial condition and prospects. In addition, public service advertising campaigns by the United Kingdom government or other authorities

warning against the dangers of drink-driving could adversely affect the level of the Borrowers' business.

3.27 Employment regulations provide certain rights and protections to the Spirit Group's employees, and changes to these regulations may decrease the Spirit Group's ability to operate its business efficiently

As an employer of a significant number of staff, the Spirit Group is subject to obligations imposed by law and regulation governing the terms of workers' contracts and their rights and obligations as employee. For example, the Working Time Regulations 1998 (the **WT Regulations**) control the hours employees are legally allowed to work. Under the WT Regulations, 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 set out rights and protections in areas such as minimum rest time, days off and paid leave. Many employees of the Spirit Group, including those who work in the Managed Borrower's pubs, are covered by the WT Regulations. The existence of the ability to opt out of, and the guidance as to who is covered by, the WT Regulations may possibly change in the future. The WT Regulations may impose constraints on the ability of AdminCo to deploy employees efficiently on behalf of the Borrowers to a degree that adversely affects the Borrowers' operating costs and, in turn, their operating results, financial condition and prospects. 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 engaged 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.

The Spirit Group, and (collectively) the tenants of the Leased Borrower, employ a significant number of staff in the Spirit Group's pubs on contracts which provide for an hourly wage which is equal to, or not far above, the statutory minimum wage and/or which do not guarantee a minimum number of hours of employment per week. Any increase in the minimum wage would have an adverse effect on the staff costs of the Spirit Group and a significant number of tenants of the Leased Borrower, which could directly or (in the case of the Leased Borrower, via increased pressure on its tenants) indirectly adversely affect the Borrowers' operating results, financial condition and prospects. Furthermore, increased media interest in issues such as a "living wage" (set at a higher level than the statutory minimum wage) or "zero hours" contracts (which do not guarantee any minimum number of hours of employment) could adversely affect the Spirit Group's reputation or lead to legislation which might impose additional costs on the Spirit Group and a significant number of the tenants of the Leased Borrower, which could directly or (in the case of the Leased Borrower, via increased pressure on its tenants) indirectly adversely affect the Borrowers' operating results, financial condition and prospects.

3.28 The Spirit Group may need to increase contributions to cover deficits with respect to its pension schemes

The Spirit Group operates two main defined benefit pension schemes, namely:

- the Spirit Group Retail Pension Plan (formerly known as the Punch Pub Company Retail Pension Scheme) (the **SGRPP**), a defined benefit pension plan; and
- the Spirit Group Pension Scheme (formerly known as the Punch Pub Company Pension Scheme) (the **SGPS** and, together with SGRPP, the **Pension Schemes**), a defined benefit pension plan.

The SGRPP was closed to new entrants on 31 January 2004. The most recent actuarial valuation was carried out as at 31 October 2012; the provisional results of this valuation showed that, on the basis of the method and assumptions used by the scheme actuary, there was an ongoing past service deficit as at 31 October 2012 of £20 million (equating to a funding level of 93 per cent.). The final valuation results may differ from this, although the scheme actuary does not expect them to do so. The scheme actuary has estimated that the ongoing funding level of the SGRPP on 12 October 2013 would have been around 103 per cent. (equivalent to a surplus of around £15 million).

The SGPS was closed to new entrants on 31 May 2000. The most recent actuarial valuation of the SGPS was carried out as at 31 October 2012; the provisional results of that valuation showed that, on the basis of the method and assumptions used by the scheme actuary, there was an ongoing past service deficit as at 31 October 2012 of £19.5 million (equating to a funding level of 87 per cent.). The final valuation results may differ from this, although the scheme actuary does not expect them to do so. The scheme actuary has estimated that the ongoing funding level of the SGPS on 12 October 2013 would have been around 102 per cent. (equivalent to a surplus of around £3 million).

It is proposed that additional employer deficit recovery contributions will be paid out at the rate of £3.1 million per annum in respect of the SGPS and £1.9 million per annum in respect of the SGRPP for the period to 31 October 2017. These deficit contributions are additional to and separate from the employer contributions in respect of future benefit accrual, which currently stand at:

- for the SGPS, between 4 and 13 per cent. of defined benefit pensionable pay, depending on employees' age and pension entitlement level; and
- for the SGRPP between 4 and 9 per cent. of defined benefit pensionable pay, depending on employees' age and pension entitlement level.

These contribution rates could increase as well as decrease in the future.

The Spirit Group's employees are currently offered membership of a group personal pension scheme with Standard Life to which the Spirit Group contributes between 1 and 20 per cent. of pensionable pay depending on employees pension entitlement level.

There are many risks for the Spirit Group arising from the operation of the Pension Schemes, and a description of some of these follows. The United Kingdom pensions regulator (the **Pensions Regulator**) may impose a scheme funding target and employer contribution rate, if those matters cannot be agreed between the scheme trustees and

the relevant employers. In addition, the trustees of either Pension Scheme may wind up the relevant scheme, as permitted in certain circumstances. The Pensions Regulator also has a statutory power to order a pension scheme to be wound up. Winding up the schemes would result in a statutory obligation on the various former participating employers to fund the schemes by reference to a “buyout basis” (which represents the estimated cost of securing members’ benefits by purchasing annuity policies from an insurance company). As at 31 October 2012 these figures were £86 million for the Spirit Group Pension Scheme and £130 million for the Spirit Group Retail Pension Scheme. The Pensions Regulator may require funding or funding guarantees from members of the Spirit Group (in the form of a contribution notice or financial support direction) for defined benefit pension schemes in various circumstances. In addition, the trustees of the Pension Schemes may alter the investment profile of the relevant schemes. For example, the trustees could exchange equity investments for lower risk investments such as bonds, which would typically increase the employer funding obligations in relation to the schemes because of the lower rate of return expected from lower risk investments.

The foregoing risks are linked to the funding level of the Pension Schemes, which may be adversely affected by a number of factors, including: (i) reducing bond yields (since lower yields mean a pension obligation is assessed as having a higher value); (ii) increasing life expectancy (which will make pensions payable for longer and, therefore, more expensive to provide); (iii) investment returns failing to meet expectations; (iv) actual and expected price inflation, subject to the limits set out in the Pension Schemes’ governing documentation; (v) funding volatility as a result of any mismatch between the assets held and the assets by reference to which the scheme liabilities are calculated; and (vi) other events occurring which make past service benefits more expensive than anticipated in the actuarial assumptions by reference to which past pension contributions were assessed, including unanticipated changes to tax or other legislation.

3.29 Corporate and brand reputation

An issue may occur which could materially impact or damage the reputation of the Spirit Group or one of its pub brands, for example, adverse press comment. This could affect the ability of the Spirit Group or the relevant brand to attract future customers or negatively impact the ability of the Spirit Group or that brand to generate income. Increased use of digital and social media may exacerbate or accelerate the consequences of any such issue.

The Borrowers are exposed to product quality risk in relation to food and drink which is supplied externally and prepared within their pubs. Food contamination, a food scare, poor quality, or wrongly prepared food could result in a food safety issue for customers, impact guest satisfaction and, ultimately the Spirit Group’s reputation.

The Borrowers’ business may also be adversely affected by issues which affect pubs run by other members of the Spirit Group or by competitors, as a result of being associated with the adverse publicity or due to the existence of common practices or suppliers.

3.30 Retailers may fail to pay amounts due promptly, or at all, and the Leased Borrower may have to increase its level of support for struggling retailers

In relation to the Leased Estate, there is a general risk that rental and other payments owing to the Leased Borrower (including, for example, for the supply of beer and other products to tenants) 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 adversely affect the revenues of the Leased Borrower. Continued failure by a particular retailer to pay rental and other payments due to the Leased Borrower will usually result in the termination of the tenant's lease and either the closure of the pub or the leasing of the relevant pub to a new retailer. Where a pub is leased to a new retailer, there may also be a period following the departure of the former retailer, and before a replacement retailer can be found, where cash flow to the Leased Borrower is reduced. The relevant pub may also become vacant which would reduce the Leased Borrower's revenue and its ability to recover certain operating costs (which would result in it incurring additional expenses until the property is re-let). In addition, the rent and other payments payable by replacement retailers may not be as high as those payable by former retailers. These risks could have an adverse effect on the Leased Borrower's operating results, financial condition and prospects.

In light of the current difficult trading environment, the Leased Borrower is currently providing support to certain of its retailers who are struggling. A continued weakening of the United Kingdom economy may require the Leased Borrower to increase levels of support to retailers. Increased support to retailers could result in a decrease in the Leased Borrower's revenue which could, in turn, adversely affect the Leased Borrower's operating results, financial condition and prospects.

3.31 The Leased Borrower does not control the day-to-day operation of its leased and tenanted pubs

The leased and tenanted pubs owned by the Leased Borrower are let to retailers who are generally free to operate and manage the pub as they see fit, subject to the terms of their lease or tenancy agreements. Since a substantial proportion of the Leased Estate's turnover is currently derived from the sale of drink products to its retailers, declining sales due to local factors over which the Spirit Group may have no direct control, such as poor pub management, ineffective marketing or changing local demographic trends, may result in a decline in the Leased Borrower's sales to that pub. In addition, dishonest retailers under-reporting sales volumes or selling third party beer in contravention of a tie arrangement could adversely affect the Leased Borrower's revenue.

Unless a retailer fails to pay rent or otherwise comply with the terms of a lease or tenancy agreement, the Leased Borrower cannot 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. Persistent under-performance by retailers would, in the aggregate, result in a decrease in the Leased Borrower's revenue and could adversely affect the Leased Borrower's operating results, financial condition and prospects.

3.32 The Leased Borrower may be unable to attract and/or retain high quality retailers to lease its pubs

Individuals within, or seeking to enter, the pub operating business have several alternatives to being a retailer of one of the Leased Borrower's pubs, any one or more of which may prove to be more attractive depending on their personal circumstances. These include becoming an employee of a managed pub company, acquiring the freehold, heritable or leasehold interest in a pub 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 Leased Borrower would like to attract. In addition, recent adverse media reporting about retailers deriving low earnings and the pub industry in general may also have an impact on the willingness of individuals to continue to be, or become, retailers in the Leased Borrower's estate. The Leased Borrower may not be successful in convincing current or prospective retailers of the benefits of leasing its pubs and the Leased Borrower may lose high quality retailers as a result, which may adversely affect the Leased Borrower's operating results, financial condition and prospects.

3.33 The rent determination and review arrangements in the Leased Borrower's lease and tenancy agreements can lead to decreased rents

The Leased Borrower receives fixed rental payments from each of its retailers, at a rate negotiated when the lease or tenancy agreement 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 Leased Borrower initially underestimates the likely level of retail trading for a pub, it may, in certain circumstances, agree to a lower fixed rent and consequently receive a smaller share of the pub's profits until the next rent review.

Additionally, leases for certain pubs in the Leased Estate contain open market rent review provisions. Therefore, it is possible that rents from such pubs could decrease if the open market rental value at the time of review is less than the rent then payable. In addition, some of the tenancy agreements and leases for the pubs in the Leased Estate also provide for annual rent reviews by reference to movements in the retail prices index. A decrease in the retail prices index would reduce the rents payable in respect of those pubs. Moreover, regardless of the terms of the relevant rent review provision, the Leased Borrower may agree from time to time to lower the rent payable, as appropriate, in light of economic or other circumstances. Any of the foregoing developments will decrease the Leased Borrower's revenues, which in turn may adversely affect the Leased Borrower's operating results, financial condition and prospects.

3.34 Tied pub lease and tenancy arrangements of the sort used in the Leased Estate have been challenged as anti-competitive or otherwise unfair to tenants

In March 2010, a report from the Department for Business, Innovation and Skills (*BIS*) identified a number of apparent shortcomings in the pub industry. In particular, the report criticised the anti-competitive effect of supply ties in pub tenancies and the imbalance of power in negotiations between pub companies and tenants. However, BIS recognised that the industry was becoming increasingly self-regulating (for example, through the introduction of the Industry Framework Code (the *IFC*). In November 2011,

BIS announced that it would not implement any statutory reform measures, but instead agreed a range of further self-regulatory measures which it felt would improve the relationship between pub companies and their tenants and lessees and provide increased transparency, improved dispute resolution and legal certainty for tenants and lessees. The key elements of the reforms included:

- strengthening the IFC (for example by prohibiting upwards only rent review clauses) and making it legally binding by its inclusion in pub leases;
- establishing a Pub Independent Conciliation Advisory Service (**PICAS**) to provide mediation and arbitration for disputes in relation to the IFC;
- creating a three-yearly re-accreditation process for pub company codes, achieved through examination of annual compliance reports and spot checks; and
- establishing a new Pubs Advisory Service (**PAS**) to provide free advice to all prospective and current tenants and lessees.

The IFC became legally binding in 2011; PICAS and PAS were set up and became operational in 2012. However, on 8 January 2013, BIS made a further announcement in which it stated that, although it recognised that self-regulation had improved the industry and that the independent arbitration service had been successful, BIS felt that further improvement was still needed.

As a result, on 22 April 2013, BIS published proposals to establish a new statutory code of practice and an independent adjudicator for the leased and tenanted pub sector. The draft code proposed by BIS is based on two core and overarching principles:

- pub tenants should be fairly and lawfully treated by pub companies; and
- a tied tenant should be no worse off than a free-of-tie tenant.

In order to achieve these core principles, BIS stated that the proposed code would grant tied tenants a number of additional rights and seek to restrict arrangements which the government considers to be unfair. These proposed rights and restrictions would include, but not be limited to:

- the right for tenants to request an open market rent review;
- the requirement for pub companies to demonstrate to tied tenants that they would be no worse off in the tied agreement than they would in a free-of-tie agreement;
- the right for tenants to purchase and sell one draught beer from any source without any control or restriction being imposed by a pub company tie; and
- a prohibition on any product other than drinks being tied.

Under the proposals, the new independent adjudicator would investigate and arbitrate complaints that pub tenants are being treated unfairly, and would have the power to enforce the new code and impose fines on pub companies were they to breach the new code.

If the United Kingdom government implements a new regulatory framework in the form published by BIS on 22 April 2013, and the Leased Estate falls within its ambit, the profitability of the Leased Estate could be adversely affected and this, in turn, would have an adverse effect on the Leased Borrower's operating results, financial condition and prospects.

The formal consultation process in relation to these proposals has now closed, with the United Kingdom government set to publish a response to the consultation towards the end of 2013.

While these developments have not provided any further challenge to the underlying principle of tied leases, there could be further investigations into tied leases in the future. It is not possible to predict the outcomes of these investigations, but they could have a material and adverse impact on the Leased Borrower's operations, financial position and prospects.

3.35 Owning and leasing property carries potential health and safety risks and liabilities

A health and safety accident or incident at a property owned or leased either of the Borrowers could lead to serious injury or even loss of life to persons (including tenants, employees or visitors) on or near the premises, which could have a significant adverse effect upon the Spirit Group's reputation, which could, in turn, adversely affect the Borrowers' operating results, financial condition and prospects.

3.36 The Leased Borrower may be slow to adapt its operating model to market trends

The majority of leased and tenanted pubs within pub companies' estates are presently operated on the traditional "tied" model. However, pub companies are increasingly looking to adopt a more sophisticated and site-specific approach in order to take account of developments in the pub sector and the wider retail sector. This may include, where appropriate, leases which involve a proportion of the rent being calculated as a percentage of the relevant licensee's profits or turnover or which allow pub companies to better control the retail environment or provide additional services (often derived from those provided in the context of managed pubs) to licensees. To the extent that the Leased Borrower is slow to adopt such innovative operating models, or does not introduce them successfully or on a sufficient scale, it may fail to attract sufficient numbers of high calibre licensees or otherwise experience decreased profits across the Leased Estate, which could adversely affect the Leased Borrower's operating results, financial condition and prospects.

4. TAXATION RISKS

4.1 Change of tax law and practice

The statements in relation to taxation set out in this Second Issue Prospectus are based on current law and the practice of the relevant authorities in force or applied at the date of this Second Issue Prospectus. Any changes in such law or practice might have an adverse effect on the financial position of the Issuer or the Borrowers.

4.2 United Kingdom taxation position of the Issuer

The Issuer is currently treated as a “securitisation company” for the purposes of the Taxation of Securitisation Companies Regulations 2006 (the **Securitisation Regulations**). Accordingly, the Issuer is subject to corporation tax in the UK on its “retained profit” only, in accordance with the special regime for securitisation companies provided for by those regulations.

If the Issuer were to cease to qualify as a securitisation company or otherwise fail to meet the required conditions for the Issuer to be taxed as such under the Securitisation Regulations, this might have an adverse effect on the Issuer’s UK tax position, which could adversely affect the Issuer’s ability to make timely payments of interest and principal under the Debenture Bonds (including the Second Issue Debenture Bonds).

4.3 United Kingdom taxation position of the Borrowers

Under current UK taxation law and the practice of HM Revenue & Customs (**HMRC**), repayments of principal to be made by the Borrowers under the Issuer/Borrower Facility Agreement are not deductible for tax purposes. Unless a Borrower disposes of a capital asset, and applies the proceeds thereof (net of any tax payable as a result of the disposal) to make repayments of principal under the Issuer/Borrower Facility Agreement, it is necessary for such Borrower to fund such repayments of principal out of taxed income from its general operations. It is envisaged that, following the Second Closing Date, the Borrowers will continue to fund repayments of principal out of such post-tax income. While the management of the Spirit Group believes that, on a conservative basis, the Borrowers will have sufficient post-tax income to enable full and timely repayments of principal due under the Issuer/Borrower Facility Agreement, there can be no assurance of this. There can be no assurance that taxation law and HMRC’s practice will not change in a manner that would adversely affect the amount of post-tax income of the Borrowers and therefore affect the Borrowers’ ability to repay principal under the Issuer/Borrower Facility Agreement.

If the Issuer does not receive all amounts of principal due from the Borrowers under the Issuer/Borrower Facility Agreement, it may not have sufficient funds to enable it to meet its payment obligations under the Debenture Bonds, (including the Second Issue Debenture Bonds) and/or any other payment obligations ranking in priority to, or *pari passu* with, the Debenture Bonds.

The Spirit Group has been advised that no taxable profits should arise to the Borrowers as a result of the Tender Offer – but, if they did, there should be sufficient losses to mitigate them.

4.4 Secondary taxation liabilities of the members of the Borrower Group and certain VAT grouping considerations

Where a company fails to discharge certain taxes due and payable by it within a specified time period, UK tax law imposes, in certain circumstances (including where that company has been sold so that it becomes controlled by another person), a secondary liability for those overdue taxes on other companies which are or have been members of the same group of companies, or are or have been under common control, for tax purposes with the company that has not discharged its primary liability to pay that tax.

Each company that is a member of a group for VAT purposes is jointly and severally liable for any VAT liabilities arising in respect of its period of membership in relation to the activities of all members of such group during such time. In addition, the representative member from time to time of a VAT group is liable for all VAT liabilities of such group. Covenants have been given in the Tax Deed of Covenant:

- (i) not to do anything (and to procure that nothing is done) which would reasonably be expected to result in a secondary liability arising in relation to the Issuer, the Issuer Parent or the Common Security Group Companies (as defined in the Tax Deed of Covenant) (with the aim of minimising the likelihood of such secondary liabilities affecting the Issuer, the Issuer Parent or Common Security Group Companies); and
- (ii) in relation to grouping for VAT purposes, to ensure that the Issuer and the Issuer Parent are not treated as members of a VAT group and to ensure that no Common Security Group Company is treated as a member of a VAT group other than a VAT group comprised of one or more Common Security Group Companies.

4.5 Withholding tax in respect of the Second Issue Debenture Bonds

In the event that withholding tax is required by applicable law to be imposed in respect of payments to Second Issue Debenture Bondholders of amounts due pursuant to the Second Issue Debenture Bonds, none of the Issuer, the Debenture Bond Trustee, the Borrower Group Security Trustee, the Issuer Security Trustee, any Paying Agent or any other person will be obliged to gross up or otherwise compensate Second Issue Debenture Bondholders for the lesser amounts that the Second Issue Debenture Bondholders will receive as a result of the imposition of withholding tax.

The imposition of any withholding tax in respect of the Second Issue Debenture Bonds would entitle (but not oblige) the Issuer to redeem the Second Issue Debenture Bonds (pursuant to Condition 6(d) (*Redemption, Purchase and Cancellation – Substitution/redemption for taxation or other reasons*)) at their Principal Amount

Outstanding (plus accrued interest (but less any relevant withholding tax)), thereby shortening the average lives of the Second Issue Debenture Bonds.

4.6 EU Savings Directive

Under Directive 2003/48/EC (the **Savings Directive**), member states of the European Union are required to provide to the tax authorities of another member state details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other member state, or to certain limited types of entities established in that other member state. However, for a transitional period, Luxembourg and Austria are instead required, unless during that period they elect otherwise, to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). On 10 April 2013, the Luxembourg Ministry of Finance announced that the Luxembourg government has decided to end the transitional period provided for in the Savings Directive and to introduce, on 1 January 2015, the automatic exchange of information for all interest payments made by Luxembourg financial operators to individuals resident in another member state, or to certain limited types of entities established in that other member state. A number of non-EU countries and territories, including Switzerland, have agreed to adopt similar measures (a withholding system, in the case of Switzerland).

The European Commission has proposed certain amendments to the Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment relating to the Second Issue Debenture Bonds were to be made or collected through a member state (or a non-European Union country or territory which has adopted similar measures) which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, none of the Issuer, the Debenture Bond Trustee, the Borrower Group Security Trustee, the Issuer Security Trustee, any Paying Agent or any other person would be obliged to pay any additional amounts to Second Issue Debenture Bondholders as a result of the imposition of such withholding tax.

The Savings Directive does not preclude member states of the European Union from levying other types of withholding tax.

4.7 FATCA

Whilst the Second Issue Debenture Bonds are in global form and held by a common depository for Euroclear and Clearstream (together, the **Clearing Systems**), in all but the most remote circumstances, it is not expected that sections 1471 through 1474 of the US Internal Revenue Code of 1986 and any regulations or agreements thereunder, official interpretations thereof, or law implementing an intergovernmental approach thereto (**FATCA**), will affect the amount of any payment received by the Clearing Systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It

also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose their custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Second Issue Debenture Bonds are discharged once it has paid the common depository for the Clearing Systems (as bearer of the Second Issue Global Debenture Bonds) and the Issuer therefore has no responsibility for any amount thereafter transmitted through hands of the Clearing Systems and custodians or intermediaries.

5. GENERAL LEGAL CONSIDERATIONS

5.1 Receivership

At any time after the security created by or pursuant to the Borrower Group Deed of Charge has become enforceable, the Borrower Group Security Trustee may, or in certain circumstances can (provided that it is indemnified to its satisfaction) be required to, pursue a number of different remedies. One such remedy is the appointment of a receiver over specific property or over all, or some, of the pubs in the Borrower Group Estate. Likewise, at any time after the security created under or pursuant to the Issuer Deed of Charge has become enforceable, the Issuer Security Trustee may, or in certain circumstances can (provided that it is indemnified to its satisfaction) be required to, pursue a number of different remedies. One such remedy is the appointment of a receiver of all or part of the assets and undertaking of the Issuer (although it is not possible to appoint a receiver under fixed security created under the laws of Scotland (such as standard securities (the Scottish equivalent to legal mortgages) and assignments in security), and any enforcement of such fixed security would need to be carried out by the security holder in its own name).

As a result of the amendments made to the Insolvency Act 1986 (the ***Insolvency Act***) by the Enterprise Act 2002 (the ***Enterprise Act***), pursuant to section 72A of the Insolvency Act, the holder of a qualifying floating charge created on or after 15 September 2003 will be prohibited from appointing an administrative receiver, unless the floating charge falls within one of the exceptions set out in sections 72B to 72GA of the Insolvency Act (the ***Exceptions***). Previously, the holder of a floating charge or floating charges which, together, are over the whole or substantially the whole of the assets of a company had the ability to block the appointment of an administrator by appointing an administrative receiver, who would act primarily in the interests of the floating charge holder. As the floating charges created under the Borrower Group Deed of Charge and the Issuer Deed of Charge were entered into after 15 September 2003, neither the Borrower Group Security Trustee nor the Issuer Security Trustee will be entitled to appoint an administrative receiver over the assets of the relevant Security

Provider of the Issuer (as the case may be) under those charges, unless the floating charge in question falls within at least one of the Exceptions.

One Exception is in section 72B of the Insolvency Act (the **Capital Market Exception**) and is in respect of, in certain circumstances, the appointment of an administrative receiver pursuant to an agreement which is or forms part of a “capital market arrangement” (which is broadly defined in the Insolvency Act). This exception will apply if a party incurs or, when the agreement in question was entered into was expected to incur, a debt of at least £50 million under the arrangement and if the arrangement involves the issue of a “capital market investment” (also defined in the Insolvency Act but, generally, a rated, traded or listed debt instrument). Although there is no case law on how this exception will be interpreted, it is expected that the “capital market arrangement” exception will apply to the floating charges created under the Borrower Group Deed of Charge and the Issuer Deed of Charge. However, the Secretary of State may, by secondary legislation, modify the exceptions to the prohibition on appointing an administrative receiver and/or provide that any of the exceptions shall cease to have effect. No assurance can be made that any such modification or provisions in respect of the Capital Market Exception will not be detrimental to the interests of the Second Issue Debenture Bondholders.

A receiver (including an administrative receiver) will generally act as the agent of the company in respect of which he has been appointed until the company’s liquidation, and thus, while acting within his powers, will enter into agreements and take actions in the name of, and on behalf of, the company. The receiver will be personally liable on any contract entered into by him in carrying out his functions (except insofar as the contract provides otherwise), but will have the benefit of an indemnity from the assets of the company. If, however, the receiver’s appointer unduly directed or interfered with or influenced the receiver’s actions, a court may decide that the receiver was the agent of his appointer and that his appointer should be responsible for the receiver’s acts and omissions.

The Borrower Group Security Trustee and the Issuer Security Trustee are entitled to receive remuneration and reimbursement for their respective expenses and an indemnity from the assets of the relevant Obligors or Charging Companies (each a **Security Provider** and, together, the **Security Providers**) (as the case may be) and the Issuer for their potential liabilities. Such payments to the Borrower Group Security Trustee will rank ahead of the interest and principal due under the Issuer/Borrower Facility Agreement (and, in turn, payments by the Issuer under the Second Issue Debenture Bonds). Such payments to the Issuer Security Trustee will rank ahead of payments by the Issuer under the Debenture Bonds, including the Second Issue Debenture Bonds. Accordingly, should the Borrower Group Security Trustee or the Issuer Security Trustee become liable for acts of any receiver appointed by them, the amount that would otherwise be available for payment to the Debenture Bondholders, including the Second Issue Debenture Bondholders, may be reduced.

If the company to which a receiver is appointed goes into liquidation, then (as noted above) the receiver will cease to be that company’s agent. At such time, he will then act as either agent of his appointer or principal according to the facts existing at that time. If he acts as agent of his appointer, then for the reasons set out in the foregoing

paragraph, the amount that would otherwise be available for payment to Debenture Bondholders, including the Second Issue Debenture Bondholders, may be reduced. If the receiver acts as principal and incurs a personal liability, he will have a right of indemnity out of the assets in his hands in respect of that liability and the amount that would otherwise have been available for payment to the Debenture Bondholders, including the Second Issue Debenture Bondholders (subject to any claims of any prior-ranking creditors, including the Issuer Security Trustee or Borrower Group Security Trustee, to such amount), would be reduced accordingly.

5.2 Small companies moratorium

Certain “small companies”, for the purposes of putting together proposals for a company voluntary arrangement, may seek court protection from their creditors by way of a “moratorium” for a period of up to 28 days, with the option for creditors in some circumstances to extend this protection for up to a further two months (although the Secretary of State may, by order, extend or reduce the duration of either period).

A “small company” is defined for these purposes by reference to whether the company meets certain tests relating to a company’s balance sheet, total turnover and average number of employees in a particular period (although the Secretary of State may, by order, modify the moratorium eligibility qualifications and the definition of “small company”).

During the period for which a moratorium is in force in relation to a company, among other things, no winding up process may be commenced or administration application made or administrative receiver appointed to that company, no security created by that company over its property may be enforced (except with the leave of the court), no other proceedings or legal process may be commenced or continued in relation to that company (except with the leave of the court) and the company’s ability to make payments in respect of debts and liabilities existing at the date of the filing for the moratorium is curtailed. In addition, if the holder of security (the **Chargee**) created by that company consents or if the court gives leave, the company may dispose of the secured property as if it were not subject to the security. Where the property in question is subject to a security which, as created, was a floating charge, the Chargee will have the same priority in respect of any property of the company directly or indirectly representing the property disposed of as he would have had in respect of the property subject to the security. Where the security in question is other than a floating charge, it will be a condition of the Chargee’s consent or the leave of the court that the net proceeds of the disposal shall be applied towards discharging the sums secured by the security.

Certain small companies may, however, be excluded from being eligible for a moratorium (although the Secretary of State may, by regulations, modify such exclusions), including those which, at the time of filing for the moratorium, are party to a capital market arrangement under which a party incurs or, when the agreement in question was entered into was expected to incur, a debt of at least £10 million under the arrangement and which involves the issue of a capital market investment. The definitions of “capital market arrangement” and “capital market investment” are broadly equivalent to those used in the exception to the prohibition on the appointment of an

administrative receiver and, similarly, it is expected that the exclusion will apply in respect of both the Issuer and the Borrowers in the context of the transactions described in this Second Issue Prospectus. There is also an exclusion from being eligible for a moratorium for companies that, on the date of filing, have incurred a liability (including a future contingent liability) of at least £10 million and therefore it is expected that this exclusion would also apply in respect of the Issuer and the Borrowers in the context of the transactions described in this Second Issue Prospectus.

5.3 Prescribed part of floating charge realisations

As explained above, the provisions of the Enterprise Act amending the corporate insolvency provisions of the Insolvency Act came into force on 15 September 2003. In addition to the introduction of a prohibition on the appointment of an administrative receiver, the Enterprise Act inserted section 176A of the Insolvency Act, which provides that any receiver, liquidator or administrator of a company is required to make a “prescribed part” of the company’s “net property” available for the satisfaction of unsecured debts in priority to the claims of the floating charge holder. This requirement applies to all floating charges created on or after 15 September 2003, including those that fall within the exception to the appointment of administrative receivers such as those created under the Borrower Group Deed of Charge and the Issuer Deed of Charge.

The company’s “net property” is defined as the chargor’s property which would be available for satisfaction of debts due to the holder(s) of any debentures secured by a charge that, as created, was a floating charge and so refers to any floating charge realisations less any amounts payable to preferential creditors or in respect of expenses of the receivership, liquidation or administration (as the case may be) which are permitted by law to be paid out of floating charge realisations. The “prescribed part” is defined in the Insolvency Act 1986 (Prescribed Part) Order 2003 (SI 2003/2097) to be an amount equal to 50 per cent. of the first £10,000 of floating charge realisations plus 20 per cent. of the floating charge realisations thereafter, provided that such amount may not exceed £600,000.

The obligation does not apply if the net property is less than a prescribed minimum (currently £10,000) and the relevant officeholder (i.e. the receiver, the liquidator or administrator) is of the view that the cost of making a distribution to unsecured creditors would be disproportionate to the benefits. The relevant officeholder may also apply to court for an order that the provisions of section 176A of the Insolvency Act should not apply on the basis that the cost of making a distribution would be disproportionate to the benefits even if the net property exceeds the prescribed minimum.

Accordingly, in relation to the floating charges created under the Borrower Group Deed of Charge and the Issuer Deed of Charge, any realisations from the enforcement of those charges may be reduced by the operation of the ring-fencing provisions.

5.4 Recharacterisation of fixed security interests and limitations of floating security

There is a possibility that a court could find that the fixed security interests expressed to be created by the Borrower Group Deed of Charge, the Issuer Deed of Charge and any

other security documents governed by English law could take effect as floating charges, since the description given to them as fixed charges is not determinative. There is no equivalent concept of recharacterisation of fixed security as floating charges under Scots law.

Where the Security Provider is free to deal with the assets over which English law security has been granted without the consent of the Borrower Group Security Trustee or, as applicable, the Issuer Security Trustee, the court would be likely to hold that the security interest in question constitutes a floating charge, notwithstanding that it may be described as a fixed charge in the underlying document.

Whether the fixed security interests expressed to be created by the Borrower Group Deed of Charge, the Issuer Deed of Charge and the other English law security documents, will be upheld as fixed security interests rather than floating security interests will depend, among other things, on whether the Borrower Group Security Trustee or, as the case may be, the Issuer Security Trustee has the requisite degree of control over the relevant Security Providers' or, as the case may be, the Issuer's ability to deal in the relevant assets and the proceeds thereof and, if so, whether such control is exercised by the Borrower Group Security Trustee or, as the case may be, the Issuer Security Trustee in practice. In this regard, it should be noted that the Leased Borrower is, to carry out effective estate management, permitted to agree to amendments, waivers and consents to, and under, the provisions of any tenancy agreement entered into between any Obligor (including the Leased Borrower) and the operator of a pub (including a tenancy at will) in respect of a leased pub in the Borrower Group Estate, including in respect of the payment of rents.

If the fixed security interests are recharacterised as floating security interests, the claims of: (i) the unsecured creditors of the relevant Security Provider or, as the case may be, the Issuer in respect of that part of the Security Provider's or, as the case may be, the Issuer's net property which is ring fenced as a result of the Enterprise Act (see "*Receivership*", above); and (ii) certain statutorily defined preferential creditors of the relevant Security Provider or, as the case may be, the Issuer, may have priority over the rights of the Borrower Group Security Trustee or, as the case may be, the Issuer Security Trustee, to the proceeds of enforcement of such security. In addition, the expenses of an administration would also rank ahead of the claims of the Borrower Group Security Trustee or, as the case may be, the Issuer Security Trustee as floating charge holder (see below in respect of liquidation expenses).

A receiver appointed by the Borrower Group Security Trustee or the Issuer Security Trustee would be obliged to pay preferential creditors out of floating charge realisations in priority to payments to the Borrower Group Secured Creditors or the Issuer Secured Creditors (including the Second Issue Debenture Bondholders), respectively. However, following the coming into force of the insolvency provisions of the Enterprise Act on 15 September 2003, the only remaining categories of preferential debts are certain amounts payable in respect of occupational pension schemes, employee remuneration and levies on coal and steel production.

Furthermore, if a receiver were appointed in respect of the Issuer or any Security Provider and such company were subsequently placed into a liquidation which ran

concurrently with the receivership, the receiver would be obliged to pay the expenses of a concurrent liquidator in priority to payments to the Borrower Group Security Trustee or the Issuer Security Trustee, as floating charge holder, as the case may be. If the Borrower Group Security Trustee or the Issuer Security Trustee were prohibited from appointing an administrative receiver by virtue of the amendments made to the Insolvency Act by the Enterprise Act, or failed to exercise their respective rights to appoint an administrative receiver within the relevant notice period and the relevant Security Provider or, as the case may be, the Issuer were to go into administration, the expenses of the administration would also rank ahead of the claims of the Borrower Group Security Trustee or Issuer Security Trustee, as floating charge holder, as the case may be.

Furthermore, in such circumstances, the administrator would be free to dispose of floating charge assets without the leave of the court, although the Borrower Group Security Trustee or the Issuer Security Trustee (as the case may be) would have the same priority in respect of the property of the company representing the proceeds of disposal of such floating charge assets as it would have had in respect of such floating charge assets.

Section 245 of the Insolvency Act provides that, in certain circumstances, a floating charge granted by a company is void save to the extent of certain types of consideration received by the chargor at the same time or after the creation of the charge. If a floating charge is held to be wholly invalid then it will not be possible to appoint an administrative receiver of such company and, therefore, it will not be possible to prevent the appointment of an administrator of such company. Section 245 of the Insolvency Act provides that, if a liquidator or administrator is appointed to the relevant chargor within a period of up to two years (the "relevant time") commencing upon the date on which that chargor grants a floating charge, then that floating charge will only be valid to the extent of certain types of consideration received by that Obligor at the same time or after the creation of the charge.

5.5 Security for Second Issue Debenture Bonds

The Second Issue Debenture Bonds are, as set out in the First Supplemented Trust Deed and the Trust Deed (as supplemented, amended and restated thereby), "New Debenture Bonds", as referred to in the Trust Deed prior to its being supplemented, amended and restated (the **Original Trust Deed**) and the Issuer Deed of Charge prior to its being supplemented, amended and restated (the **Original Issuer Deed of Charge**) on the Second Issue Date, and the Second Issue Debenture Bonds are, accordingly, expressed to be entitled, pursuant to the terms of, *inter alia*, the Original Trust Deed and the Original Issuer Deed of Charge, to benefit from the existing security constituted by and pursuant to the Issuer Deed of Charge and the other Issuer Security Documents. Similarly, the Second Issue Term Advances are, as set out in the amendment and restatement agreement relating to the Issuer/Borrower Facility Agreement dated on or about the Second Issue Date and the Issuer/Borrower Facility Agreement (as amended and restated thereby), "New Term Advances", as referred to in the Issuer/Borrower Facility Agreement prior to its being amended and restated (the **Original Issuer/Borrower Facility Agreement**) and the Borrower Group Deed of Charge prior to its being supplemented, amended and restated (the **Original Borrower**

Group Deed of Charge) on the Second Issue Date, and the Second Issue Term Advances are, accordingly, expressed to be entitled, pursuant to the terms of, *inter alia*, the Original Issuer/Borrower Facility Agreement and the Original Borrower Group Deed of Charge, to benefit from the existing security constituted by the Borrower Group Deed of Charge and the other Borrower Group Security Documents.

Notwithstanding the foregoing, were a court to hold that the date of the creation of the security constituted by and pursuant to the Issuer Deed of Charge and the other Issuer Security Documents, insofar as it relates to the Second Issue Debenture Bonds, and/or the security constituted by and pursuant to the Borrower Group Deed of Charge and the other Borrower Group Security Documents, insofar as it relates to the Second Issue Term Advances, should be treated as being the Second Issue Date (or the Second Closing Date), such security would be capable of being avoided in certain prescribed circumstances, as described in the following sections. Furthermore, if the Borrowers acquire additional property in the future and (pursuant to the Borrower Group Deed of Charge) create supplemental security over it, such security may also be capable of being avoided in such circumstances.

Transaction at an undervalue

Under English law, an administrator or liquidator of a security provider can apply to the court to set aside the grant of security or of a guarantee (as the case may be) as a transaction at an undervalue, provided that such security provider was unable to pay its debts (as defined in section 123 of the Insolvency Act) at the time of entering into the transaction, or became so as a consequence of the transaction, and entered into liquidation or administration within two years of the granting of such security or guarantee (as the case may be).

A transaction might be considered to be at an undervalue if its terms do not provide for any consideration so that it would be deemed a gift, or if the value of the consideration given is significantly less than the value of the benefit received.

If an administrator or liquidator can demonstrate that these criteria have been met, the court would be entitled to make such order as it sees fit in order to restore the position to what it would have been if the security provider had not entered into the transaction in question. The court would be unlikely to make such an order if it were satisfied that the grant of security or guarantee was (a) made in good faith by the security provider for the purpose of the security provider carrying on its business, and (b) that at the time the security provider granted the security or guarantee there were reasonable grounds for believing that the grant of such security or guarantee would benefit the security provider.

The Spirit Group believes that the security constituted by the Issuer Deed of Charge and the other Issuer Security Documents in respect of the Second Issue Debenture Bonds and the guarantees granted under the Issuer/Borrower Facility Agreement and the security constituted by the Borrower Group Deed of Charge and the other Borrower Group Security Documents in respect of the Second Issue Term Advances is granted in good faith by the Issuer and the relevant members of the Borrower Group, respectively, and for the purpose of the carrying on of the such companies' respective businesses and that, at the time of the granting of the same, there were reasonable grounds for

believing that the transactions pursuant to which such guarantees and security were granted would benefit such companies. There can be no assurance, however, that an administrator or liquidator of the Issuer or any relevant member of the Borrower Group would not challenge the grant of such security nor that the court will support such analysis of the nature of these transactions.

Preferences

In addition to the above, an administrator or liquidator of the Issuer or a member of the Borrower Group could apply to the court to set aside the grant of any of the above-mentioned guarantees or security as a preference. Generally, under English law, a company gives a preference to a person if it does or suffers something to be done so that a person is in a position where, in the event of the insolvent liquidation of the said company, it will be in a better position than it would otherwise have been in. Any application by an administrator or liquidator to the court for the setting aside of a grant of any guarantee or security as a preference would have to show that the company providing such security or guarantee was either unable to pay its debts at the time of entering into the preferential transaction, or became so as a consequence of the preferential transaction, the company providing such security or guarantee must have entered into the “onset of insolvency” (as defined in section 240(3) of the Insolvency Act) within six months of the granting of such guarantee or security. If the beneficiary of such guarantee or security was “connected” (as defined in section 249 of the Insolvency Act) with the company providing such security or guarantee, the relevant period for which the security or guarantee is vulnerable to challenge by an administrator or liquidator would be extended to two years.

For an administrator or liquidator to bring a successful challenge, it must show that the company alleged to have granted the preference was influenced by a desire to put the person in a position where, in the event of the insolvent liquidation of the company providing such security or guarantee, it will be in a better position than it would otherwise have been in. In the event that the beneficiary of such guarantee or security was a person “connected” (as defined in section 249 of the Insolvency Act) with the company providing such security or guarantee, there is a rebuttable presumption that the company desired to put the person in a position where, in the event of the insolvent liquidation of the company providing such security or guarantee, it will be in a better position than it would otherwise have been in. If an administrator or liquidator can demonstrate that these criteria have been met, the court would be entitled to make such order as it thinks fit in order to restore the position to what it would have been if the company in question had not given the preference.

The Spirit Group believes that the security constituted by the Issuer Deed of Charge and the other Issuer Security Documents in respect of the Second Issue Debenture Bonds and the guarantees granted under the Issuer/Borrower Facility Agreement and the security constituted by the Borrower Group Deed of Charge and the other Borrower Group Security Documents in respect of the Second Issue Term Advances does not constitute a preference to a creditor and, in the event that the Issuer and the other relevant members of the Borrower Group has created a preference to a creditor, the Spirit Group believes that the Issuer and the other relevant members of the Borrower Group would have done so without the requisite desire to produce this effect. There

can be no assurance, however, that an administrator or liquidator of the Issuer or any relevant member of the Borrower Group would not claim that the grant of such security constitutes a preferential transaction, nor that the court will support such analysis of the nature of these transactions.

Transactions defrauding creditors

Under English law, if it can be demonstrated that any company provided a guarantee or security at an undervalue for the purpose of putting assets beyond the reach of a person who is making, or may make, a claim against such company, or of otherwise prejudicing the interests of such person in relation to such claim, it may be set aside as a transaction defrauding creditors. Under section 423 of the Insolvency Act, a victim of the transaction is entitled to challenge the granting of any guarantee or security on these grounds. The provision of security by the Issuer and the relevant members of the Borrower Group could therefore be vulnerable to claims from parties other than an administrator or liquidator of such company. There is no requirement for a person bringing a claim on this basis to demonstrate that the relevant company was unable to pay its debts at the time of entering into the relevant transaction, or that it became so as a consequence thereof. In addition, there are no time limits prescribed by the Insolvency Act within which an eligible party may challenge a transaction as a transaction defrauding creditors.

The Spirit Group believes that the security constituted by the Issuer Deed of Charge and the other Issuer Security Documents in respect of the Second Issue Debenture Bonds and the guarantees granted under the Issuer/Borrower Facility Agreement and the security constituted by the Borrower Group Deed of Charge and the other Borrower Group Security Documents in respect of the Second Issue Term Advances does not constitute a transaction defrauding creditors. There can be no assurance, however, that an administrator or liquidator of the Issuer or any relevant member of the Borrower Group would not claim that the grant of such security constitutes a transaction defrauding creditors, or that the court will support such analysis of the nature of these transactions.

Avoidance of floating charges

An administrator or liquidator of a company can apply to the court to set aside a floating charge if the company was unable to pay its debts at the time of creating the charge, or as a consequence of creating the charge, and the charge was created in the period of 12 months ending with the "onset of insolvency" (as defined in section 245(5) of the Insolvency Act). Where the floating charge is created in favour of a person who is "connected" (as defined in section 249 of the Insolvency Act) with the company, this period is extended to two years and the company is not required to have been unable to pay its debts. However, the floating charge will be validated to the extent of the value of the consideration that has been provided for the creation of the charge in the form of money paid to, or goods or services supplied to, or any discharge or reduction of any debt of, the company at the same time as, or after, the creation of the charge, including any interest payable on such amounts. If the floating charge constitutes a security financial collateral agreement under the Financial Collateral Arrangements (No. 2)

Regulations 2003, the floating charge will not be vulnerable to challenge as described in this paragraph.

The Spirit Group believes that the floating charges created by the Issuer Deed of Charge and the Borrower Group Deed of Charge are and will not be deemed invalid or challenged as invalid. There can be no assurance, however, that a creditor of the Issuer or any member of the Borrower Group would not claim that the floating charges granted by such companies under such documents are invalid, or that the court would not support such analysis.

5.6 Regulatory initiatives may result in increased regulatory capital requirements and/or decreased liquidity in respect of the Debenture Bonds

In Europe, the United States and elsewhere, there is increased political and regulatory scrutiny of the asset-backed securities industry. This has resulted in a raft of measures for increased regulation, including, without limitation, Article 122a (**Article 122a**) of European Union Directive 2006/48/EC (as amended by Directive 2009/111/EC, which, together with Directive 2006/49/EC, forms the second Capital Requirements Directive, the **CRD**), Directive 2009/138/EC (**Solvency II**), Directive 2011/61/EC (the **Alternative Investment Fund Managers Directive** or **AIFMD**) and a new Capital Requirements Regulation (**CRR**) and recast CRD (known as **CRD IV**), which are currently at various stages of implementation and which may have an adverse impact on the regulatory capital charge to certain investors in securitisation exposures and/or the incentives for certain investors to invest in securities issued under such structures, and may thereby affect the liquidity of such securities.

Article 122a provides that an EU credit institution shall only be exposed to the credit risk of a "securitisation position" if (a) the originator, sponsor or original lender has represented that it will retain, on an ongoing basis, a material net economic interest in the securitisation of not less than five per cent., and (b) it is able to demonstrate to its regulator on an ongoing basis that it has a comprehensive and thorough understanding of the key terms, risks and performance of such securitisation position. Failure by an EU credit institution investor to comply with the requirements of Article 122a in relation to any applicable investment will result in an increased capital charge to, or increased risk-weighting applying to, such investor in respect of that investment.

No retention representation of the sort referred to in the preceding paragraph has been made by the Issuer or any member of the Spirit Group in relation to this transaction, nor have any other representations or undertakings relating to Article 122a or similar regulatory requirements been given.

The Issuer is of the opinion that the Debenture Bonds (including the Second Issue Debenture Bonds) do not constitute an exposure to a securitisation position for the purposes of Article 122a. The Issuer is therefore of the opinion that the requirements of Article 122a should not apply to holders of the Second Issue Debenture Bonds. However, potential investors in the Second Issue Debenture Bonds should be aware that the regulatory capital treatment of any investment in the Second Issue Debenture Bonds will be determined by the interpretation which an investor's regulator places on the provisions of the CRD and the provisions of national law which implement it.

Although market participants have, in consultations relating to these regulatory reforms, requested guidance on the structures captured by the definitions, no definitive guidance has been forthcoming. Therefore some uncertainty remains as to which transactions are subject to Article 122a.

As a result of, among other measures, the AIFMD and Solvency II, similar requirements to those set out in Article 122a are expected to be implemented for other EU-regulated investors, including investment firms, UCITS and/or certain hedge fund managers and insurance or reinsurance undertakings. Article 122a itself will be replaced, with effect from 1 January 2014, by similar requirements under the CRR, although recently released regulatory technical standards, and commentary from European politicians, suggests that it may be interpreted differently from the current regulatory requirements. Article 122a, the AIFMD, Solvency II and the CRR and/or any further changes to the regulation or regulatory treatment of the Debenture Bonds for some or all investors may negatively affect the price and liquidity of the Debenture Bonds (including the Second Issue Debenture Bonds) in the secondary market.

Investors in the Second Issue Debenture Bonds are responsible for analysing their own regulatory position and should not rely on the Issuer's opinion set out above. Investors should consult their regulator should they require guidance in relation to the regulatory capital treatment that their regulator would apply to an investment in the Second Issue Debenture Bonds.

5.7 Change of law

The structure of the transaction and, *inter alia*, the issue of the Second Issue Debenture Bonds and ratings assigned thereto are based on the law, and HM Revenue & Customs practice in relation to tax in effect in the United Kingdom at the Second Closing Date, and having due regard to the expected tax treatment of all relevant entities under such law and practice. No assurance can be given as to the impact of any possible change to such law, and HM Revenue & Customs practice in relation to tax after the Second Closing Date.

The Issuer believes that the risks described above are the principal risks inherent in the transaction for Second Issue Debenture Bondholders, but an inability of the Issuer to pay interest, principal or other amounts on or in connection with the Second Issue Debenture Bonds may occur for other reasons and the Issuer does not represent that the above statements regarding the risks of holding the Second Issue Debenture Bonds are exhaustive. Although the Issuer believes that the various structural elements described in this Second Issue Prospectus lessen some of these risks for Second Issue Debenture Bondholders, there can be no assurance that these measures will be sufficient to ensure payment to Second Issue Debenture Bondholders of interest, principal or any other amounts due on or in connection with the Second Issue Debenture Bonds on a timely basis or at all.

OVERVIEW

The following summary information should be read as an introduction to the more detailed information appearing elsewhere in this Second Issue Prospectus. Any investment decision relating to the Second Issue Debenture Bonds should be based on the consideration of this Second Issue Prospectus as a whole and not solely on this summarised information.

SPIRIT GROUP

The Spirit Group is a leading managed and leased and tenanted pub group whose business comprised 1,225 pubs as at 12 October 2013. Spirit Pub Company plc (**Spirit plc**) is the ultimate parent of the Spirit Group. Spirit plc's entire issued ordinary share capital is listed on the London Stock Exchange. The initial public offering of shares in Spirit plc was completed in August 2011, following Spirit plc's demerger from the Punch Taverns plc group of companies.

HISTORY OF THE SPIRIT GROUP AND THE SPIRIT DEBENTURE

The Spirit Group and the original Spirit Debenture structure

The Spirit Group was originally formed as a result of the demerger of the managed pub business of Punch Taverns Limited (now Punch Taverns plc) and its subsidiaries (the **Punch Group**), which occurred in March 2002. It subsequently expanded by acquiring other portfolios of managed pubs, including the managed pub estate of Scottish & Newcastle plc (now Heineken UK Limited).

In November 2004, the Spirit Group was reorganised and refinanced (collectively, the **2004 Refinancing**). The majority of the Spirit Group's estate was transferred to two companies:

- (a) the Managed Borrower (now known as Spirit Pub Company (Managed) Limited, but then known as Spirit Managed Pubs Limited), which was financed by, *inter alia*, the proceeds of the issue of the Original Debenture Bonds by the Issuer (the secured financing structure of which such issue formed part being the **Spirit Debenture**); and
- (b) Spirit Managed Inns Limited (**BankCo**), which was financed by, *inter alia*, a £600 million secured syndicated bank loan (the **BankCo Loan**).

In addition, a separate £275 million secured syndicated bank loan (the **LoanCo Loan**) was made available to Spirit Managed Funding Limited (**LoanCo**), and various intra-group subordinated loans were advanced as part of a recapitalisation of the Spirit Group. Both the Managed Borrower and BankCo received administrative services from AdminCo (now known as Spirit Pub Company (Services) Limited, but then known as Spirit Administrative Services Limited) and received supplies from SupplyCo (now known as Spirit Pub Company (Supply) Limited, but then known as Spirit Supply Company Limited).

When it was established as part of the 2004 Refinancing, the Spirit Debenture included only a single operating company, the Managed Borrower, which was funded by, *inter alia*, term advances made by the Issuer under the Issuer/Borrower Facility Agreement, which were funded, in turn, by the issue of the Original Debenture Bonds by the Issuer. The aggregate principal amount of the Original Debenture Bonds, on issue, was £1,250 million.

Both the BankCo Loan and the LoanCo Loan benefitted from second-ranking security over the Borrower Group's assets, which was subordinated to the security granted by the members of the Borrower Group in favour of the Borrower Group Security Trustee for the benefit of, among others, the Issuer and, ultimately, the holders of the Original Debenture Bonds.

Details of the original structure of the Spirit Debenture and the other matters referred to above were set out in the offering circular dated 24 November 2004 which was published in connection with the issue and listing of the Original Debenture Bonds (the **Original Offering Circular**). For the avoidance of doubt, the Original Offering Circular is not incorporated into, and does not form part of, this Second Issue Prospectus.

The Punch acquisition and the 2006 Debenture Restructuring

In January 2006, the Punch Group completed its acquisition of Spirit Group Holdings Limited (which, at that time, was the ultimate holding company of the Spirit Group), thus bringing the Spirit Group back under the control of the Punch Group. As part of the acquisition, the BankCo Loan and the LoanCo Loan were both repaid, such repayment being funded principally through the proceeds of a secured syndicated bank loan facility made available to Punch Taverns plc (the **Punch Credit Facility**). The Punch Credit Facility benefitted from, *inter alia*, second-ranking security over the Borrower Group's assets, which was (in the same way as the security previously granted in respect of the BankCo Loan and the LoanCo Loan) subordinated to the security granted by the members of the Borrower Group in favour of the Borrower Group Security Trustee for the benefit of, among others, the Issuer and, ultimately, the holders of the Original Debenture Bonds.

During 2006, the Spirit Group estate was reorganised, with a number of pubs being sold to third parties, or transferred to the Punch Group, in a series of disposals. Furthermore, in July and August 2006, a number of amendments (the **2006 Debenture Restructuring**) were made to the structure of the Spirit Debenture (such amendments having previously been approved by holders of the Original Debenture Bonds). These amendments were principally designed to accommodate the establishment of the Leased Borrower (now known as Spirit Pub Company (Leased) Limited, but then known as Punch Taverns (Pubs) Limited), as a second operating company within the Spirit Debenture, and the conversion of certain managed pubs within the Spirit Group estate to a leased and tenanted operating format.

Details of the 2006 Debenture Restructuring were set out in two memoranda to the Debenture Bondholders dated, respectively, 8 June 2006 and 31 July 2006, which were circulated in connection with the convening of meetings of the holders of the Original Debenture Bonds in order to approve the proposals (the **2006 Debenture Restructuring Memoranda**). For the avoidance of doubt, the 2006 Debenture Restructuring Memoranda are not incorporated into, and do not form part of, this Second Issue Prospectus.

Following the 2006 Debenture Restructuring, several hundred managed pubs within the Spirit Group estate were transferred to the Leased Borrower and converted into a leased and tenanted operating format. The Spirit Group estate was also re-organised, and a significant number of pubs sold to third parties, such that BankCo ceased to hold any pubs, and the Managed Borrower and the Leased Borrower became the primary operating companies within the Spirit Group (with a smaller number of managed pubs held outside the Spirit Debenture by Spirit Managed (Trent) Limited (now Spirit Pub Company (Trent) Limited)).

The Punch Credit Facility was fully repaid and cancelled in March 2009.

In May 2009, the contractual restrictions on disposals of pubs by the Borrowers were amended, so as to allow the Borrowers to agree (within specified parameters) the level of those restrictions with Ambac (the **2009 Disposal Restriction Amendments**).

Details of the 2009 Disposal Restriction Amendments were set out a circular to the Debenture Bondholders dated 15 May 2009, which was circulated in connection with the convening of a meeting of the holders of the Original Debenture Bonds in order to approve the proposals (the **2009 Disposal Restriction Circular**). For the avoidance of doubt, the 2009 Disposal Restriction Circular is not incorporated into, and does not form part of, this Second Issue Prospectus.

On 19 April 2011, in accordance with the existing provisions of the Spirit Debenture documentation, arrangements were put in place in order to permit the transfer of leased and tenanted pubs from the Leased Borrower to the Managed Borrower, so that they could be converted into a managed operating format.

Demerger from Punch and subsequent events

The Spirit Group was demerged from the Punch Group for the second time on 1 August 2011 (the **Demerger**), and the shares of Spirit Pub Company plc, which is now the ultimate holding company of the Spirit Group, were admitted to trading on the main market of the London Stock Exchange on the same day.

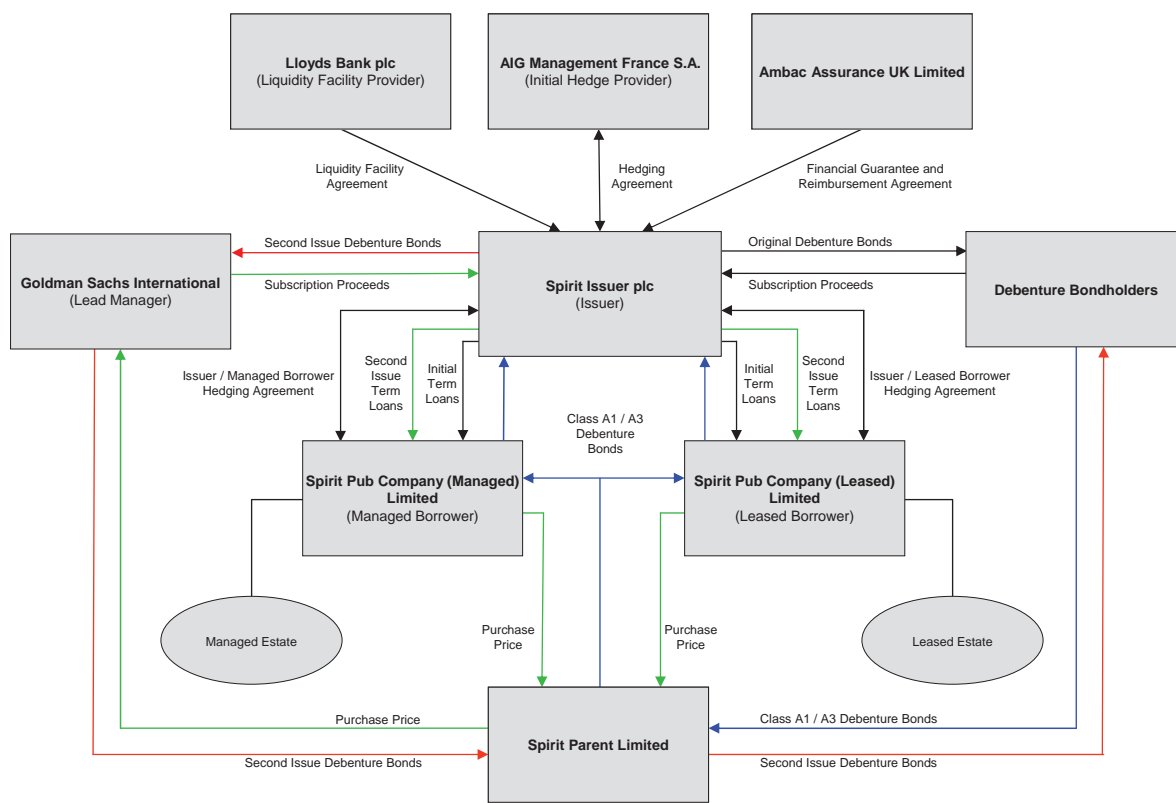
Although the Demerger did not require the Spirit Debenture to be restructured, it did leave the Spirit Group reliant, for a transitional period, on the Punch Group for certain administrative and supply arrangements. This transitional period was brought to an end in February 2012, at which point the internal supply and services arrangements between AdminCo, SupplyCo, the Managed Borrower and the Leased Borrower were amended (the **Supply and Services Amendments**).

Details of the Supply and Services Amendments were set out in a notice to the Debenture Bondholders dated 2 March 2012 (the **Supply and Services Notice**). For the avoidance of doubt, the Supply and Services Notice is not incorporated into, and does not form part of, this Second Issue Prospectus.

In October 2012, certain amendments were made to the hedging agreements between, *inter alios*, the Issuer and AIG, in order to address the downgrade of AIG's credit ratings below the originally specified minimum level (the **Hedging Amendments**).

Aside from the matters outlined above, no significant further amendments have been made to the Spirit Debenture structure since the 2006 Debenture Restructuring, and the Spirit Debenture continues to be supported by the revenues from the Managed Estate and the Leased Estate, which together represent the substantial majority of the Spirit Group estate.

SUMMARY OF SECOND ISSUE CASH AND DEBENTURE BOND MOVEMENTS



KEY PARTIES TO THE TRANSACTION

| | |
|--------------------------------|---|
| Issuer | Spirit Issuer plc (the Issuer) is a public limited company incorporated in England and Wales with registered number 05266745. The Issuer's primary purpose is to issue bonds and to lend the proceeds thereof to the Borrowers. |
| Managed Borrower | Spirit Pub Company (Managed) Limited (the Managed Borrower) is a private limited company incorporated in England and Wales with registered number 05269240. The Managed Borrower is an operating company in the Spirit Debenture and one of the borrowers under the Issuer/Borrower Facility Agreement. |
| Leased Borrower | Spirit Pub Company (Leased) Limited (the Leased Borrower and, together with the Managed Borrower, the Borrowers) is a private limited company incorporated in England and Wales with registered number 05699544. The Leased Borrower is an operating company in the Spirit Debenture and one of the borrowers under the Issuer/Borrower Facility Agreement. |
| Obligors | The Borrowers, Spirit Pubs Debenture Holdings Limited (Borrower Group Parent), a private limited company incorporated in England and Wales with registered number 05266779, and Spirit Pubs Parent Limited (New ParentCo), a private limited company incorporated in England and Wales with registered number 05267589. The Obligors provide certain covenants to the Issuer under the Issuer/Borrower Facility Agreement. |
| Debenture Bond Trustee | Deutsche Trustee Company Limited acts as trustee for the holders of the Original Debenture Bonds (the Original Debenture Bondholders) and will also act as trustee for the holders of the Second Issue Debenture Bonds (the Second Issue Debenture Bondholders and, together with the Original Debenture Bondholders, the Debenture Bondholders) (in this capacity, the Debenture Bond Trustee). The Debenture Bond Trustee is appointed pursuant to the Trust Deed, as supplemented by a supplemental trust deed entered into on the Second Issue Date. |
| Issuer Security Trustee | Deutsche Trustee Company Limited acts as security trustee under the Issuer Deed of Charge for the |

benefit of the Issuer Secured Creditors (in this capacity, the **Issuer Security Trustee**). The Issuer Security Trustee is entitled to enforce the security granted in its favour under the Issuer Deed of Charge (and, in certain circumstances, can be directed to do so).

Borrower Group Security Trustee

Deutsche Trustee Company Limited acts as security trustee under the Borrower Group Deed of Charge for the benefit of the Borrower Group Secured Creditors (in this capacity, the **Borrower Group Security Trustee**). The Borrower Group Security Trustee will be entitled to enforce the security granted in its favour under the Borrower Group Deed of Charge (and, in certain circumstances, can be directed to do so).

Hedge Provider

AIG Management France S.A. (formerly known as Banque AIG) (as **Initial Hedge Provider**).

Liquidity Facility Provider

One or more banks, each of which has a rating assigned for its short-term unsecured, unsubordinated and unguaranteed debt obligations of at least “A-1”/“F1” (or its long-term equivalent) from S&P and Fitch and a rating assigned to its short-term unsecured, unsubordinated and unguaranteed debt obligations of at least “P-1” from Moody’s. As at the date of this Second Issue Prospectus, the Liquidity Facility Provider is Lloyds Bank plc. Hereafter, each Liquidity Facility Provider must have a rating assigned to its short-term unsecured, unsubordinated and unguaranteed debt obligations of at least “A-1”/“F1” (or its long-term equivalent) from S&P and Fitch and a rating assigned to its short term unsecured, unsubordinated and unguaranteed debt obligations of at least “P-1” from Moody’s (the **Liquidity Facility Requisite Rating**).

Account Bank

A bank which has a rating assigned to its short-term unsecured, unsubordinated and unguaranteed debt obligations of at least “A-1”/“F1”/“P-1” (or its long-term equivalent) from S&P, Fitch and Moody’s respectively. The Account Bank provides cash management services pursuant to the Bank Agreement. As at the date of this Second Issue Prospectus, the Account Bank is Barclays Bank plc.

Agent Bank

Deutsche Bank AG, London Branch. The Agent Bank will provide interest calculation services pursuant to

the Agency Agreement.

Principal Paying Agent

Deutsche Bank AG, London Branch. The Principal Paying Agent provides payment services in respect of the Original Debenture Bonds and will provide payment services in respect of the Second Issue Debenture Bonds pursuant to the Agency Agreement.

SUMMARY OF THE TERMS AND CONDITIONS OF THE SECOND ISSUE DEBENTURE BONDS AND RELATED MATTERS

The following is only a summary of, and should be read in conjunction with, and is qualified in its entirety by reference to, the more detailed information which appears elsewhere in this Second Issue Prospectus.

Key Characteristics of the Second Issue Debenture Bonds

| | Class A6 Debenture Bonds | Class A7 Debenture Bonds |
|---|--|--|
| Issuer | Spirit Issuer plc | Spirit Issuer plc |
| Denomination of Debenture Bonds | Minimum denomination of £100,000, and integral multiples of £1,000 thereafter up to £199,000 | Minimum denomination of £100,000, and integral multiples of £1,000 thereafter up to £199,000 |
| Total Nominal Amount | £101,293,000 | £58,352,000 |
| Issue Price | Class A6 Debenture Bonds will be issued at par | Class A7 Debenture Bonds will be issued at par |
| Interest Rate | Three-month LIBOR plus a margin of 1.80 per cent. per annum up to (but excluding) the Interest Payment Date falling in the Interest Payment Date falling in September 2018 and thereafter three-month LIBOR plus a margin of 1.80 per cent. per annum and a further margin of 1.50 per cent. per annum | 5.86 per cent. up to (but excluding) the Interest Payment Date falling in December 2014 and, thereafter three-month LIBOR plus a margin of 3.95 per cent. per annum up to (but excluding) the Interest Payment Date falling in September 2018 and, thereafter three-month LIBOR plus a margin of 3.95 per cent. per annum and a further margin of 1.50 per cent. per annum |
| Frequency of Payments of Interest | Quarterly, on each Interest Payment Date | Quarterly, on each Interest Payment Date |
| Frequency of Amortisation of Principal | Quarterly, commencing on the Interest Payment Date falling in March 2033 | Quarterly, commencing on the Interest Payment Date falling in March 2033 |
| Early Redemption Price | Par | The greater of par and Spens (calculated by using a discount rate of Gilts plus 0.50 |

per cent.) to (but excluding) the Interest Payment Date falling in September 2016, 103 per cent. of par from (and including) the Interest Payment Date falling in September 2016 to (but excluding) the Interest Payment Date falling in September 2017 and, from (and including) the Interest Payment Date falling in September 2017, par

| | | |
|--|---|---|
| Interest Payment Dates | 28 March, 28 June, 28 September and 28 December of each year (subject to adjustment for non-business days), the first Interest Payment Date being in December 2013 and the first Interest Period being from (and including) the Second Closing Date to (but excluding) such first Interest Payment Date | 28 March, 28 June, 28 September and 28 December of each year (subject to adjustment for non-business days), the first Interest Payment Date being in December 2013 and the first Interest Period being from (and including) the Second Closing Date to (but excluding) such first Interest Payment Date |
| Expected Average Life | Five years | Five years |
| Expected Maturity Date | Interest Payment Date falling in September 2018 | Interest Payment Date falling in September 2018 |
| Final Maturity Date | The Interest Payment Date falling in December 2036 | The Interest Payment Date falling in December 2036 |
| S&P Expected Rating¹ | BB(sf) | BB(sf) |
| Fitch Expected Rating² | BB | BB |
| Moody's Expected Rating³ | Ba2(sf) | Ba2(sf) |

¹ No rating is given in respect of payments of Step-Up Amounts or any Redemption Premium Amounts

² No rating is given in respect of payments of Step-Up Amounts or any Redemption Premium Amounts

³ No rating is given in respect of payments of Step-Up Amounts or any Redemption Premium Amounts

| | | |
|----------------------|--|--|
| Form at Issue | Global bearer | Global bearer |
| Listing | Application to list the Class A6 Debenture Bonds on the Main Securities Market of the Irish Stock Exchange has been made | Application to list the Class A7 Debenture Bonds on the Main Securities Market of the Irish Stock Exchange has been made |
| Clearing | Clearstream, Luxembourg and Euroclear | Clearstream, Luxembourg and Euroclear |
| Common Code | 098582835 | 098582959 |
| ISIN | XS0985828358 | XS0985829596 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Frequency of Amortisation of Principal | Quarterly, commencing on the Interest Payment Date falling in March 2014 | Quarterly, commencing on the Interest Payment Date falling in September 2026 | Quarterly, commencing on the Interest Payment Date falling in March 2015 | Quarterly, commencing on the Interest Payment Date falling in September 2019 | Quarterly, commencing on the Interest Payment Date falling in June 2029 | Quarterly, commencing on the Interest Payment Date falling in March 2033 | Quarterly, commencing on the Interest Payment Date falling in March 2033 |
| Early Redemption Price | 101 per cent. of par up to (but excluding) the Interest Payment Date falling in December 2005, and thereafter par | 102 per cent. of par up to (but excluding) the Interest Payment Date falling in December 2005, then 101 per cent. of par up to (but excluding) the Interest Payment Date falling in December 2006, and thereafter par | The greater of par and Spens to (but excluding) the Class A3 Step-Up Date and from (and including) the Class A3 Step-Up Date, par | The greater of par and Spens to (but excluding) the Class A4 Step-Up Date, and from (and including) the Class A4 Step-Up Date, par | The greater of par and Spens to (but excluding) the Class A5 Step-Up Date and from (and including) the Class A5 Step-Up Date, par | Par | The greater of par and Spens (calculated by using a discount rate of Gilts plus 0.50 per cent.) to (but excluding) the Interest Payment Date falling in September 2016, then 103 per cent. of par up to (but excluding) the Interest Payment Date falling in September 2017, and thereafter par |
| Interest Payment Dates | 28 March, 28 June, 28 September and 28 December of each year (subject to adjustment for non-business days), the first Interest Payment Date being 28 March 2005 and the first Interest Period being from (and including) the Original Closing Date to (but excluding) 28 March 2005 | 28 March, 28 June, 28 September and 28 December of each year (subject to adjustment for non-business days), the first Interest Payment Date being 28 March 2005 and the first Interest Period being from (and including) the Original Closing Date to (but excluding) 28 March 2005 | 28 March, 28 June, 28 September and 28 December of each year (subject to adjustment for non-business days), the first Interest Payment Date being 28 March 2005 and the first Interest Period being from (and including) the Original Closing Date to (but excluding) 28 March 2005 | 28 March, 28 June, 28 September and 28 December of each year (subject to adjustment for non-business days), the first Interest Payment Date being 28 March 2005 and the first Interest Period being from (and including) the Original Closing Date to (but excluding) 28 March 2005 | 28 March, 28 June, 28 September and 28 December of each year (subject to adjustment for non-business days), the first Interest Payment Date being 28 March 2005 and the first Interest Period being from (and including) the Original Closing Date to (but excluding) 28 March 2005 | 28 March, 28 June, 28 September and 28 December of each year (subject to adjustment for non-business days), the first Interest Payment Date being 28 December 2013 and the first Interest Period being from (and including) the Second Closing Date to (but excluding) such first Interest Payment Date | 28 March, 28 June, 28 September and 28 December of each year (subject to adjustment for non-business days), the first Interest Payment Date being 28 December 2013 and the first Interest Period being from (and including) the Second Closing Date to (but excluding) such first Interest Payment Date |
| Final Maturity Date | The Interest Payment Date falling in December 2028 | The Interest Payment Date falling in December 2031 | The Interest Payment Date falling in December 2021 | The Interest Payment Date falling in December 2027 | The Interest Payment Date falling in December 2034 | The Interest Payment Date falling in December 2036 | The Interest Payment Date falling in December 2036 |

| | | | | | | | |
|----------------------------------|--|---|--|---|--|--|--|
| Ambac Financial Guarantee | Unconditionally and irrevocably guaranteed in relation to Scheduled Interest and Ultimate Principal by Ambac | Not applicable | Unconditionally and irrevocably guaranteed in relation to Scheduled Interest and Ultimate Principal by Ambac | Not applicable | Unconditionally and irrevocably guaranteed in relation to Scheduled Interest and Ultimate Principal by Ambac | Not applicable | Not applicable |
| Form at Issue | Global bearer | Global bearer | Global bearer | Global bearer | Global bearer | Global bearer | Global bearer |
| Listing | Listed on the Luxembourg Stock Exchange | Listed on the Luxembourg Stock Exchange | Listed on the Luxembourg Stock Exchange | Listed on the Luxembourg Stock Exchange | Listed on the Luxembourg Stock Exchange | Application to list the Class A6 Debenture Bonds on the Main Securities Market of the Irish Stock Exchange has been made | Application to list the Class A7 Debenture Bonds on the Main Securities Market of the Irish Stock Exchange has been made |
| Clearing | Clearstream, Luxembourg and Euroclear | Clearstream, Luxembourg and Euroclear | Clearstream, Luxembourg and Euroclear | Clearstream, Luxembourg and Euroclear | Clearstream, Luxembourg and Euroclear | Clearstream, Luxembourg and Euroclear | Clearstream, Luxembourg and Euroclear |
| Common Code | 020640413 | 020640472 | 020640707 | 020640774 | 020640928 | 098582835 | 098582959 |
| ISIN | XS0206404138 | XS0206404724 | XS0206407073 | XS0206407743 | XS0206409285 | XS0985828358 | XS0985829596 |

Further Characteristics of the Second Issue Debenture Bonds

Ranking

The obligations of the Issuer in relation to the Second Issue Debenture Bonds will rank *pari passu* in point of security and as to the payment of interest and repayment of principal with the Issuer's obligations in relation to the Original Debenture Bonds.

The Issuer's obligations to make payments under, *inter alia*, the Liquidity Facility Agreement, the Hedging Agreement and amounts in respect of fees due to Ambac pursuant to the Ambac Guarantee and Reimbursement Agreement will (other than in certain limited circumstances) rank ahead of its obligations in respect of the Second Issue Debenture Bonds.

Security for the Debenture Bonds

On the Original Closing Date, the Issuer created a first ranking security interest over, *inter alia*, all of its rights, title and interest in the Transaction Documents in favour of the Issuer Security Trustee for the benefit of, *inter alios*, the Original Debenture Bondholders, Ambac, the Hedge Provider and the Liquidity Facility Provider(s) pursuant to a deed of charge entered into on the Original Closing Date (the **Issuer Deed of Charge**) between, *inter alios*, the Issuer, the Issuer Security Trustee, the Debenture Bond Trustee (as trustee for itself and the Original Debenture Bondholders), the Hedge Provider, the Liquidity Facility Provider(s), Ambac, the Agent Bank, the Account Bank, the Servicer, the Corporate Services Provider, the Principal Paying Agent and the Luxembourg Paying Agent (together, other than the Issuer, the **Issuer Secured Creditors**).

The Issuer Security Trustee holds the benefit of the security created pursuant to the Issuer Deed of Charge on trust for the Issuer Secured Creditors.

From the Second Issue Date, the Second Issue Debenture Bondholders will be Issuer Secured Creditors and the Debenture Bond Trustee will hold its rights in relation to the security granted in favour of the Issuer Security Trustee pursuant to the Issuer Deed of Charge on behalf of the Second Issue Debenture Bondholders, in addition to the Original Bondholders, the other Issuer Secured Creditors and itself.

Although the Debenture Bond Trustee (as trustee for the Original Debenture Bondholders and, from the Second Issue Date, the New Debenture Bondholders) has the benefit of the security created by the Issuer Deed of Charge, the Debenture Bond Trustee's rights to the proceeds of the enforcement of that security rank behind the rights of the Liquidity Facility Provider(s) under the Liquidity Facility Agreement (other than in respect of Liquidity Subordinated Amounts), the rights of the Hedge Provider (other than in respect of Hedging Agreement Subordinated Amounts), the rights of Ambac in

respect of fees and certain other payments under the Ambac Guarantee and Reimbursement Agreement and the rights of certain other parties in respect of certain other fees and expenses payable to them (see “*Summary of Principal Documents – Issuer Deed of Charge*”, below).

Use of Proceeds

It is anticipated that, on the Second Closing Date, the Issuer will lend the subscription proceeds received in respect of the Second Issue Debenture Bonds by way of advances (the **Second Issue Term Advances**) to Spirit Pub Company (Managed) Limited and Spirit Pub Company (Leased) Limited (together, the **Borrowers**) pursuant to a facility agreement (the **Issuer/Borrower Facility Agreement**) between, *inter alios*, the Issuer, the Borrowers and the Borrower Group Security Trustee (see “*Summary of Principal Documents – Issuer/Borrower Facility Agreement*”, below). The Borrowers have, pursuant to a deed of charge between, *inter alios*, the Borrowers, the Borrower Group Security Trustee, the Issuer and the Issuer Security Trustee (the **Borrower Group Deed of Charge**), and further documents in favour of the Borrower Group Security Trustee governed by Scots law and entered into pursuant thereto, granted security in favour of the Borrower Group Security Trustee over, *inter alia*, substantially all of their businesses and assets in order to secure their obligations under, *inter alia*, the Issuer/Borrower Facility Agreement (see “*Summary of Principal Documents – Borrower Group Deed of Charge*”, below). The Issuer’s rights to the proceeds of the enforcement of that security will form part of the rights over which it grants security in favour of the Issuer Security Trustee.

It is anticipated that the Borrowers will use the proceeds of the Second Issue Term Advances and cash standing to the credit of their Operating Accounts to fund the acquisition of certain of the Class A1 Debenture Bonds and the Class A3 Debenture Bonds, which will then be surrendered to the Issuer and cancelled (see “*Use of Proceeds*”, below).

Final Redemption

Unless previously redeemed or purchased and cancelled in full in accordance with their terms and conditions, each class of the Second Issue Debenture Bonds will be redeemed at their Principal Amount Outstanding on the Final Maturity Date (as set out above).

Scheduled and Other Mandatory Redemption

Unless previously redeemed in full or purchased and cancelled, the Second Issue Debenture Bonds will be subject to scheduled redemption (provided that the Issuer has sufficient available funds for such payment) in instalments *pro rata* within the relevant class on the Interest Payment Dates and in the amounts set out in Condition 6(b)(A) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption – Scheduled redemption*).

From the Interest Payment Date falling in September 2018, the

Issuer will be obliged to redeem Second Issue Debenture Bonds in an amount determined by the excess cash generated by the Borrowers' businesses and operations. See Condition 6(b)(B)(iii) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption – Mandatory redemption*) and the definition of "Excess Cash Prepayment Amount" and the summary of the associated provisions of the Issuer/Borrower Facility Agreement in "*Summary of Principal Transaction Documents – Issuer/Borrower Facility Agreement – Repayment*", below.

In addition, if the Term Advances have become immediately due and repayable following a Borrower Group Event of Default but the Debenture Bonds have not become immediately due and repayable pursuant to Condition 10 (*Issuer Events of Default*), the Second Issue Debenture Bonds, together with the Original Debenture Bonds, will be subject to redemption *pro rata* within each class and in the amounts set out in Condition 6(b)(B) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption – Mandatory redemption*).

Optional Redemption

On giving not fewer than five Business Days' prior written notice, one or both classes of the Second Issue Debenture Bonds may, at the option of the Issuer, be redeemed in whole or in part subject to certain conditions (including the termination of the corresponding hedges, where applicable) and in the amounts more particularly described in Condition 6(c) (*Redemption, Purchase and Cancellation – Redemption at the option of the Issuer*). The Class A7 Debenture Bonds shall, prior to the Interest Payment Date falling in September 2017, be subject to a redemption premium (as described in Condition 6(c)).

The Second Issue Debenture Bonds will be redeemed *pro rata* within each class of the Second Issue Debenture Bonds, but the Issuer shall be entitled to redeem the separate classes of the Second Issue Debenture Bonds in any order provided that a corresponding prepayment of the equivalent Second Issue Term Advance is made under the Issuer/Borrower Facility Agreement.

Substitution/ Redemption for Taxation or Other Reasons

As more particularly described in Condition 6(d) (*Redemption, Purchase and Cancellation – Substitution/redemption for taxation or other reasons*), in the event of:

- (a) a change in tax law takes effect which means that the Issuer would be required to withhold or deduct from any payment of principal or interest on any Second Issue Debenture Bonds any amount for or on account of any tax;
- (b) it becoming unlawful, due to a change in law, for the Issuer to make or continue to make advances available pursuant to

the Issuer/Borrower Facility Agreement; or

- (c) a change in tax law takes effect which means that the Borrowers would be required to withhold or deduct from any payment of principal or interest or other sum due and payable under the Issuer/Borrower Facility Agreement any amount for or on account of tax,

the Issuer may, with the approval of the Debenture Bond Trustee and Ambac, arrange for the substitution of the Issuer by another entity in an alternative jurisdiction (subject to certain conditions).

If the Issuer is unable to arrange a substitution, the Issuer may:

- (i) re-issue the Second Issue Debenture Bonds in registered form; or
- (ii) redeem all (but not some only) of the Second Issue Debenture Bonds at par, in the case of the Class A6 Debenture Bonds, and at the higher of par and the relevant Redemption Amount (as defined in Condition 1 (*Definitions*) (see "*Terms and Conditions of the Debenture Bonds*", below), in the case of the Class A7 Debenture Bonds, in each case together with accrued interest on their Principal Amount Outstanding.

The Issuer may also take such other action as is appropriate in the circumstances in order to mitigate the effect of the relevant change, subject to the consent of the Debenture Bond Trustee and Ambac.

Neither class of the Second Issue Debenture Bonds nor any class of them may be redeemed in full in the circumstances referred to above unless all of the other classes of Debenture Bonds (or such of them as are then outstanding) are also redeemed in full at the same time.

Withholding Tax

Payments of interest, principal and premium (if any) on the Second Issue Debenture Bonds will be made subject to any applicable withholding or deduction for, or on account of, any tax required by applicable law and none of the Issuer, any Paying Agent or any other person will be obliged to pay any additional amount as a consequence thereof.

Further Issues and New Issues

The Issuer will be entitled (but not obliged), subject to certain conditions at its option from time to time on any date, without the consent of the Second Issue Debenture Bondholders (or the Original Debenture Bondholders), to raise further funds by the creation and issue of:

- (i) further Class A1 Debenture Bonds, Class A2 Debenture

Bonds, Class A3 Debenture Bonds, Class A4 Debenture Bonds, Class A5 Debenture Bonds, Class A6 Debenture Bonds and/or Class A7 Debenture Bonds which will be in bearer form and carry the same terms and conditions in all respects (save as regards the first Interest Period) as, and so that the same shall be consolidated and form a single series and rank *pari passu* with, the relevant class of the Original Debenture Bonds or Second Issue Debenture Bonds, as the case may be (**Further Debenture Bonds**); or

- (ii) new bonds of a new class which may rank *pari passu* with or junior to the Second Issue Debenture Bonds and the Original Debenture Bonds (**New Debenture Bonds**).

The issue of any Further Debenture Bonds and/or New Debenture Bonds shall be subject to certain conditions including those set out in Condition 17 (*Further Issues*).

Purchases

The Issuer is not permitted to purchase any Second Issue Debenture Bonds. The Borrowers may, subject to the provisions of the Transaction Documents, at any time purchase Second Issue Debenture Bonds of either class. Any Second Issue Debenture Bonds so purchased shall, within two weeks of the date of purchase of such Second Issue Debenture Bonds, be offered for cancellation to the Issuer for surrender against full discharge and satisfaction of an amount of the relevant Second Issue Term Advance equal to the aggregate Principal Amount Outstanding of the Second Issue Debenture Bonds so purchased and any unpaid accrued interest thereon (see “*Summary of Principal Documents – Issuer/Borrower Facility Agreement – Purchase of Debenture Bonds*”, below).

Governing Law

The Second Issue Debenture Bonds will be governed by English Law.

No Guarantee

The Issuer’s obligations in respect of the Second Issue Debenture Bonds will not benefit from any guarantee from Ambac, any member of the Spirit Group or any other person.

SUMMARY OF PRINCIPAL DOCUMENTS

The following is a summary of certain provisions of the principal documents relating to the transactions described herein and is qualified in its entirety by reference to the detailed provisions of the Transaction Documents. Capitalised terms not otherwise defined in this summary shall have the meanings given to them in the Master Definitions and Construction Schedule.

ISSUER/BORROWER FACILITY AGREEMENT

The Issuer/Borrower Facility Agreement was entered into on the Original Closing Date. It was amended and restated pursuant to an agreement dated 7 July 2006 and further amended on 25 August 2006, 15 May 2009 and pursuant to an agreement dated 23 February 2012. It was amended and restated on the Second Issue Date in order to make provision for the Second Issue Term Facilities, as described below.

The Second Issue Term Facilities

The Issuer/Borrower Facility Agreement provides, subject to the satisfaction of certain conditions precedent as to drawing, that the term loan facilities described in paragraphs (a) and (b) below will be made available by the Issuer by way of cash advance to the Borrowers on the Second Closing Date:

- (a) a term loan facility in a maximum aggregate principal amount equal to the subscription amount in respect of the Class A6 Debenture Bonds paid to, or to the order of, the Issuer (the **Term A6 Facility** and each advance thereunder a **Term A6 Advance**); and
- (b) a term loan facility in a maximum aggregate principal amount equal to the subscription amount in respect of the Class A7 Debenture Bonds paid to, or to the order of, the Issuer (the **Term A7 Facility** and each advance thereunder a **Term A7 Advance**).

The Term A6 Facility and the Term A7 Facility are together referred to as the **Second Issue Term Facilities**. The Term A6 Advances and the Term A7 Advances are together referred to as the **Second Term Advances**.

The Initial Term Facilities

Pursuant to the Issuer/Borrower Facility Agreement, the term loan facilities described in paragraphs (a), (b), (c), (d) and (e) below were made available by the Issuer by way of cash advance to the Managed Borrower on the Original Closing Date:

- (a) a term loan facility in a maximum aggregate principal amount of £150,000,000 (the **Term A1 Facility** and each advance thereunder a **Term A1 Advance**);
- (b) a term loan facility in a maximum aggregate principal amount of £200,000,000 (the **Term A2 Facility** and each advance thereunder a **Term A2 Advance**);
- (c) a term loan facility in a maximum aggregate principal amount of £250,000,000 (the **Term A3 Facility** and each advance thereunder a **Term A3 Advance**);

- (d) a term loan facility in a maximum aggregate principal amount of £350,000,000 (the **Term A4 Facility** and each advance thereunder a **Term A4 Advance**); and
- (e) a term loan facility in a maximum aggregate principal amount of £300,000,000 (the **Term A5 Facility** and each advance thereunder a **Term A5 Advance**).

The Term A1 Facility, the Term A2 Facility, the Term A3 Facility, the Term A4 Facility and the Term A5 Facility are together referred to as the **Original Term Facilities** and, together with the Second Issue Term Facilities, the **Term Facilities**. The Term A1 Advance, the Term A2 Advance, the Term A3 Advance, the Term A4 Advance and the Term A5 Advance are together referred to as the **Original Term Advances** and, together with the Second Term Advances, the **Term Advances**.

Use of proceeds

It is expected that the Second Term Advances will be applied by the Borrowers on the Second Closing Date as set forth under “Use of Proceeds” below.

Conditions precedent to utilisation of the Second Issue Term Facilities

The Issuer/Borrower Facility Agreement contains conditions precedent to the Issuer making any of the Second Issue Term Facilities available to the Borrowers on the Second Closing Date customary for transactions of this nature, including that the Borrower Group Security Trustee is satisfied in relation to, *inter alia*, the following matters:

- (a) the Second Issue Debenture Bonds have been issued and the subscription proceeds received by or on behalf of the Issuer;
- (b) the deeds or other agreements which supplement, amend and/or restate certain of the Transaction Documents have been duly executed by the parties thereto;
- (c) delivery has been made of the necessary legal opinions addressed to, *inter alios*, the Borrower Group Security Trustee and the Issuer; and
- (d) delivery has been made of solvency certificates from each Obligor.

Further Term Facilities and New Term Facilities

The Issuer/Borrower Facility Agreement provides that the Borrowers may also, at any time, by written notice to the Issuer (with a copy thereof provided to the Borrower Group Security Trustee) request a further term facility (a **Further Term Facility** and each advance thereunder a **Further Term Advance**) or a new term facility (a **New Term Facility** and each advance thereunder a **New Term Advance**). A Further Term Facility is one which will rank *pari passu* with the existing Term Facilities, and a New Term Facility is one which will rank no higher than the existing Term Facilities but may rank *pari passu* with, or subordinate to, the Term A1 Facility, the Term A2 Facility, the Term A3 Facility, the Term A4 Facility, the Term A5 Facility, the Term A6 Facility and the Term A7 Facility. Further Term Facilities and New Term Facilities are together referred to as **Additional Term Facilities** and Further Term Advances and New Term Advances are together referred to as **Additional Term Advances**. Each Further Term Facility or New

Term Facility will be financed by the issue of Further Debenture Bonds or New Debenture Bonds (as the case may be) by the Issuer, and will only be permitted if, *inter alia*, the following conditions precedent are satisfied:

- (a) the aggregate principal amount of each Additional Term Facility drawn at any one time is for a minimum aggregate principal amount of £5 million;
- (b) no Borrower Group Event of Default or Potential Borrower Group Event of Default (each as defined in the Borrower Group Deed of Charge) has occurred and is subsisting at the relevant drawdown date or would occur as a result of the Additional Term Advances;
- (c) in respect of a request for an Additional Term Facility ranking *pari passu* with the Term Facilities (which Additional Term Facility is not to be used solely to refinance Term Advances, Additional Term Advances or Additional Financial Indebtedness of the Borrower Group), the Loan-to-Value Ratio (expressed as a percentage) immediately after the date on which the Additional Term Advance is made does not exceed sixty (60) per cent. provided that, for the purposes of calculating the Loan-to-Value Ratio in such circumstances, the Borrower Group Estate value shall be adjusted to take into account the value attributable to pubs acquired pursuant to Permitted Acquisitions to be completed contemporaneously with, and using the net proceeds of, the relevant Additional Financial Indebtedness (but without double counting);
- (d) in respect of a request for an Additional Term Facility ranking *pari passu* with the Term Facilities (which Additional Term Facility is not to be used solely to refinance Term Advances, Additional Term Advances or Additional Financial Indebtedness of the Borrower Group), the DSCR (OpFlex) (to be calculated by reference to: (i) the Free Cash Flow arising in the four Financial Quarters ending on the Financial Quarter Date immediately prior to the date on which the Additional Term Facility is to be utilised (the **Additional Facility Drawdown Date**) and adjusting the same to take into account Attributable Pub-Level EBITDA from Permitted Acquisitions completed during the last 12 months and any Attributable Pub-Level EBITDA from the Permitted Acquisition to be completed contemporaneously with, and using the net proceeds of, the relevant Additional Term Facility (but without double counting); and (ii) the Debt Service (OpFlex) in respect of the 12 months immediately succeeding the Additional Facility Drawdown Date, taking into account the Debt Service (OpFlex) in respect of the Additional Term Facility over such immediately succeeding 12-month period following the Additional Facility Drawdown Date) is at least 1.65:1;
- (e) the Rating Agencies confirm that:
 - (i) in respect of a request for an Additional Term Facility (which Additional Term Facility is not to be used solely to refinance Relevant Financial Indebtedness of the Borrower Group), the then outstanding classes of Debenture Bonds will each be assigned (A) in the case of Debenture Bonds which are not Guaranteed Debenture Bonds, a rating of at least “BBB+”/“BBB+”/“Baa2”, and (B) in the case of the Guaranteed Debenture Bonds, an Underlying Rating of at least “BBB+”/“BBB+”/“Baa2”, notwithstanding the incurrence of the debt under such Additional Term Facility; and

- (ii) in respect of a request for an Additional Term Facility (which Additional Term Facility is to be used solely to refinance existing Relevant Financial Indebtedness of the Borrower Group), the then outstanding classes of Debenture Bonds will be assigned (A) in the case of Debenture Bonds which are not Guaranteed Debenture Bonds, the same ratings as the then-current ratings of such Debenture Bonds, and (B) in the case of the Guaranteed Debenture Bonds, the same underlying ratings as the then-current Underlying Rating of such Guaranteed Debenture Bonds, notwithstanding the incurrence of the debt under such Additional Term Facility;
- (f) in respect of a request for an Additional Term Facility, unless otherwise sanctioned by Ambac (if required), the aggregate amount of scheduled repayments in respect of (i) all such Relevant Financial Indebtedness which ranks *pari passu* with the existing Term Facilities; and (ii) the existing Term Facilities which will fall due in any two year period (calculated on a rolling eight Financial Quarter basis) after drawdown of such Additional Term Facility shall not exceed 20 per cent. of the value of the Borrower Group Estate, such value of the Borrower Group Estate being determined at the time of the drawdown of the Additional Term Facility by reference to the Professional Valuation most recently obtained by the Borrowers (as adjusted to take into account acquisitions and disposals of Borrower Mortgaged Properties since such Professional Valuation was obtained) prior to the Drawdown Date of the Additional Term Facility; and
- (g) in respect of a request for an Additional Term Facility which is to rank *pari passu* with the existing Term Facilities and is to bear interest at a floating rate, the consent of Ambac (if required) is obtained where the proceeds thereof are not to be used solely for the purpose of refinancing the original Term Advances (or any subsequent refinancing thereof (capped at the aggregate principal amount of those original Term Advances)).

In connection with the making of any Additional Term Advance, the provisions of the Borrower Group Deed of Charge (and other relevant Transaction Documents) will be amended to reflect, *inter alia*, revised priorities of payments, acceleration and enforcement rights and, where appropriate, subordination and non-petition provisions acceptable to, among others, the Borrower Group Security Trustee.

Interest

The rate of interest in respect of the Term A1 Advance has been and is (as appropriate): (i) up to (but excluding) the Interest Payment Date falling in December 2011 (the **Class A1 Step-Up Date**), the London Interbank Offered Rate (**LIBOR**) for three-month Sterling deposits (or, in the case of the first Interest Period, was the annual rate obtained by the linear interpolation of LIBOR for four-month Sterling deposits and LIBOR for five-month Sterling deposits) plus a margin of 0.22 per cent. per annum (the **Term A1 Margin**); and (ii) since (and including) the Class A1 Step-Up Date, LIBOR for three-month Sterling deposits plus the Term A1 Margin and a further margin of 0.33 per cent. per annum (the **Term A1 Step-Up Margin**).

The rate of interest in respect of the Term A2 Advance has been and is (as appropriate): (i) up to (but excluding) the Interest Payment Date falling in December 2011 (the **Class A2 Step-Up Date**), LIBOR for three-month Sterling deposits (or, in the case of the first Interest Period, was the annual rate obtained by the linear interpolation of LIBOR for four-month Sterling deposits

and LIBOR for five-month Sterling deposits) plus a margin of 1.08 per cent. per annum (the **Term A2 Margin**); and (ii) since (and including) the Class A2 Step-Up Date, LIBOR for three-month Sterling deposits plus the Term A2 Margin per annum and a further margin of 1.62 per cent. per annum (the **Term A2 Step-Up Margin**).

The rate of interest in respect of the Term A3 Advance is and will be (as appropriate): (i) up to (but excluding) the Interest Payment Date falling in December 2014 (the **Class A3 Step-Up Date**), 5.860 per cent. per annum; and (ii) from (and including) the Class A3 Step-Up Date, LIBOR for three-month Sterling deposits plus a margin of 0.22 per cent. per annum (the **Term A3 Margin**) and a further margin of 0.33 per cent. per annum (the **Term A3 Step-Up Margin**).

The rate of interest in respect of the Term A4 Advance is and will be (as appropriate): (i) up to (but excluding) the Interest Payment Date falling in December 2018 (the **Class A4 Step-Up Date**), 6.582 per cent. per annum; and (ii) from (and including) the Class A4 Step-Up Date, LIBOR for three-month Sterling deposits plus a margin of 1.11 per cent. per annum (the **Term A4 Margin**) and a further margin of 1.665 per cent. per annum (the **Term A4 Step-Up Margin**).

The rate of interest in respect of the Term A5 Advance is and will be (as appropriate): (i) up to (but excluding) the Interest Payment Date falling in December 2028 (the **Class A5 Step-Up Date**), 5.472 per cent. per annum; and (ii) from (and including) the Class A5 Step-Up Date, LIBOR for three-month Sterling deposits plus a margin of 0.30 per cent. per annum (the **Term A5 Margin**) and a further margin of 0.45 per cent. per annum (the **Term A5 Step-Up Margin**).

The rate of interest in respect of the Term A6 Advance will be: (i) up to (but excluding) the Interest Payment Date falling in September 2018 (the **Class A6 Step-Up Date**), LIBOR for three-month Sterling deposits plus a margin of 1.80 per cent. per annum (the **Term A6 Margin**) and (ii) from (and including) the Class A6 Step-Up Date, LIBOR for three-month Sterling deposits plus the Term A6 Margin per annum and a further margin of 1.50 per cent. per annum (the **Term A6 Step-Up Margin**).

The rate of interest in respect of the Term A7 Advance will be: (i) up to (but excluding) the Interest Payment Date falling in December 2014, 5.860 per cent. per annum; (ii) from (and including) the Interest Payment Date falling in December 2014, LIBOR for three-month Sterling deposits plus a margin of 3.95 per cent. per annum (the **Term A7 Margin**); and (iii) from (and including) the Interest Payment Date falling in September 2018 (the **Class A7 Step-Up Date**), a further margin of 1.50 per cent. per annum (the **Term A7 Step-Up Margin**).

Under the Issuer/Borrower Facility Agreement, the Borrowers have agreed to pay by way of a fee (the **Periodic Fee**) on each interest payment date in respect of the Term Facilities made available under the Issuer/Borrower Facility Agreement (each an **Interest Payment Date**) such amounts as are necessary to enable the Issuer to pay or provide for all other amounts falling due to be paid by the Issuer on that date as provided in "Issuer Deed of Charge – Priority of payments", below.

Repayment

Final repayment: Unless previously repaid in full and cancelled, the Principal Amount Outstanding on each of the Term Advances will be repayable on the following dates:

- (i) in relation to the Term A1 Facility, the Interest Payment Date falling in December 2028;
- (ii) in relation to the Term A2 Facility, the Interest Payment Date falling in December 2031;
- (iii) in relation to the Term A3 Facility, the Interest Payment Date falling in December 2021;
- (iv) in relation to the Term A4 Facility, the Interest Payment Date falling in December 2027;
- (v) in relation to the Term A5 Facility, the Interest Payment Date falling in December 2034;
- (vi) in relation to the Term A6 Facility, the Interest Payment Date falling in December 2036;
and
- (vii) in relation to the Term A7 Facility, the Interest Payment Date falling in December 2036.

Scheduled repayment: Unless previously repaid in full and cancelled, each of the Term Advances will be repayable in part on the Interest Payment Dates and in the amounts specified for the corresponding Class of Debenture Bonds (each an **Expected Amortisation Amount**) set out opposite the applicable and corresponding Interest Payment Date in the columns headed Expected Amortisation Amount in Condition 6(b) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption*).

Mandatory prepayment: On each Interest Payment Date falling in or after September 2018, the Borrowers shall apply the Excess Cash Prepayment Amount in prepayment of the Term A6 Loan and the Term A7 Loan, *pro rata* in proportion to the respective outstanding principal amounts thereof.

Excess Cash Prepayment Amount means, on any Interest Payment Date:

- (a) the sum of:
 - (i) an amount equal to the cash available to the Borrowers in the Borrower Operating Accounts, after (A) meeting ongoing operating costs and expenses (save to the extent the same are expressly provided for in the Borrower Group Pre-Enforcement Priority of Payments) (including, for the avoidance of doubt, fees (other than the Service Fee and/or Increased Costs under the Administrative Services Agreement or the Leased Borrower ASA and the management fee payable to SupplyCo under either of the Supply Agreements)) and (B) having provided for amounts expressed to be due and payable as set out in paragraphs (a) to (o) (inclusive) of the Borrower Group Pre-Enforcement Priority of Payments; and
 - (ii) an amount equal to any payments receivable by the Borrowers from the Issuer (as Borrower Hedge Provider) under the Issuer/Borrower Hedging Agreement as a result of the termination (in whole or in part) of the A1/A6 Issuer/Borrower Swap and/or the A3/A7 Issuer/Borrower Swap as a result of the mandatory prepayment of the Term A6 Loan and/or the Term A7 Loan in accordance with clause 8.2 (*Term A6/A7 cash sweep mandatory prepayment*) of the Issuer/Borrower Facility Agreement, less

- (b) the sum of:
- (i) £5,000,000;
 - (ii) an amount equal to any amounts payable by the Borrowers to the Issuer under the Issuer/Borrower Hedging Agreement as a result of the termination (in whole or in part) of the A1/A6 Issuer/Borrower Swap and/or the A3/A7 Issuer/Borrower Swap as a result of the mandatory prepayment of the Term A6 Loan and/or the Term A7 Loan in accordance with clause 8.2 (*Term A6/A7 cash sweep mandatory prepayment*) of the Issuer/Borrower Facility Agreement; and
 - (iii) an amount equal to: (1) any tax payable by any Spirit Group Entity (other than the Borrower Group Entities), or that would be so payable but for any surrender by a Borrower Group Entity of losses or other amounts by way of Group Relief to such Spirit Group Entity, in consequence of any election made under section 200 of the Taxation (International and Other Provisions) Act 2010 (or paragraph 7B of schedule 28AA ICTA) in relation to the LoanCo/Borrower Subordinated Loan, the Issuer/Borrower Subordinated Loan or any advance made thereunder, on the assumption that all Reliefs arising to Spirit Group Entities other than Borrower Group Entities are used to mitigate such tax to the maximum extent possible, less (2) any cash or cash equivalents held by an Excluded Group Entity that is not required to meet another liability of an Excluded Group Entity (such amount being a **7B Election Payment**)

unless the resulting amount is less than zero, in which case it shall be deemed to be zero. For the avoidance of doubt, the making of prepayments of the Term A6 Loan and the Term A7 Loan pursuant to clause 8.2 (*Term A6/A7 cash sweep mandatory prepayment*) of the Issuer/Borrower Facility Agreement will, as a result of the termination (in whole or in part) of the A1/A6 Issuer/Borrower Swap or the A3/A7 Issuer/Borrower Swap triggered by such prepayments pursuant to paragraph 4 (*Early termination in part*) of each of the relevant confirmations that form part of the Issuer/Borrower Hedging Agreement, result in a net payment under the Issuer/Borrower Hedging Agreement to the Issuer or the Borrowers (as the case may be), which will reduce or increase (as the case may be) the amounts available to make such prepayments of the Term A6 Loan and the Term A7 Loan. Accordingly, the calculation of the amount of the Excess Cash Prepayment Amount (if any) on any Interest Payment Date shall take account of the mutual interdependence of clause 8.2 (*Term A6/A7 cash sweep mandatory prepayment*) of the Issuer/Borrower Facility Agreement and paragraph 4 (*Early termination in part*) of each of the above-mentioned confirmations that form part of the Issuer/Borrower Hedging Agreement.

Subject only to certain limited exceptions relating to the surrender of tax losses and other tax-related matters, no Permitted Outside Payment (including payments in respect of the Issuer/Borrower Subordinated Loan and the Intra-Group Subordinated Loans) can be made on or after the Interest Payment Date falling in September 2018, for so long as there are Class A6 Debenture Bonds or Class A7 Debenture Bonds outstanding.

Voluntary prepayment: On giving not fewer than 14 Business Days' prior written notice of prepayment to the Issuer, the Borrowers will be entitled to prepay, in whole or in part, any of the Term Facilities on an Interest Payment Date. Any such prepayment must be in specified minimum amounts and multiples and shall be conditional on the Borrower providing evidence

satisfactory to the Issuer and the Borrower Group Security Trustee that it has or will have the necessary funds available to make such prepayment (including a reasonable estimate of the breakage costs under the Hedging Agreement payable in connection with any such prepayment) on the relevant Interest Payment Date. Any amount prepaid in respect of a Term Facility will reduce *pro rata* the principal amounts due on succeeding Interest Payment Dates in respect of such Term Facility.

In connection with any such voluntary prepayment, the Issuer will be required to either terminate or novate the transaction(s) under the Hedging Agreement in whole or in part (as the case may be) with respect to a particular Class or Classes of Debenture Bonds such that the notional amount (specified in the related confirmation) under the relevant transaction is reduced (by such termination or novation) to an amount equal to the aggregate Principal Amount Outstanding of the related Class of Debenture Bonds which remain outstanding following any such prepayment and the Borrower will be required to terminate (or novate) a corresponding notional amount (specified in the relevant confirmation) of the corresponding transaction(s) under the Issuer/Borrower Hedging Agreement. Any such termination or novation will be required to be done on the Interest Payment Date on which the voluntary prepayment is being made.

Prepayment of the Term Loans shall be made together with a prepayment fee which shall equate to the redemption premium (if any) payable in respect of the early redemption of the corresponding Class of Debenture Bonds, as determined in accordance with Condition 6(c) (*Redemption, Purchase and Cancellation – Redemption at the option of the Issuer*) (see “*Terms and Conditions of the Debenture Bonds*”, below).

All prepayments will be used by the Issuer to redeem in whole or in part (as the case may be) on a *pro rata* basis the corresponding Class of Debenture Bonds which financed the relevant Term Facility.

Purchase of Debenture Bonds

The Borrowers may, subject to the provisions of the Issuer/Borrower Facility Agreement, purchase Debenture Bonds using Excess Cash or amounts standing to the credit of the Disposal Proceeds Account. Any purchase of Debenture Bonds will, unless otherwise disposed of to a third party outside Spirit Group within two weeks of the date of purchase of such Debenture Bonds, result in their cancellation by the Issuer and, to the extent of such purchase and cancellation, the Term Facility corresponding to the Debenture Bonds so purchased will be treated as having been prepaid. Such cancellation and prepayment may result in associated hedging termination costs under the Issuer/Borrower Hedging Agreement and the Hedging Agreement. Where any Debenture Bonds are purchased using funds standing to the credit of the Disposal Proceeds Account, any sale by the Borrowers or any other member of the Borrower Group of Debenture Bonds to a third party outside Spirit Group must be for a price at least equal to the price paid by the Borrowers for such Debenture Bonds and the proceeds of such sale must be credited by the Borrowers to the Disposal Proceeds Account to be applied as described in “*Application of Disposal Proceeds*”, below. There is no restriction on the Class or order of Debenture Bonds that may be so purchased. Any Class A1 Debenture Bonds, Class A3 Debenture Bonds and/or Class A5 Debenture Bonds so purchased will not, for so long as they are held by a Borrower or a member of Spirit Group, have the benefit of the Ambac Financial Guarantee. The purchase price of Debenture Bonds that are purchased by a Borrower using moneys standing to the credit of its Disposal Proceeds Account may not exceed

the Early Redemption Price which would be payable in respect of such Debenture Bonds as determined in accordance with Condition 6(c) (*Redemption, Purchase and Cancellation – Redemption at the option of the Issuer*) if the Issuer had exercised its optional redemption rights in respect of such Debenture Bonds on the date on which that Borrower purchased such Debenture Bonds (see “*Terms and Conditions of the Debenture Bonds*”, below).

Representations and warranties

No independent investigation with respect to the matters represented and warranted in the Issuer/Borrower Facility Agreement has been or will be made by the Issuer or the Borrower Group Security Trustee, other than a search on the Original Closing Date, which will be refreshed on or immediately prior to the Second Closing Date, in respect of each Obligor, whereby a print out was obtained from the online database maintained by Companies House and a search was made of the Central Registry of Winding Up Petitions. In relation to such matters, the Issuer and the Borrower Group Security Trustee will, save as previously disclosed, rely entirely on the representations and warranties given by each Obligor on the Original Closing Date, certain of which have been repeated on each Interest Payment Date and certain of which will be repeated on the Second Closing Date.

The representations and warranties which will be repeated by the Obligors on the Second Closing Date will be customary for a loan facility of its type (and may be limited by a materiality and/or knowledge qualification in certain circumstances) including as to the following matters:

- (a) no Borrower Group Event of Default or Potential Borrower Group Event of Default has occurred;
- (b) each security document to which it is a party creates the security interest which that security document purports to create and the claims of the Borrower Group Secured Creditors against it will rank at least *pari passu* with the claims of all of its other unsecured creditors, save those whose claims are preferred solely by any bankruptcy, insolvency, liquidation or other similar laws of general application, and senior to the claims of the Borrower Group Secured Creditors;
- (c) save to the extent disposed of as permitted by the Transaction Documents or as revealed in the Property Due Diligence Reports or where legal ownership remains held on trust for the Borrowers, it is the absolute legal and beneficial owner of, and has a good and marketable title in its own name to, its interest in all of the Borrower Mortgaged Properties in respect of which it purports to create security under the Borrower Group Deed of Charge;
- (d) each of the pubs in the Borrower Group Estate has a liquor licence in full force and effect; and
- (e) each of the material contracts (as listed in schedule 7 – part B (*Second Issue Date Material Contracts*) to the Issuer/Borrower Facility Agreement) is in full force and effect and constitutes a legal, valid and binding obligation of the parties thereto and is enforceable in accordance with its terms (subject to rights of creditors generally, to equitable principles of general application, to the time barring of claims, and to the laws of insolvency).

Certain of the representations and warranties will also be repeated on the date on which any Term Advance or New Term Advance is made and on each Interest Payment Date, by reference to the facts and circumstances then existing and subject in certain cases to being limited by reference to a materiality and/or knowledge qualification.

Information to be provided

The Borrowers will make available to the Borrower Group Security Trustee, the Issuer Security Trustee, the Issuer, the Debenture Bond Trustee, Ambac and the Rating Agencies (as applicable):

- (a) the audited consolidated annual financial statements and related auditor's report of the Borrower Group within 120 days after the end of each of its Financial Years;
- (b) the audited annual financial statements and related auditor's report of each of the Borrowers and the Issuer within 120 days after the end of each of its subsequent Financial Years;
- (c) the unaudited aggregated quarterly interim management accounts of the Borrower Group in respect of the then current Financial Year on a year-to-date basis from the commencement of the then current Financial Year to the end of the relevant Financial Quarter within 45 days after the end of each of the first three Financial Quarters of each of its Financial Years and within 60 days after the end of the fourth Financial Quarter of each of its Financial Years and in the case of the DSCR (OpFlex) covenant on the date of (i) each Permitted Disposal, (ii) the date of each Permitted Acquisition and (iii) each date on which the Relevant Financial Indebtedness was incurred;
- (d) a quarterly compliance certificate from the Borrowers in respect of the Obligors; and
- (e) from time to time such other information in respect of the business, operations, performance, prospects and financial condition of the Borrower Group or any Obligor as may be reasonably required by, among others, the Borrower Group Security Trustee, the Issuer Security Trustee, the Issuer, the Debenture Bond Trustee and, prior to an Ambac Termination Event, Ambac. All information referred to in paragraphs (a) and (b) above will be provided to the Debenture Bondholders through the Principal Paying Agent and may also be obtained during normal business hours at the specified offices of the Luxembourg Paying Agent at any time after the Original Closing Date.

While it is not a requirement of the Transaction Documents, the Quarterly Reports will, for the time being, also be published on Bloomberg. In addition, the Borrowers prepare (and are obliged by the terms of the Transaction Documents to continue to prepare) a quarterly report in respect of, *inter alia*, the performance of the Borrowers and the Borrower Group finances during the relevant Financial Quarter (the ***Quarterly Report***).

The Borrowers will deliver to the Debenture Bondholders through the Principal Paying Agent such information as is required to be made publicly available by any stock exchange upon which the equity shares of a member of the Spirit Group are admitted to trading or general law at the same time such information is made publicly available.

The Borrowers will be required, subject to applicable regulatory and/or stock exchange requirements, to give to the Rating Agencies, Ambac (if required), the Issuer, the Debenture Bond Trustee and the Borrower Group Security Trustee written notice of changes to the board of directors of any of the Obligors or AdminCo promptly following the change taking effect.

The Borrowers will consider updating the form and content of the Quarterly Report provided to Debenture Bondholders from time to time in the light of requests from Debenture Bondholders and changes to market practice, subject to the complexity and cost of providing additional information, as well as the potential risk to its operations from providing competitor-sensitive information.

Financial Covenants

Under the terms of the Issuer/Borrower Facility Agreement, the Borrower Group has agreed to conduct its future operations and business subject to debt service cover ratio covenants (the DSCR (Default) Covenant and the Adjusted DSCR (Default) Covenant) and a loan to value covenant (the **Loan-to-Value Covenant**). These covenants provide as follows:

- (a) **DSCR (Default) Covenant:** The ratio of Free Cash Flow to Debt Service (Default) (the **DSCR (Default)**), calculated on a look-back rolling four Financial Quarter basis, shall be not less than 1.30:1.
- (b) **Adjusted DSCR (Default) Covenant:** The ratio of Adjusted Free Cash Flow to Debt Service (Default) (the **Adjusted DSCR (Default)**), calculated on a look-back rolling two Financial Quarter basis, shall be not less than 1.10:1.
- (c) **Loan-to-Value Covenant:** The ratio (expressed as a percentage) of the aggregate principal amount of the Relevant Financial Indebtedness then outstanding to the aggregate of: (i) most recent Borrower Group Estate value; and (ii) all amounts then standing to the credit of the Disposal Proceeds Account (the **Loan-to-Value Ratio**) (calculated as at each Financial Quarter Date by reference to the most recently obtained Professional Valuation in respect of the Borrower Group Estate as adjusted to take into account (i) acquisitions and disposals of Borrower Mortgaged Properties since the date of such Professional Valuation, (ii) cash standing to the credit of the Disposal Proceeds Account as at such Financial Quarter Date, and (iii) the Relevant Financial Indebtedness as at such Financial Quarter Date) shall not be greater than 67 per cent.

For the avoidance of doubt, a breach of the Loan-to-Value Covenant will not constitute a Borrower Group Event of Default unless on any Financial Quarter Date on which the Loan-to-Value Covenant has been breached (and has not been cured), the DSCR (Default) has also fallen below 1.50:1.

Certificates of compliance with the DSCR (Default) Covenant, the Adjusted DSCR (Default) Covenant and the DSCR (OpFlex) level will be provided within 45 days after the end of the first three Financial Quarters in each Financial Year and within 60 days after the end of the fourth Financial Quarter in each Financial Year and in the case of the DSCR (OpFlex) covenant on the date of (i) each Permitted Disposal, (ii) each Permitted Acquisition, and (iii) each date on which Relevant Financial Indebtedness is incurred.

Certificates of compliance with the Loan-to-Value Covenant will be provided within 45 days after the end of the first three Financial Quarters of the relevant Financial Year and within 60 days after the end of the fourth Financial Quarter of the relevant Financial Year and on (i) the date of each Permitted Disposal, (ii) the date of each Permitted Acquisition, and (iii) each date on which Relevant Financial Indebtedness is incurred.

The DSCR (Default) Covenant and the Adjusted DSCR (Default) Covenant will be tested after each Financial Quarter on a look-back rolling four or two Financial Quarter basis (as applicable) (each two or four Financial Quarters (as applicable) a Relevant Period) by reference to the unaudited aggregated quarterly interim management accounts of the Borrower Group delivered in respect of the Relevant Period pursuant to the Issuer/Borrower Facility Agreement and also, with respect to the Financial Quarter ending on an Accounting Date, by reference to the audited consolidated financial statements of the Borrower Group for the immediately preceding Financial Year.

Accounting Date means, in respect of the Financial Year current at the Original Closing Date, 20 August 2005 and, in each year thereafter, such date falling at the end of the fourth Financial Quarter after the immediately preceding Accounting Date.

Actual Principal means, in respect of any Financial Quarter, principal repayments which fall due, or which have fallen due, to be repaid by the Borrower Group Entities (whether or not paid) during the Financial Quarter pursuant to the Issuer/Borrower Facility Agreement and/or the Borrower Group Deed of Charge and/or in respect of any other Relevant Financial Indebtedness.

Adjusted Free Cash Flow means, for any Financial Quarter, Free Cash Flow adjusted to exclude that part of Free Cash Flow in such Financial Quarter attributable to properties which have been acquired by either Borrower for a value which is less than market value within a period of two years prior to the commencement of the relevant Financial Quarter.

Allocated Debt Amount means, in respect of a Borrower Mortgaged Property, the greater of:

- (a) the amount calculated at the Original Closing Date being the aggregate principal amount outstanding of the Relevant Financial Indebtedness as at the Original Closing Date, multiplied by a fraction being the proportion which the Pub-Level EBITDA referable to that Borrower Mortgaged Property for the Financial Year commencing immediately prior to the Original Closing Date bore to the total Pub-Level EBITDA of all of the Borrower Mortgaged Properties comprised in the Borrower Group Estate for the Financial Year commencing immediately prior to the Original Closing Date; and
- (b) if the relevant Permitted Disposal is made after the end of the sixth Financial Quarter following the Original Closing Date, the amount calculated on the date of the relevant Permitted Disposal being the aggregate principal amount outstanding of the Relevant Financial Indebtedness as at the date of the relevant Permitted Disposal less amounts standing to the credit of the Disposal Proceeds Account on that date, multiplied by a fraction being the proportion which the Pub-Level EBITDA referable to that Borrower Mortgaged Property for the six Financial Quarters immediately preceding the date of such Permitted Disposal bore to the total Pub-Level EBITDA of all of the Borrower

Mortgaged Properties comprised in the Borrower Group Estate for the six Financial Quarters immediately preceding the date of such Permitted Disposal.

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 Administration 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 (as defined in the Leased Borrower ASA)) paid by the Leased Borrower to AdminCo under the Leased Borrower ASA (less costs exclusively referable to the Leased Borrower which are not recharged to the Leased Borrower pursuant to the Leased Borrower ASA during the Financial Quarter).

Capex means, in respect of any Financial Quarter, an amount expended in the investment, development, refurbishment, repair, renewal and maintenance of the internal and external fabric of the Borrower Mortgaged Properties and their fixtures and fittings, and of the assets required to manage them, such expenditure including amounts expensed through the profit and loss account and amounts capitalised on the balance sheet of each Borrower, but excluding, for each Financial Quarter during the first six months following the acquisition of a Borrower Mortgaged Property, any such amounts in excess of:

- (a) where such Borrower Mortgaged Property is a Managed Pub, 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; and
- (b) where such Borrower Mortgaged Property is a Tenanted Pub, 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.

Capex Reserve Account means, in respect of each Borrower, an account in the name of such Borrower which is charged in favour of the Borrower Group Security Trustee and to which the relevant Unspent Capex Amount is to be credited by the relevant Borrower.

Debt Service (Default) means the aggregate of:

- (a) all Interest Charges; and
- (b) Actual Principal,

in each case, for the Relevant Period.

Debt Service (OpFlex) means the higher of:

- (a) the aggregate of all Interest Charges and Actual Principal; and
- (b) Synthetic Debt Service,

in each case, for the Relevant Period.

DSCR (OpFlex) means the ratio of Free Cash Flow to Debt Service (OpFlex), to be tested (other than in the case of Permitted Acquisitions or certain Permitted Outside Payments) at the end of each Financial Quarter on a look-back rolling last four Financial Quarter basis (or on such basis as is described elsewhere in this section).

Financial Indebtedness means, broadly, without limitation, in relation to any Obligor at any time any indebtedness incurred (other than between Obligors) in respect of money borrowed or raised, the principal and other amounts (if any) and interest in respect of any debenture or similar debt instrument, liabilities in respect of any letter of credit or similar debt instrument, rental or hire payments under any finance lease and hire purchase agreement, the deferred purchase price of assets or services, liabilities in respect of any foreign exchange agreement or similar arrangements and any other transactions which are accounted for in the financial statements of the Obligor as a borrowing entered into by such Obligor.

Financial Quarter means each period from (and including) the day after a Financial Quarter Date to (and including) the next Financial Quarter Date and, in respect of the first Financial Quarter, the period from (and including) the Original Closing Date to (and including) 19 February 2005.

Financial Quarter Date means, in respect of the Financial Year current at the time of the Original Closing Date, 19 February 2005, 21 May 2005 and 20 August 2005 and, thereafter, the dates notified by the Borrowers for the accounting quarter in the relevant Financial Year but in any case being a period of not fewer than 12 weeks and not more than 16 weeks.

Financial Year means: (a) the period beginning on (but excluding) 21 August 2004 and ending on (and including) the next following Accounting Date; and (b) thereafter each year commencing on (but excluding) each Accounting Date and ending on (and including) the following Accounting Date.

Free Cash Flow means (in each case, without double counting) in respect of any Financial Quarter, Pub-Level EBITDA after:

- (a) deducting: (i) the Synthetic Capex for the Financial Quarter (less any Capex expensed through the profit and loss account during such Financial Quarter); (ii) the Allocated Overheads for the Financial Quarter; (iii) any tax accrued and payable by either Borrower with respect to itself; (iv) any costs exclusively referable to the Managed Borrower which are not recharged to it pursuant to the Administrative Services Agreement and any costs exclusively referable to the Leased Borrower which are not recharged to it pursuant to the Leased Borrower ASA; and (v) any payment required by law to be made by either Borrower during such Financial Quarter in order to meet shortfalls in (A) pension funds relating to employees of AdminCo whose services are

provided to the Managed Borrower under the Administrative Services Agreement or to the Leased Borrower under the Leased Borrower ASA, and (B) any other pension fund in respect of which either Borrower is required by law to make a payment and for which, in either case, either Borrower is chargeable in cash;

- (b) adding back an amount equal to 25 per cent. of any tax credits redeemable during the relevant Financial Year; and
- (c) adding back interest received in respect of cash balances standing to the credit of each of the Borrowers' bank accounts during the relevant Financial Quarter.

Interest Charges means, in respect of any Financial Quarter or Financial Year, the aggregate amount of interest paid or which was payable during such period by the Obligors pursuant to the Issuer/Borrower Facility Agreement (including any payment of the Periodic Fee to the extent that it is in respect of amounts payable under paragraphs (a), (b) and (d) of the Issuer Pre-Acceleration Priority of Payments and the Issuer Post-Acceleration Priority of Payments) and/or the Borrower Group Deed of Charge or in respect of Financial Indebtedness (including any guarantee and any other commitment and similar fees in respect thereof (other than any arrangement or up front fees), amounts in the nature of interest, discount charges and the interest element of rental under finance leases) ranking *pari passu* with or junior to (to the extent that such interest payments on such subordinated indebtedness is not deferrable) the obligations of the Obligors under the Issuer/ Borrower Facility Agreement and/or the Borrower Group Deed of Charge plus any amounts paid under interest rate hedge arrangements (having set off or netted off all amounts paid or payable to any Obligor thereunder and provided that if, after such set-off or netting, an amount was paid to the relevant Obligor such amount will be deducted from the calculation of Interest Charges) during such period, but excluding amounts payable: (i) to any other Borrower Group Entity; and (ii) in respect of interest accruing on any subordinated Financial Indebtedness owed by the Borrowers to any Excluded Group Entity.

Pub-Level EBITDA means, in respect of any Financial Quarter for any relevant entity, the Pub-Level Operating Profit before:

- (a) any Interest Charges; and
- (b) any amount attributable to amortisation of goodwill, or other intangible assets or the amortisation or writing off of acquisition or refinancing costs and any deduction for depreciation of assets,

but after adjusting, where necessary, to exclude:

- (i) fair value adjustments or impairment charges (to the extent they involve no payment of cash) and non-cash items (except accruals, bad debt provisions and stock write-offs);
- (ii) items treated as extraordinary or non-operating exceptional income/charges under accounting principles generally accepted in the United Kingdom;
- (iii) any amount attributable to the writing up or writing down of any assets of such relevant entity after the Original Closing Date or, in the case of a company becoming a

subsidiary of such relevant entity after the Original Closing Date, after the date of its becoming a subsidiary of such relevant entity;

- (iv) the amount of any profit of such relevant entity which is attributable to minority interests; and
- (v) any amounts attributable to the disposal of any Borrower Mortgaged Property or any other assets.

Pub-Level Operating Profit means, in respect of any Financial Quarter, the aggregate outlet operating profit of the Borrower Mortgaged Properties from time to time shown in the most recent financial statements or the management accounts of the Borrowers.

Relevant Financial Indebtedness means, in relation to either Borrower at any time, any outstanding Financial Indebtedness of such Borrower from time to time (excluding indebtedness incurred under Intra-Group Subordinated Loans).

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 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.

Synthetic Debt Service means, in respect of any Financial Quarter, £24,613,614.89, being the constant amount (comprising principal and interest) that would, if paid on each Interest Payment Date, permit the amortisation in full of the Relevant Financial Indebtedness outstanding on the Original Closing Date over a period of 28 years from the Original Closing Date, such amount to be altered to reflect (without double counting) any:

- (a) increase arising as a result of the raising of any Additional Financial Indebtedness that has a scheduled maturity date that falls on or before the Interest Payment Date falling in December 2032. Such increase to equal that constant amount (expressed as a number of Pounds per Financial Quarter) that would be sufficient to amortise such Additional Financial Indebtedness in full between the date on which such Additional Financial Indebtedness is incurred and the Interest Payment Date falling in December 2032;
- (b) increase arising as a result of the raising of any Additional Financial Indebtedness that has a scheduled maturity date that falls after the Interest Payment Date falling in December 2032. Such increase to equal that constant amount (expressed as a number of Pounds per Financial Quarter) that would be sufficient to amortise such Additional Financial Indebtedness in full between the date on which such Additional Financial Indebtedness is incurred and the scheduled maturity date of such Additional Financial Indebtedness;

- (c) reduction arising as a result of any prepayments of Relevant Financial Indebtedness that has a scheduled maturity date falling on or before the Interest Payment Date falling in December 2032. Such reduction to equal that constant amount (expressed as number of Pounds per Financial Quarter) that would be sufficient to amortise an amount of Relevant Financial Indebtedness equal to the prepayment of such Relevant Financial Indebtedness in full between the date on which such prepayment of Relevant Financial Indebtedness is made and the Interest Payment Date falling in December 2032;
- (d) reduction arising as a result of any prepayments of Relevant Financial Indebtedness that has a scheduled maturity date falling after the Interest Payment Date falling in December 2032. Such reduction to equal that constant amount (expressed as a number of Pounds per Financial Quarter) that would be sufficient to amortise an amount of Relevant Financial Indebtedness equal to the prepayment of such Relevant Financial Indebtedness in full between the date on which such prepayment of Relevant Financial Indebtedness is made and the scheduled maturity date of such Relevant Financial Indebtedness to which such prepayment relates; and
- (e) increase arising as a result of the making of the Second Term Advances, such increase to equal that constant amount (expressed as a number of Pounds per Financial Quarter) that would be sufficient to amortise the Second Term Advances in full between Second Closing Date and the Interest Payment Date falling in December 2036.

For the avoidance of doubt, for so long as any of the Term Advances made on the Original Closing Date is outstanding, and other than as a result of a prepayment thereof not resulting from a refinancing, the Synthetic Debt Service will not be lower than the constant amount referred to above.

Unspent Capex Amount means, in respect of any Financial Quarter, an amount, if positive, equal to Synthetic Capex less Capex (excluding Capex funded from amounts standing to the credit of the Capex Reserve Account) actually spent during the relevant Financial Quarter (including any Capex expensed through the profit and loss account during such Financial Quarter).

Capital expenditure

The Borrowers have covenanted in the Issuer/Borrower Facility Agreement to credit Unspent Capex Amounts to the Capex Reserve Account. Amounts standing to the credit of the Capex Reserve Account may not be withdrawn without the prior consent of the Borrower Group Security Trustee (such consent not to be unreasonably withheld or delayed) and may be applied only for the purpose of future Capex but amounts so applied shall not be included in any calculation of Capex for any relevant Financial Quarter. For the avoidance of doubt, amounts standing to the credit of the Capex Reserve Account shall be applied by the Borrowers for the purposes of Capex before amounts standing to the credit of the Disposal Proceeds Accounts may be so applied.

The Borrowers have further covenanted in the Issuer/Borrower Facility Agreement that, with effect from Financial Year commencing in August 2018, for so long as there are any Class A6 Debenture Bonds or Class A7 Debenture Bonds outstanding, amounts spent on Capex in any Financial Year shall not exceed the aggregate of:

- (i) the Capex Limit as determined for the relevant Financial Year;
- (ii) the lesser of:
 - (A) amounts withdrawn from the Capex Reserve Accounts during the relevant Financial Year in accordance with the terms of the Issuer/Borrower Facility Agreement; and
 - (B) the aggregate amount standing to the credit of the Capex Reserve Accounts at the commencement of the relevant Financial Year; and
- (iii) amounts withdrawn from the Disposal Proceeds Accounts during the relevant Financial Year in accordance with the terms of the Issuer/Borrower Facility Agreement and applied against Capex.

Capex Limit means, in respect of the Financial Year commencing in August 2018, £60,000,000 and, for each subsequent Financial Year, the Capex Limit figure for the immediately preceding Financial Year adjusted in accordance with the percentage increase in UK retail prices (as indicated by the Retail Prices Index published by the Office of National Statistics or any successor index) during such immediately preceding Financial Year.

Permitted Disposals

Under the terms of the Issuer/Borrower Facility Agreement, the Borrowers may (subject to the provisions of the Borrower Group Deed of Charge) dispose of all or part of a Borrower Mortgaged Property (for value) with the prior consent of the Borrower Group Security Trustee (each such disposal a **Permitted Disposal**), such consent not to be unreasonably withheld or delayed if the Borrower Group Security Trustee shall have received written confirmation that no Borrower Group Event of Default or Potential Borrower Group Event of Default has occurred and is subsisting at the date of the proposed disposal or would occur as a result of the proposed disposal and either the conditions set out in paragraph (a) (the **Permitted Disposals (OpFlex) Conditions**) or the conditions set out in paragraph (b) are satisfied:

- (a) immediately following such disposal:
 - (i) the Loan-to-Value Ratio (expressed as a percentage) would not exceed 60 per cent.; and
 - (ii) the DSCR (OpFlex) immediately after the disposal would be at least 1.65:1 (calculated on the date of such disposal on a *pro forma* basis); or
- (b) if, immediately following such disposal, the Permitted Disposals (OpFlex) Conditions would not be satisfied, the value or (as the case may be) the number of such disposals since the first date on which the Permitted Disposals (OpFlex) Conditions were not satisfied with respect to a proposed disposal does not exceed, in aggregate since the later of the Original Closing Date and the most recent Cure Date (as the case may be), the lower of (i) until such date as agreed in writing by Ambac, twenty per cent. (or such percentage not exceeding twenty five per cent. and with such conditions as may be agreed between Ambac on request of the Borrowers from time to time (the **Ambac**

Specified Percentage) or (ii) thereafter, 5 per cent., in each case, of (as the case may be):

- (i) the value of the Borrower Mortgaged Properties at the date of the relevant Permitted Disposal; or
- (ii) the number of Borrower Mortgaged Properties at the date of the relevant Permitted Disposal,

in each case as determined by reference to the most recent Professional Valuation.

On the Second Issue Date, Spirit Pub Company plc and the Borrowers entered into an agreement with Ambac pursuant to which they have agreed that, where disposals would otherwise not be permitted pursuant to the Permitted Disposals (OpFlex) Conditions in the Issuer/Borrower Facility Agreement, (a) the maximum value of Borrower Mortgaged Properties disposed of since the later of the most recent Cure Date or the Original Closing Date shall be 15 per cent. of the aggregate value of all the Borrower Mortgaged Properties (as at the date of the relevant disposal), and (b) the maximum number of Borrower Mortgaged Properties that may be disposed of since the later of the most recent Cure Date or the Original Closing Date is 15 per cent. of the number of all the Borrower Mortgaged Properties (as at the date of the relevant disposal), and that the proceeds of such Permitted Disposals shall be exclusively applied towards:

- (i) Permitted Acquisitions;
- (ii) the purchase of Debenture Bonds; and/or
- (iii) funding Capex which exceeds £45,000,000 in any relevant Financial Year.

The foregoing restrictions are (subject to the parameters specified in the Issuer/Borrower Facility Agreement) subject to change by agreement between the Borrowers and Ambac.

With respect to a Permitted Disposal, DSCR (OpFlex) on a pro forma basis shall be determined by reference to Pub-Level EBITDA for the immediately preceding Relevant Period for the pubs in the Borrower Group Estate for the whole of such Relevant Period (excluding Pub-Level EBITDA attributable to the pub(s) or part thereof to be disposed of pursuant to the Permitted Disposal).

For the purposes of paragraph (b) above, **Cure Date** means, with respect to a Financial Quarter in which the DCSR (OpFlex) was less than 1.65:1, the earlier to occur of (i) the first date after the date of completion of the relevant Permitted Disposal on which DSCR (OpFlex) is at least 1.80:1; and (ii) the fifth anniversary of any date after the date of completion of the relevant Permitted Disposal on which DSCR (OpFlex) is at least 1.65:1 provided that it remains at least 1.65:1 throughout that five year period.

The **Release Price** with respect to a Borrower Mortgaged Property is an amount equal to 115 per cent. of the Allocated Debt Amount of such Borrower Mortgaged Property.

Save in respect of Permitted Disposals, Intra-Group Transfers (described below) or as described in the following paragraphs, the Borrowers are not permitted to make any disposal (other than a Permitted Disposal) of any single asset if the net proceeds of such disposal would exceed £125,000 or, where the disposal is of a fixed tangible asset, would (either by itself or when aggregated with other such disposals) exceed £250,000, other than to dispose of stock-in-trade and worn-out assets that are excess-to-requirements or obsolete.

In addition, the Borrowers are permitted to let or sub-let parts of a Borrower Mortgaged Property (not including the parts thereof used exclusively or primarily for the running of the Permitted Business carried on thereat) for a period not exceeding 12 months.

In addition, the Borrowers are permitted, at any time, to dispose of any part of a Borrower Mortgaged Property (the **Excluded Part**) provided that the remaining part of the Borrower Mortgaged Property continues to be a viable Permitted Business and the Valuer confirms that the disposal of the Excluded Part would not adversely affect the valuation of the Borrower Group Estate. The proceeds of sale of any Excluded Part may be used by the relevant Borrower for such purposes as it deems fit.

Notwithstanding any of the above, the Leased Borrower is entitled to enter into Lease Agreements in accordance with the Transaction Documents with current or prospective Tenants.

Application of disposal proceeds

Each Borrower has covenanted in the Issuer/Borrower Facility Agreement to credit the Net Sales Proceeds of any disposal of a Borrower Mortgaged Property (other than in relation to an Intra-Group Transfer) or part thereof to an account in the name of the relevant Borrower charged in favour of the Borrower Group Security Trustee (a **Disposal Proceeds Account**) forthwith upon receipt provided that if, on the date of receipt of the Net Sales Proceeds arising from the relevant Permitted Disposal, the relevant Borrower certifies to the Borrower Security Trustee that the Permitted Disposal (OpFlex) Conditions are satisfied, only an amount equal to the Release Price need be credited to such Disposal Proceeds Account.

Net Sales Proceeds means the proceeds of the sale of any Borrower Mortgaged Property (or part thereof other than the Excluded Part) less required transaction costs including, without limitation, legal fees, agency fees and taxes relating to such sale.

Amounts standing to the credit of a Disposal Proceeds Account may only be withdrawn by the relevant Borrower with the prior consent of the Borrower Group Security Trustee (such consent not to be unreasonably withheld or delayed) provided that that Borrower certifies to the Borrower Group Security Trustee that no Borrower Group Event of Default or Potential Borrower Group Event of Default has occurred and is subsisting at that time and would not arise as a result of such withdrawal and provided further that such moneys are to be applied:

- (a) in making a prepayment of any Term Facility or any Additional Term Facility or to purchase Debenture Bonds;
- (b) in or towards a Permitted Acquisition provided that at the time of completion of such acquisition the Borrower Group Security Trustee is granted security in a form and substance satisfactory to it over such Permitted Business thereby acquired;

- (c) in or towards funding future Capex to be spent on any Permitted Business (but amounts so applied shall not be included in any calculation of Capex for any relevant Financial Quarter); and
- (d) (in the case of buildings insurance proceeds (which must be paid into a Disposal Proceeds Account)) in or towards the repair and/or reinstatement of any Borrower Mortgaged Property, or if not required for reinstatement and/or repair of the relevant Borrower Mortgaged Property such moneys may be applied for one or more of the purposes listed in (a), (b) or (c) above.

With respect to a Permitted Acquisition, the calculation of DSCR (OpFlex) “on a pro forma basis” shall be made by reference to Pub-Level EBITDA for the immediately preceding Relevant Period for the pubs in the Borrower Group Estate for the whole of such Relevant Period and Attributable Pub-Level EBITDA for the pub(s) acquired pursuant to the Permitted Acquisition for the immediately succeeding Relevant Period.

Notwithstanding the foregoing, the Borrower Group Security Trustee may consent to the withdrawal by a Borrower of any amount of Excess Net Sales Proceeds from a Disposal Proceeds Account such consent not to be unreasonably withheld or delayed provided that:

- (a) the Loan-to-Value Ratio (expressed as a percentage) immediately after the withdrawal does not exceed 60 per cent.; and
- (b) the DSCR (OpFlex) immediately after the withdrawal is at least 1.65:1 (calculated on a pro forma basis).

Excess Net Sales Proceeds means an amount equal to the difference (if positive) between Net Sales Proceeds and the Release Price attributable to the related Borrower Mortgaged Property (which is the subject of a Permitted Disposal).

Attributable Pub-Level EBITDA means, in respect of a pub acquired by way of Permitted Acquisition (i) the Pub Level EBITDA of that pub, based on the moving annual total (**MAT**), to the extent that such pub has been trading continuously over that 12 month period and the information is available to the relevant Borrower, together with the benefit attributable to intra-group supply agreements in that period; or (ii) based on fair maintainable trade (**FMT**) as reported by a third party valuer (such FMT to exclude, for the avoidance of doubt, the benefit of investment made or planned to be made in such pub by the relevant Borrower in the immediately following 12 month period).

Permitted Acquisitions

Either Borrower is permitted to acquire a Permitted Business (a **Permitted Acquisition**) using funds standing to the credit of the Disposal Proceeds Account. Either Borrower will also be permitted to make a Permitted Acquisition using certain funds other than those standing to the credit of the Disposal Proceeds Account provided that no Borrower Group Event of Default or Potential Borrower Group Event of Default is subsisting and provided further that such acquisition is made for value on an arm’s length basis (other than in the case of Additional Properties) provided that in the case of such an acquisition from a member of Spirit Group

which is not a Borrower Group Entity, such basis is determined in accordance with the Tax Deed of Covenant and:

- (a) the DSCR (OpFlex) immediately after the acquisition would be at least 1.80:1 (calculated on a *pro forma* basis); or
- (b) where the DSCR (OpFlex) immediately after the relevant acquisition would be less than 1.80:1:
 - (x) the DSCR (OpFlex) immediately after the acquisition would be at least 1.65:1 (calculated on a *pro forma* basis); and
 - (y) the Weighted Average Interest Rate Test is satisfied.

In the case of all Permitted Acquisitions, at the time of completion of such Permitted Acquisition, the acquiring Borrower is required to grant to the Borrower Group Security Trustee security in a form and substance satisfactory to it over such Permitted Business thereby acquired. Where a Permitted Acquisition is made for a price in excess of £1,000,000 the valuation of the related Permitted Business must be confirmed by the Valuers.

The **Weighted Average Interest Rate Test** will be satisfied if:

- (a) X is less than Y calculated as at completion of the relevant Permitted Acquisition; and
- (b) A is less than B calculated as at completion of the relevant Permitted Acquisition,

where:

X equals the Weighted Average Interest Rate plus 1.5 per cent.;

Y equals C/D (expressed as a percentage);

A equals the Weighted Average Interest Rate plus 2.3 per cent.;

B equals E/F (expressed as a percentage);

C, in respect of the pubs to be acquired as part of a Permitted Acquisition, equals Attributable Pub-Level EBITDA;

D equals the aggregate purchase price attributable to the pubs to be acquired as part of the Permitted Acquisition;

E equals the historical last 12 months Pub-Level EBITDA with respect to all pubs that were acquired not more than 36 months and not fewer than 18 months prior to the date on which the Weighted Average Interest Rate Test is to be calculated (the **Relevant Pubs**); and

F equals the aggregate purchase price attributable to the Relevant Pubs.

Weighted Average Interest Rate means, at any time, the average of the rates of interest applicable to each class of the Term Advances (excluding Term Advance Step-Up Amounts) weighted according to their respective principal amounts.

When determining whether the Weighted Average Interest Rate Test has been satisfied, the Borrowers shall be entitled to nominate for exclusion from the calculation a maximum of five pubs within the Borrower Group Estate.

A Borrower may only fund a Permitted Acquisition, in whole or in part, from:

- (a) amounts standing to the credit of Disposal Proceeds Account (as described above);
- (b) a Further Term Advance or a New Term Advance;
- (c) the proceeds of Additional Financial Indebtedness (except the proceeds of new debt applied exclusively to effect a refinancing); and
- (d) Excess Cash.

Excess Cash means the cash available to the Borrowers in the Operating Accounts after having paid or provided for amounts expressed to be due and payable as set out in paragraphs (a) to (s) (inclusive) in "*Borrower Group Deed of Charge – Priority of payments – Pre-enforcement*", below, but does not include Unspent Capex Amounts.

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).

Intra-Group Transfers

The Borrowers may, from time to time, transfer one or more Borrower Mortgaged Properties between themselves (any such transfer being an ***Intra-Group Transfer***). The Borrower Group Security Trustee has agreed that such transfers do not require its consent, provided that:

- (a) no Borrower Group Event of Default or Potential Borrower Group Event of Default has occurred and is subsisting as at the date of the Intra-Group Transfer (the ***Transfer Date***);
- (b) each relevant Borrower Mortgaged Property is transferred subject to the security granted pursuant to the Borrower Group Deed of Charge;
- (c) each relevant Borrower Mortgaged Property is transferred for a value derived by the Borrowers from the market valuation of, *inter alia*, all of the pubs comprising the Borrower Mortgaged Properties as at 5 January 2006 by DTZ, the relevant proportion of which attributable to a particular Borrower Mortgaged Property having been calculated

by the directors of the Borrowers, as such value may be adjusted by the directors of the Borrowers following each Professional Valuation (the **Transfer Value**);

- (d) the consideration for the Intra-Group Transfer is settled by the assumption by the transferee Borrower of a *pro rata* amount of:
- (i) each Term Advance and Additional Term Advance equal in aggregate to A (together with an equivalent notional principal amount of the interest rate swap transactions entered into in relation to such Term Advances under the Issuer/Borrower Hedging Agreement and in relation to any relevant Additional Term Advances under any equivalent documentation); and
 - (ii) a principal amount of the outstanding LoanCo/Borrower Subordinated Loan Agreement equal to B,

where:

A is the aggregate principal amount outstanding of all Term Advances and any Additional Term Advances as at the Transfer Date, multiplied by a fraction being the proportion which the Transfer Value of the relevant Borrower Mortgaged Property bears to the aggregate value of the Borrower Mortgaged Properties comprised in the Borrower Group Estate; and

B is the amount by which the Transfer Value of the Borrower Mortgaged Property exceeds the value of A;

- (e) the Borrower Group Security Trustee is served with a notice of the Intra-Group Transfer in the agreed form; and
- (f) no material adverse effect on the tax treatment of the Borrowers has occurred.

A Borrower Mortgaged Property may not be the subject of an Intra-Group Transfer if it has been the subject of an Intra-Group Transfer within the 12 months preceding the proposed Transfer Date.

Substitution

Where (A)(i) a Borrower Mortgaged Property is contractually committed to be disposed of by a Borrower; and (ii) a Borrower is contractually committed to acquire a Borrower Mortgaged Property and the completion date for such disposal is set to occur no earlier than 30 days prior to such acquisition (the completion of such disposal and acquisition being a **Substitution**); and (B) both the Permitted Disposals (OpFlex) Conditions are satisfied immediately following completion of the Substitution, all other financial conditions and financial tests specified above as being applicable to the disposal(s) (as Permitted Disposals) and the acquisitions (as Permitted Acquisitions) shall be deemed to have been satisfied.

Additional Properties

If the most recent Professional Valuation shows that (i) as at the most recent Financial Quarter Date the Loan-to-Value Ratio (expressed as a percentage) exceeds 60 per cent.; or (ii) the DSCR (OpFlex) is less than 1.65:1, the Borrowers or any third party will be entitled to charge within two months additional properties (whether or not acquired for value) (such properties being **Additional Properties**) to secure the obligations of the Borrowers under the Issuer/Borrower Facility Agreement to prevent the occurrence of a Borrower Group Event of Default provided always that the maximum value of such Additional Properties that may be charged by a Borrower or any third party during any two year period on a rolling basis will be £50,000,000.

Replacement properties

Save as disclosed in the property due diligence reports prepared in relation to the issue of the Original Debenture Bonds, if either Borrower becomes aware that they do not, between them, have a good and marketable title (or, in relation to Borrower Mortgaged Property located in Scotland, valid and marketable title) to any Borrower Mortgaged Property that Borrower shall, within two months of becoming aware of the same, charge in favour of the Borrower Group Security Trustee either: (i) a substitute long leasehold or freehold (or, in Scotland, heritable) property having a value equal to the value attributed to the property to which that Borrower did not have good and marketable or, as applicable, valid and marketable title; or (ii) cash to be credited to the Disposal Proceeds Account in an amount equal to the value attributed to the property to which the Borrowers did not have good and marketable title.

Additional Financial Indebtedness

Either or both of the Borrowers shall be permitted (without the prior consent of the Borrower Group Security Trustee) to incur or permit to subsist any financial indebtedness that ranks *pari passu* with or junior to the Term Facilities and/or any Additional Term Facilities (other than as may be provided by the Issuer by way of Further Term Facilities and New Term Facilities) (**Additional Financial Indebtedness**), provided that:

- (a) no Borrower Group Event of Default or Potential Borrower Group Event of Default has occurred and is subsisting at the relevant drawdown date or would occur as a result of the incurrence of additional indebtedness;
- (b) in respect of Additional Financial Indebtedness ranking *pari passu* with the existing Term Advances (which Additional Financial Indebtedness is not to be used solely to refinance Term Advances, Additional Term Advances or Additional Financial Indebtedness of the Borrower Group), the Loan-to-Value Ratio (expressed as a percentage) immediately after the date the Additional Financial Indebtedness is incurred does not exceed 60 per cent. provided that, for the purposes of calculating the Loan-to-Value Ratio in such circumstances, the Borrower Group Estate value shall be adjusted to take into account the value attributable to pubs acquired pursuant to Permitted Acquisitions to be completed contemporaneously with, and using the net proceeds of, the relevant Additional Financial Indebtedness (but without double counting);
- (c) in respect of Additional Financial Indebtedness ranking *pari passu* with the existing Term Advances (which Additional Financial Indebtedness is not to be used solely to refinance Term Advances, Additional Term Advances or Additional Financial Indebtedness of the

Borrower Group), the DSCR (OpFlex) (to be calculated by reference to: (i) Free Cash Flow arising in the four Financial Quarters ending on the Financial Quarter Date immediately prior to the date on which the Additional Financial Indebtedness is to be incurred (the **AFI Drawdown Date**) and adjusting the same to take into account Attributable Pub-Level EBITDA from Permitted Acquisitions completed during the last 12 months and any Attributable Pub-Level EBITDA from the Permitted Acquisitions to be completed contemporaneously with, and using the net proceeds of, the relevant Additional Financial Indebtedness but deducting an amount equal to the Pub-Level EBITDA in respect of Borrower Mortgaged Properties (if any) disposed of by way of Permitted Disposals during such 12-month period (but without double counting) and (ii) the Debt Service (OpFlex) in respect of the 12 months immediately succeeding the AFI Drawdown Date, taking into account the Debt Service in respect of the Additional Financial Indebtedness over such immediately succeeding 12 month period following the AFI Drawdown Date) is at least 1.65:1;

- (d) the Rating Agencies confirm that:
- (i) where such Additional Financial Indebtedness is not to be used solely to refinance existing Relevant Financial Indebtedness of the Borrower Group, the then outstanding classes of Debenture Bonds will be assigned (A) in the case of the Debenture Bonds which are not Guaranteed Debenture Bonds, ratings of at least “BBB+”/“BBB+”/“Baa2”, and (B) in the case of the Guaranteed Debenture Bonds, Underlying Ratings of at least “BBB+”/“BBB+”/“Baa2”, notwithstanding the incurrence of such Additional Financial Indebtedness; and/or
 - (ii) where such Additional Financial Indebtedness is to be used solely to refinance existing Relevant Financial Indebtedness of the Borrower Group, the then outstanding classes of Debenture Bonds will be assigned (A) in the case of the Debenture Bonds which are not Guaranteed Debenture Bonds, the same ratings as the then-current ratings of such Debenture Bonds, and (B) in the case of the Guaranteed Debenture Bonds, the same underlying ratings as the then-current Underlying Ratings outstanding of the Guaranteed Debenture Bonds, notwithstanding the incurrence of the proposed Additional Financial Indebtedness;
- (e) the provider of such Additional Financial Indebtedness, contemporaneously with the provision of such Additional Financial Indebtedness, accedes to the Borrower Group Deed of Charge on such terms as may be required by the Borrower Group Security Trustee to reflect, *inter alia*, revised priorities of payments, acceleration and enforcement rights and, where appropriate, subordination and non-petition provisions in respect to such Additional Financial Indebtedness;
- (f) in respect of any Additional Financial Indebtedness, unless otherwise sanctioned by Ambac (if required), the aggregate amount of scheduled repayments in respect of (i) all such Relevant Financial Indebtedness which ranks *pari passu* with the existing Term Advances; and (ii) the existing Term Facilities which fall due in any two year period (calculated on a rolling eight Financial Quarter basis) after drawdown of such Additional Financial Indebtedness shall not exceed 20 per cent. of the value of the Borrower Group Estate, such value of the Borrower Group Estate being determined at the time of the

drawdown of the Additional Financial Indebtedness by reference to the Professional Valuation (as adjusted to take into account acquisitions and disposals of Borrower Mortgaged Properties in the immediately preceding Financial Quarter) most recently obtained by the Borrowers prior to the Drawdown Date of the Additional Financial Indebtedness; and

- (g) in respect of a request for any Additional Financial Indebtedness which is to rank *pari passu* with the Term Facilities, and is to bear interest at a floating rate, the consent of Ambac (if required) is obtained where the proceeds thereof are not to be used solely for the purpose of refinancing the Term Advances (or any subsequent refinancing thereof (capped at the aggregate principal amount of the Term Advances)).

In addition to the foregoing, each Borrower will have the right to obtain its own working capital facility which may be drawn to fund AdminCo's working capital requirements (thereby reducing or eliminating the necessity to establish a liquidity reserve to the relevant extent) but each Borrower may only fund AdminCo's working capital requirements insofar as they relate solely to each Borrower's business. Each Borrower will be entitled at any time to establish such a working capital facility on the basis that it ranks *pari passu* with the existing Term Facilities under the Issuer/Borrower Facility Agreement, subject to satisfying all the conditions to raising Additional Further Indebtedness described above (but would only be entitled to establish such a facility on a senior ranking basis with the consent of Ambac (if required)).

Appointment of a Financial Adviser

If any of the following shall occur:

- (a) the DSCR (OpFlex) is less than 1.50:1 as at the most recent Financial Quarter Date; or
- (b) a material and unremedied default giving rise to a right of termination of any Material Contract (as defined in either the Administrative Services Agreement or the Leased Borrower ASA) on the grounds of AdminCo's default (whether or not such Material Contract is so terminated),

(any such event, an ***FA Appointment Event***), then the Obligors shall (at their own expense) promptly appoint a professional financial adviser (the ***Financial Adviser***) to prepare a report within 45 days of its appointment on behalf of the Borrower Group Security Trustee which:

- (i) outlines the financial status of AdminCo; and
- (ii) provides a detailed management and performance review of AdminCo's management of the Managed Borrower and the Leased Borrower, detailing the circumstances surrounding such FA Appointment Event and considering what steps might reasonably be taken in order to remedy such FA Appointment Event and, in light of such issues, recommending the taking of any such steps as it shall consider appropriate.

The Borrower Group Security Trustee may also require the Financial Adviser to investigate whether the recharging of services to the Managed Borrower under the Administrative Services Agreement and the Leased Borrower under the Leased Borrower ASA has, as between the Managed Borrower and the Leased Borrower and any Spirit Group Entity to whom AdminCo

provides its services, been done in accordance with the Fair and Reasonable Principle. AdminCo is not, however, required to follow any recommendation or take any remedial action suggested or proposed by the Financial Adviser save that, where the Financial Adviser determines that there has been an overpayment by the relevant Borrower of recharged amounts which have not been allocated in accordance with the Fair and Reasonable Principle, AdminCo will, in certain circumstances, be obliged to reimburse the relevant Borrower accordingly. In the event that a decision is made by AdminCo not to follow any other such recommendation or take any such remedial action, AdminCo shall provide an explanation in reasonable detail to the Borrower Group Security Trustee and Ambac (if required) of why AdminCo considers that it is not in its best interests to do so.

Where other counterparties to Material ASAs (as defined in the Administrative Services Agreement or the Leased Borrower ASA) have equivalent rights under such Material ASAs, the appointment of a Financial Adviser shall be made jointly and the costs shared accordingly.

Valuation of Borrower Mortgaged Properties

Pursuant to the Issuer/Borrower Facility Agreement, the Borrowers shall procure that:

- (i) a Professional Valuation shall be made as at the last day of each of its Financial Years (the ***Property Valuation Date***) of all of the properties comprised in the First Fixed Charge Security as at the Property Valuation Date on the basis that:
 - (A) during such Financial Year at least one-fifth of such properties (selected by the Valuers on the basis of a stratified sample of the Borrower Group Estate) shall be physically inspected by the Valuers making such Professional Valuation; and
 - (B) during each period of five consecutive Financial Years of the Borrowers ending with the Financial Year in which the Property Valuation Date falls, each of the properties comprised in the First Fixed Charge Security as at the Property Valuation Date shall be inspected by such Valuers at least once; and
- (ii) such Professional Valuations (which shall be regarded for the purposes of the Borrower Group Deed of Charge as a single Professional Valuation) shall be (A) dated the date of its production, (B) addressed to the Borrower Group Security Trustee and the Borrowers and (C) produced to the Borrower Group Security Trustee not later than three months after the end of the Financial Year in which the Property Valuation Date falls.

For the purposes of this Second Issue Prospectus:

Colliers means Colliers International Property Advisors UK LLP, a limited liability partnership registered in England and Wales (registered number OC385143) having its registered office at 50 George Street, London W1U 7GA;

DTZ means DTZ Debenham Tie Leung Limited, a private company with limited liability incorporated under the laws of England and Wales (registered number 02757768) having its registered office at 125 Old Broad Street, London EC2N 1AR;

Professional Valuation means, in relation to property, a valuation addressed to the Borrower Group Security Trustee and the Borrowers made by the Valuers on the basis of Market Value as defined by the Practice Statements contained in the Appraisal and Valuation Manual prepared by the Royal Institution of Chartered Surveyors (in effect for the time being) for the existing use of the property as a fully operational entity having regard to trade potential, or on such other basis as the Borrower Group Security Trustee may agree;

value means in relation to a property, broadly the value ascribed thereto by the most recent Professional Valuation thereof or, if not included in such most recent Professional Valuation, by a separate Professional Valuation, provided that, in every such case as aforesaid, such Professional Valuation shall be as at a date not more than three months (or such longer period as the Borrower Group Security Trustee may agree) before the date at which such value falls to be relied upon; and

Valuers means DTZ, Colliers or such other reputable firm of professional valuers as the Borrowers may nominate as is notified to the Rating Agencies and Ambac and approved by the Borrower Group Security Trustee.

Other covenants – general

Each Borrower and each other Obligor has provided the Borrower Group Security Trustee with the benefit of certain other positive and negative covenants including, without limitation:

- (a) legal status;
- (b) maintenance of legal validity;
- (c) notification of events of default;
- (d) notification of all material litigation, arbitration or administrative proceedings against the relevant company;
- (e) repair and maintenance of all Borrower Group assets;
- (f) conduct of business and maintenance of business as a going concern;
- (g) keeping of all pubs in good order;
- (h) maintenance of all necessary licences and consents;
- (i) no Financial Indebtedness, save for Permitted Financial Indebtedness; and
- (j) restrictions on engaging in an activity which is not a Permitted Business.

The effect of a breach of certain of these and other covenants may be limited by reference to a materiality qualification. Each Obligor has also granted a negative pledge in favour of the Borrower Group Security Trustee not to create any Encumbrances or security ranking *pari passu* with or in priority to the security created under or pursuant to the Borrower Group Deed of Charge other than Permitted Encumbrances.

Permitted Financial Indebtedness means, without limitation, indebtedness incurred with the consent of the Borrower Group Security Trustee, indebtedness incurred under the Issuer/Borrower Facility Agreement, Additional Financial Indebtedness incurred, indebtedness under material contracts and indebtedness incurred under Intra-Group Subordinated Loans.

Intra-Group Subordinated Loans means any Financial Indebtedness incurred between a Borrower and any other member of Spirit Group on a fully subordinated, limited recourse basis with appropriate non-petition covenants.

Restrictions on Outside Payments

The making of distributions and/or loans by Obligors to third parties or Excluded Group Entities (except as otherwise permitted by the Transaction Documents) and/or payments or prepayments under any subordinated debt from cash within the Borrower Group (**Outside Payments**) is restricted save as set out below:

- (a) 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 Payments being made, the Obligors are permitted (subject always to the priority of payments set out in “*Summary of Principal Documents – Borrower Group Deed of Charge – Priority of payments – Pre-enforcement*”, below) to make Outside Payments (ignoring, for these purposes, the Outside Payments to be made as described in paragraph (b) below) on an Interest Payment Date (such Outside Payments, together with Outside Payments permitted under paragraph (b) below, **Permitted Outside Payments**) in accordance with the following provisions (which reflect the relevant provisions of the Issuer/Borrower Facility Agreement, insofar as they are relevant to the Second Issue Date):
 - (i) where, in relation to the relevant Interest Payment Date, the DSCR (OpFlex) is equal to or less than the applicable ratio shown in the DSCR (OpFlex) Table, the Borrowers shall not be permitted to make any Outside Payments;
 - (ii) where, in relation to the relevant Interest Payment Date, the DSCR (OpFlex) is greater than the applicable ratio shown in the DSCR (OpFlex) Table, the Borrowers may make Outside Payments equal to up to 100 per cent. of the Available Operating Cash in relation to the relevant Interest Payment Date; and
 - (iii) where, in relation to the Interest Payment Date falling in September of any calendar year, either (x) the DSCR (OpFlex) is greater than the applicable ratio shown in the DSCR (OpFlex) Table, or (y) 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 applicable ratio shown in the DSCR (OpFlex) Table for the Interest Payment Date falling in June of such calendar year, the Borrowers will be permitted to make a Permitted Outside Payment, provided that if, following the making of a Permitted Outside Payment on the Interest Payment Date falling in September of any year, it is subsequently established that the DSCR (OpFlex) was in fact below the applicable ratio shown in the DSCR

(OpFlex) Table for the 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 section (y) within 10 Business Days of such subsequent calculation.

Unless otherwise specified, 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.

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 Interest Payment Date certifying that the Permitted Outside Payment will be permitted and setting out the relevant calculations in the agreed form.

The Issuer/Borrower Facility Agreement stipulates (in clause 16.4(b)(vii) (*Restriction on Outside Payments*)) that no Permitted Outside Payment may be made pursuant to the provisions of paragraph (a) above (whether by way of payment of interest or repayment of principal in respect of the Issuer/Borrower Subordinated Loan or any Intra-Group Subordinated Loan or otherwise) on or after the Interest Payment Date falling in September 2018, for so long as there are any Class A6 Debenture Bonds or Class A7 Debenture Bonds outstanding.

- (b) Notwithstanding paragraph (a) 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, *inter alia*, to (i) to any Excluded Group Entity, in accordance clauses 12 (*Further undertakings in relation to intra-group asset transfers and degrouping charges*), 13 (*Representations and covenants relating to group relief, etc.*), 14 (*Representations and covenants relating to Schedule 28AA to the ICTA and Part 4 of the TIOPA*) or 16 (*General sweeper*) of the Tax Deed of Covenant; and (ii) on an Interest Payment Date, to an Excluded Group Entity of an amount equal to any 7B Election Payment (as defined in the Master Definitions and Construction Schedule).

The **DSCR (OpFlex) Table** (insofar as is relevant following the Second Issue Date) provides as set out below:

| Interest Payment Date in | Applicable Ratio |
|---------------------------------|-------------------------|
| 2008 to 2013 | 1.70:1 |
| March 2014 | 1.60:1 |
| June 2014 | 1.50:1 |
| September 2014 | 1.40:1 |

December 2014 1.30:1

2015 to 2032 1.30:1

On the Second Issue Date, Spirit Pub Company plc agreed with Ambac that, for so long as the Ambac Financial Guarantee is outstanding in respect of the Guaranteed Debenture Bonds (and no Ambac Termination Event has occurred):

- (x) Outside Payments pursuant to paragraph (b) above in respect of any Financial Year will be limited to the aggregate of (i) £30 million; and (ii) 50 per cent. of any Excess Cash in excess of £30 million generated in that Financial Year; and
- (y) no Outside Payments may be made pursuant to paragraph (a) above unless the DSCR (OpFlex) (calculated in accordance with that paragraph) is greater than 1.45:1.

The foregoing restrictions are subject to change by agreement between Spirit Pub Company plc and Ambac (although no such agreement would have the ability to loosen the restrictions specified in the Issuer/Borrower Facility Agreement).

The effect of the foregoing restrictions (which will limit the amount of cash which the Borrower Group can distribute to the wider Spirit Group), together with the cash sweep provisions which will apply in respect of the Second Issue Debenture Bonds from the Interest Payment Date falling in September 2018, may be that (subject to, among other things, the performance of the Borrowers' business) a significant amount of cash will be available for application in repaying the Second Issue Debenture Bonds on such Interest Payment Date.

Waivers; changes to covenants

If any condition or limitation contained in the Issuer/Borrower Facility Agreement or any other Transaction Document cannot be satisfied and/or if a Borrower wishes to obtain a waiver in respect of an actual or potential breach thereof, the Borrower Group Security Trustee may permit or grant a waiver to the relevant Obligor to effect the relevant matter if the consent of Ambac is obtained (if required), and the Borrower Group Security Trustee (i) is directed to do so by the Issuer Security Trustee or (ii) is otherwise of the opinion that the interests of the Issuer Secured Creditors, including the Debenture Bondholders (other than, prior to the occurrence of an Ambac Termination Event, the holders of the Guaranteed Debenture Bonds), will not be materially prejudiced as a result of the waiver.

In addition, if either Borrower wishes to modify any of the covenants in the Issuer/Borrower Facility Agreement, the Borrower Group Security Trustee may consent to such a modification if the Borrower Group Security Trustee (as directed by the Issuer Security Trustee) is of the opinion that the interests of the Issuer Secured Creditors, including the Debenture Bondholders, will not be materially prejudiced as a result of the waiver.

Where the Rating Agencies have provided a Rating Confirmation, the Issuer Security Trustee, Debenture Bond Trustee or the Borrower Group Security Trustee, in considering the No Material Prejudice Test shall (and, in relation to any Rating Confirmation by Fitch only, where the Issuer Security Trustee, the Debenture Bond Trustee or the Borrower Group Security Trustee (as the case may be) considers that such Rating Confirmation is an appropriate test or the only

appropriate test to apply in that circumstance) be entitled to take into account such Rating Confirmation provided that the Issuer Security Trustee, the Debenture Bond Trustee and the Borrower Group Security Trustee (as the case may be) shall continue to be responsible for taking into account, for the purpose of the No Material Prejudice Test, all other matters which would be relevant to such No Material Prejudice Test.

Events of Default

The Issuer/Borrower Facility Agreement contains events customary for a full recourse facility that may lead to a default and acceleration of amounts outstanding (each a **Borrower Group Event of Default**). These include, *inter alia*:

- (a) any of the Obligors fails to pay amounts of principal and/or interest (other than Term Advance Step-Up Amounts) within two Business Days of the due date therefor;
- (b) any financial indebtedness of an Obligor in an amount in aggregate exceeding £500,000 is not paid when due or is declared to be or otherwise becomes due and payable prior to its specified maturity;
- (c) in any Financial Quarter, the most recent Loan-to-Value Ratio (expressed as a percentage) exceeds 67 per cent. and the DSCR (Default) falls below 1.50:1;
- (d) in respect of any Financial Quarter the DSCR (Default) falls below 1.30:1;
- (e) in respect of any Financial Quarter the Adjusted DSCR (Default) falls below 1.10:1;
- (f) any Obligor becomes subject to insolvency proceedings or is unable to pay its debts as they fall due;
- (g) any breach of covenant (other than a financial covenant or covenant to pay) by a member of the Borrower Group which is not cured to the satisfaction of the Borrower Group Security Trustee within 14 days of notice being given to the breaching Obligor of such breach or actual or constructive knowledge by the breaching Obligor of such breach;
- (h) an Issuer Event of Default occurs; or
- (i) any representation or statement made or repeated by an Obligor in any of the Transaction Documents proves incorrect or misleading in any material respect unless the underlying circumstances leading to the misrepresentation are remedied within 30 days after the earlier of the Obligor's knowledge of the misrepresentation and the date of notice from the Borrower Group Security Trustee to remedy such breach.

The effect of a Borrower Group Event of Default is, in certain circumstances, limited by a materiality provision. In respect of certain other events, the mere occurrence of the event will not in itself entitle the Borrower Group Security Trustee to accelerate the repayment obligations of the Borrower immediately following the expiry of any applicable grace period. In particular, in the event of any failure by the Borrowers to comply with the financial covenants, the Obligors shall have 30 days in which to remedy such breach: (i) through a reduction in the Term

Facilities; (ii) through the subscription by an Excluded Group Entity (as defined in the Master Definitions and Construction Schedule) or a third party of a sufficient amount of new share capital in any relevant Borrower Group Entity (in each case, on a subordinated basis); (iii) through the deposit of funds (on a subordinated basis); or (iv) through other remedial action provided that the Borrower Group Security Trustee (a) is directed by the Issuer Security Trustee (acting on the directions of the Debenture Bond Trustee) that the interests of the Debenture Bondholders (other than, prior to the occurrence of an Ambac Termination Event, the holders of the Guaranteed Debenture Bonds) will not be materially prejudiced as a result of such action and (b) the consent of Ambac (if required) is obtained.

In the case of (ii) above, the subscription of new share capital in any relevant Borrower Group Entity and/or a deposit of funds will be deemed to cure:

- (A) a breach of the DSCR (Default) Covenant or the Adjusted DSCR (Default) Covenant if the subscription proceeds and/or deposit is in an amount which is sufficient to generate interest which, if available to the Borrower Group at the time the relevant financial ratio compliance certificate and report was prepared, as earnings, would have meant that no such breach would have been reported; or
- (B) a breach of the Loan-to-Value Covenant if the amount of the subscription proceeds and/or deposit (as the case may be) is sufficient such that no breach (as reported in the relevant financial ratio compliance certificate and report) would have occurred if the proceeds or deposit had been standing to the credit of the Disposal Proceeds Account.

Any deposit may be withdrawn if, following any breach of the DSCR (Default) Covenant or the Adjusted DSCR (Default) Covenant or the Loan-to-Value Covenant (as the case may be), such covenant is not breached for four successive Financial Quarters without taking into account the benefit of the deposit or subscription and either Borrower has provided advice satisfactory to the Borrower Group Security Trustee as to the continued satisfaction of the DSCR (Default) Covenant or the Adjusted DSCR (Default) Covenant or the Loan to Value Covenant on an ongoing basis notwithstanding the release of such deposit.

If no subscription of equity share capital or deposit of funds is made or other remedial action taken within the aforesaid 30-day period, Borrower Group Event of Default will occur.

Upon acceleration of the Term Advances following a Borrower Group Event of Default, each of the Borrowers will be required to repay the proportion of the Term Advances owed by it:

- (i) at par, in the case of the Term A1 Advances, the Term A2 Advances and the Term A6 Advances and, from (and including) in each case the relevant Step-Up Date, the Term A3 Advances, the Term A4 Advances and the Term A5 Advances and, from (and including) the Interest Payment Date falling in September 2017, the Term A7 Advances;
- (ii) at the higher of par and an amount equal to the relevant Redemption Amount, in the case of the Term A3 Advances, the Term A4 Advances and the Term A5 Advances, up to (but excluding) the relevant Step-Up Date and, in the case of the Term A7 Advances, up to (but excluding) the Interest Payment Date falling in September 2016; and

- (iii) at 103 per cent. of par, in the case of the Term A7 Advances, from (and including) the Interest Payment Date falling in September 2016 up to (but excluding) the Interest Payment Date falling in September 2017,

(together, in each case, with accrued but unpaid interest on the aggregate principal amount of the relevant Term Advance to the date of repayment), including where Ambac has exercised its rights under Condition 6(c)(iv) (*Redemption, Purchase and Cancellation – Redemption at the option of the Issuer*).

The occurrence of a Potential Borrower Group Event of Default (or of any other event where the Borrower Group Security Trustee believes the security created by the Borrower Group Deed of Charge to be threatened or in jeopardy or prejudiced) will entitle the Borrower Group Security Trustee to serve a notice which will cause the floating charges contained in the Borrower Group Deed of Charge over the assets, property and undertaking of each Obligor to crystallise in whole or in part so as to become fixed charges (except in relation to Scottish Assets, in respect of which the relevant floating charges will crystallise only on the appointment of a receiver thereunder or a liquidator of the relevant Obligor). The floating charges created by the Obligors under the Borrower Group Deed of Charge will automatically (except in relation to Scottish Assets as aforesaid) crystallise so as to become a fixed charge on the occurrence of, *inter alia*, an insolvency event in relation to any Obligor.

Following crystallisation of any floating charge over any bank account, moneys standing to the credit of such account will not be capable of being withdrawn unless the prior written consent of the Borrower Group Security Trustee (as directed by the Issuer Security Trustee) to any such withdrawal is given.

In each of these circumstances, there will not be an automatic event of default under the Debenture Bonds. If a Borrower Group Event of Default occurs at a time when any Junior Debt is outstanding, the Borrowers will not be entitled to pay to the lender thereof (whether the Issuer or another entity) any amount in respect of interest and (if applicable) principal in relation to the Junior Debt in excess of the amount of interest and (if applicable) principal that was paid on the Interest Payment Date immediately prior to the date on which the Borrower Group Event of Default occurred, notwithstanding the terms of the relevant Junior Debt, until the earlier of:

- (i) the Borrower Group Event of Default being cured to the satisfaction of the Borrower Group Security Trustee or waived by the Borrower Group Security Trustee (the Event of Default Cure Date) (in which case the Borrowers will be entitled to pay the amount falling due on subsequent Interest Payment Dates commencing on the Interest Payment Date immediately following the Cure Date together with any unpaid interest and/or principal that accrued but was not paid during the continuance of the Borrower Group Event of Default); and
- (ii) an acceleration of the Senior Debt at which point, all amounts payable in respect of the Junior Debt shall be entitled to be declared immediately due and payable in accordance with the Borrower Group Post-Acceleration Priority of Payments.

Junior Debt means, at any time, all Relevant Financial Indebtedness at that time which is subordinate in point of priority of payment and security to the existing Term Advances.

Senior Debt means, at any time, all Relevant Financial Indebtedness at that time other than Junior Debt.

Governing law

The Issuer/Borrower Facility Agreement will be governed by English law.

ISSUER/BORROWER HEDGING AGREEMENT

The Managed Borrower entered into back-to-back hedging arrangements (the **Issuer/Borrower Hedging Agreement**) on the Original Closing Date with the Issuer. The Issuer/Borrower Hedging Agreement was amended and restated pursuant to an agreement dated 7 July 2006 in order to add the Leased Borrower as a party. The Issuer/Borrower Hedging Agreement was further amended and restated on the Second Closing Date in order to make certain provisions regarding the effect of repayment, prepayment, redemption, cancellation or other discharges of the Debenture Bonds upon the Issuer/Hedging Agreement.

The terms of the Issuer/Borrower Hedging Agreement are, in all material respects, similar to those of the Hedging Agreement (save that, *inter alia*, neither the Issuer nor the Borrowers will be required to maintain minimum ratings).

The obligations of the Borrowers to the Issuer under the Issuer/Borrower Hedging Agreement are secured pursuant to the Borrower Group Deed of Charge.

The Issuer/Borrower Hedging Agreement is governed by English law.

BORROWER GROUP DEED OF CHARGE

The Borrower Group Deed of Charge was entered into on the Original Closing Date by, *inter alios*, the Managed Borrower, New ParentCo (each an **Obligor**), SGL and each relevant Spirit Group entity (each a **Charging Company**), the Issuer, the Bank Security Agent and the Borrower Group Security Trustee. It was amended and restated pursuant to an agreement dated 7 July 2006 to reflect the accession of the Leased Borrower as an Obligor and further amended pursuant to an agreement dated 23 February 2012 in order to reflect certain changes to the supply and services arrangements within the Spirit Group. The Borrower Group Deed of Charge was further amended and restated on the Second Issue Date in order to reflect the issue of the Second Issue Debenture Bonds.

Under the terms of the Borrower Group Deed of Charge, each Borrower provided the Borrower Group Security Trustee with the benefit of, *inter alia*, the security described in paragraphs (a) to (h) below (the **Borrower Group Security**) over its property, assets and undertaking:

- (a) a first fixed charge expressed by way of legal mortgage (or, in Scotland, a standard security (in the form of a Borrower Group Standard Security) or, as appropriate, assignation in security) over the pubs in the Borrower Group Estate legally and/or beneficially owned by them including all estates or interests in such property and all buildings, trade and other fixtures, fixed plant and machinery from time to time on such freehold, heritable or leasehold property (the assets subject to such first fixed charge

being the Borrower Mortgaged Properties and the security created thereby being the First Fixed Charge Security);

- (b) a first fixed charge over the Disposal Proceeds Accounts, the Capex Reserve Accounts and, in the case of the Leased Borrower only, the Borrower Collection Account (which may take effect as a floating charge and thus rank behind the claims of certain preferential creditors and other creditors) and a floating charge over its other Operating Accounts;
- (c) an assignment by way of first fixed security of all of its right, title, interest and benefit in and to the Transaction Documents and all rights in respect of and incidental thereto;
- (d) (in the case of the Managed Borrower) an assignment by way of first fixed security of all of its right, title, interest and benefit in and to the Back-to-Back Supply Agreement and the Administrative Services Agreement and (in the case of the Leased Borrower) an assignment by way of first fixed security of all of its right, title, interest and benefit in and to the Leased Borrower Back-to-Back Supply Agreement and the Leased Borrower ASA;
- (e) an assignment by way of first fixed security over all of its right, title, interest and benefit, present and future, to, in and of each of the Insurance Policies under which it is an insured party and to all claims payable and paid thereunder (which may take effect as a floating charge and thus rank behind the claims of certain preferential and other creditors);
- (f) an assignment by way of first fixed security of all intellectual property rights, statutory licences, consents and authorisations, present and future, held by it or otherwise used by it in connection with its business and all rights in and in respect of and incidental thereto (other than those governed by the law of Scotland) (which may take effect as a floating charge and thus rank behind the claims of certain preferential and other creditors);
- (g) a first fixed charge over all book debts and other debts (including the loans made to other members of Spirit Group but excluding amounts held by National Westminster Bank Plc on behalf of SGL in connection with certain planning consents), and all other moneys and liabilities whatsoever for the time being due, owing or payable to it (other than those governed by the law of Scotland) and all rights in and in respect of and incidental thereto (which may be subject to the obtaining of third party consents and may take effect as a floating charge and thus rank behind the claims of certain preferential and other creditors); and
- (h) a first floating charge over the whole of such Borrower's assets and undertaking not effectively charged by the first ranking fixed security (but extending over the whole of such Borrower's Scottish Assets) (the ***Floating Charge Assets***).

Under the terms of the Borrower Group Deed of Charge, each Obligor and each Charging Company also provided the Borrower Group Security Trustee with the benefit of certain fixed charges (and the Obligors also granted floating charges) over their respective property, assets and undertaking.

The security created by and pursuant to the Borrower Group Deed of Charge referred to in paragraphs (a) to (h) is held by the Borrower Group Security Trustee on trust for the benefit of itself, any receiver of any Obligor, the Issuer (other than in its capacity as provider of the loan under the Issuer/Borrower Subordinated Loan Agreement) and any other entity that in due course becomes a creditor of the Obligors and accedes to the Borrower Group Deed of Charge (together the **Borrower Group Secured Creditors**), upon and subject to the terms thereof. The Borrowers also granted second ranking security over the assets and other items referred to in paragraphs (a) to (h) above to the Borrower Group Security Trustee to be held by it for the benefit of any other creditor that is advancing Junior Debt who accedes to the Borrower Group Deed of Charge (any such other creditor advancing Junior Debt being the **Junior Creditors** and, together with the Borrower Group Secured Creditors, the **Borrower Secured Parties**). The interests of the Junior Creditors will at all times be subordinate in point of priority of payment and enforcement of security to those of the Issuer under the Borrower Group Deed of Charge.

The relevant holding company, in each case, has granted an equitable share mortgage over the shares of each Borrower, New ParentCo, SGL, BidCo, AdminCo, SupplyCo and the relevant SNR Group transferor entities. These equitable share mortgages have been granted in favour of the Borrower Group Security Trustee and held on trust for the Borrower Group Secured Creditors under the Borrower Group Deed of Charge.

Each Obligor and each Charging Company has agreed with the Borrower Group Security Trustee and the Borrower Group Secured Creditors that, broadly speaking, while any amount remains due and outstanding under the Issuer/Borrower Facility Agreement, it will not take any steps or pursue any action for the purpose of recovering any debts due or owing to it by any other Obligor or Charging Company or the Issuer or, as applicable, to petition or procure the petitioning for the winding-up or administration of any Obligor or the Issuer or the appointment of an administrative receiver in respect of any such company or to take or omit to take any steps whatsoever that may otherwise threaten or prejudice the security created in favour of the Borrower Group Security Trustee under the Borrower Group Deed of Charge.

Each of the Borrower Group Secured Creditors has agreed and will agree that, unless an enforcement notice (a **Borrower Group Enforcement Notice**) has been served, it will not take any steps whatsoever to direct the Borrower Group Security Trustee to enforce the security created in its favour under the Borrower Group Deed of Charge nor will it take any steps or pursue any action whatsoever for the purpose of recovering any debts due or owing to it by any Obligor or Charging Company or to petition or procure the petitioning for the winding-up or administration of any Obligor or Charging Company or the appointment of an administrative receiver in respect of any such company.

The Issuer will not be entitled to proceed directly against any Obligor or Charging Company unless the Borrower Group Security Trustee, having become bound so to proceed, fails to do so within three days and such failure is continuing.

Upon the service of a Borrower Group Enforcement Notice pursuant to the terms of the Issuer/Borrower Facility Agreement, all payments under or arising from the Issuer/Borrower Facility Agreement and/or the Borrower Group Deed of Charge (subject as provided below) will be required to be made to the Borrower Group Security Trustee or to its order. All rights or remedies provided for by the Borrower Group Deed of Charge or available at law or in equity will be exercisable by the Borrower Group Security Trustee (unless otherwise expressly provided in

the Borrower Group Deed of Charge) as directed by the Issuer Security Trustee (except in the case of the appointment of an administrative receiver in the circumstances described in – *Appointment of an administrative receiver* below, where no direction will be required).

Appointment of an administrative receiver

The Borrower Group Deed of Charge provides that the Borrower Group Security Trustee shall enforce the Borrower Group Security in respect of any Obligor, by appointing an administrative receiver, if it has actual notice of either: (i) an application for the appointment of an administrator; or (ii) the giving of a notice of intention to appoint an administrator, in respect of such Obligor, such appointment to take effect upon the final day by which the appointment must be made in order to prevent an administration proceeding or (where an Obligor or the directors of an Obligor have initiated the administration) not later than that final day.

In addition, the Borrower Group Security Trustee will (subject to – *Indemnity of the Borrower Group Security Trustee* below), following the delivery of a Borrower Group Enforcement Notice by the Borrower Group Security Trustee, enforce the Borrower Group Security in respect of any Obligor by the appointment of an administrative receiver (if the Borrower Group Security Trustee has not already done so pursuant to the foregoing).

The Borrower Group Security Trustee shall not be liable for any failure to appoint an administrative receiver, save in the case of its own gross negligence, wilful default or fraud.

Indemnity of the Borrower Group Security Trustee

The Borrower Group Security Trustee will not be obliged to appoint an administrative receiver unless it is indemnified and/or secured to its satisfaction. However, the Borrower Group Deed of Charge provides that, in the event that the Borrower Group Security Trustee is required to enforce the Borrower Group Security by appointing an administrative receiver following receipt of actual notice of an application for the appointment of an administrator or actual notice of the giving of a notice of intention to appoint an administrator, then the Borrower Group Security Trustee will agree that it is adequately indemnified and secured in respect of such appointment by virtue of its rights against the Obligors under the Borrower Group Deed of Charge and the security which it has in respect of such rights. The Obligors have covenanted in the Borrower Group Deed of Charge that, in the event that the Borrower Group Security Trustee appoints an administrative receiver by reason of having actual notice of an application for the appointment of an administrator or actual notice of the giving of a notice of intention to appoint an administrator, they waive any claim against the Borrower Group Security Trustee in respect of such appointment.

Priority of payments

Pre-enforcement

Prior to the occurrence of a Borrower Group Event of Default (which is subsisting), the aggregate amounts standing to the credit of the Operating Accounts and (if opened) the Debt Service Reserve Accounts, together with amounts received by the Borrowers from the Borrower Hedge Provider pursuant to the Issuer/Borrower Hedging Agreement, shall be applied, after meeting ongoing operating costs and expenses (including, for the avoidance of doubt, fees

(other than the Service Fee and/or increased costs under the Administrative Services Agreement or the Leased Borrower ASA payable by the Managed Borrower to AdminCo pursuant to the Administrative Services Agreement and to SupplyCo under the Back-to-Back Supply Agreement or the Leased Borrower to AdminCo pursuant to the Leased Borrower ASA and to SupplyCo under the Leased Borrower Back-to-Back Supply Agreement) except where any such costs and expenses are expressly dealt with in paragraphs (a) to (s) below, in the following order of priority (the **Borrower Group Pre-Enforcement Priority of Payments**) (including in each case any amount in respect of value added tax payable thereon):

- (a) *first*, to pay or provide for the amounts then due and payable to the Borrower Group Security Trustee and any receiver appointed by the Borrower Group Security Trustee in respect of the fees or other remuneration and indemnity payments (if any) then payable to, and any costs, charges, liabilities and expenses then incurred by, the Borrower Group Security Trustee and any receiver appointed by the Borrower Group Security Trustee and any amounts payable to the Borrower Group Security Trustee and any receiver appointed by the Borrower Group Security Trustee under the Borrower Group Deed of Charge;
- (b) *second*, to pay or provide for the amounts then due and payable by the Borrowers by way of Periodic Fee to the Issuer in respect of:
 - (i) *first*, the Issuer's obligations set out in paragraph (a) of the Issuer Pre-Acceleration Priority of Payments (set out in *Issuer Deed of Charge – Priority of payments – Pre-acceleration*, below); and
 - (ii) *second*, the Issuer's obligations set out in paragraph (b) of the Issuer Pre-Acceleration Priority of Payments;
- (c) *third, pro rata* according to the respective amounts thereof, to pay or provide for all amounts due and payable (if any) to the Borrower Hedge Provider pursuant to the Issuer/Borrower Hedging Agreement other than:
 - (i) any A6/A7 IB Swap Cash Sweep Amount;
 - (ii) or any payment to be paid to the Issuer upon termination of a transaction under the Issuer/Borrower Hedging Agreement as a result of:
 - (A) an insolvency event with respect to the Hedge Provider; or
 - (B) a failure by the Hedge Provider to remedy, in accordance with the terms of the Hedging Agreement, a ratings downgrade resulting in the short-term and/or long-term unsecured, unsubordinated and unguaranteed ratings of the Hedge Provider being rated lower than the Hedge Provider Requisite Rating,

(paragraphs (A) and (B) above being, together, the **Issuer IB Hedging Subordinated Amounts**);

- (d) *fourth*, to pay or provide for the amounts then due and payable by the Borrowers by way of Periodic Fee to the Issuer in respect of:
 - (i) *first*, the Issuer's obligations set out in paragraph (d) of the Issuer Pre-Acceleration Priority of Payments; and
 - (ii) *second*, the Issuer's obligations set out in paragraph (e) of the Issuer Pre-Acceleration Priority of Payments;
- (e) *fifth, pro rata* according to the respective amounts thereof, to pay into each Borrower's Capex Reserve Account an aggregate amount equal to such Borrower's Unspent Capex Amount during the immediately preceding Financial Quarter;
- (f) *sixth, pro rata* according to the respective amounts thereof, to pay or provide for the amounts then due and payable by the Borrowers to the Issuer in respect of each Borrower's obligation to pay:
 - (i) interest in respect of the Term A1 Advance (other than Term A1 Step-Up Amounts);
 - (ii) interest in respect of the Term A2 Advance (other than Term A2 Step-Up Amounts);
 - (iii) interest in respect of the Term A3 Advance (other than Term A3 Step-Up Amounts);
 - (iv) interest in respect of the Term A4 Advance (other than Term A4 Step-Up Amounts);
 - (v) interest in respect of the Term A5 Advance (other than Term A5 Step-Up Amounts);
 - (vi) interest in respect of the Term A6 Advance (other than Term A6 Step-Up Amounts); and
 - (vii) interest in respect of the Term A7 Advance (other than Term A7 Step-Up Amounts);
- (g) *seventh, pro rata* according to the respective amounts thereof, to pay or provide for the amounts then due and payable by the Borrowers to the Issuer in respect of each Borrower's obligations to repay:
 - (i) principal of the Term A1 Advance;
 - (ii) principal of the Term A2 Advance;
 - (iii) principal of the Term A3 Advance;
 - (iv) principal of the Term A4 Advance;

- (v) principal of the Term A5 Advance;
- (vi) principal of the Term A6 Advance; and
- (vii) principal of the Term A7 Advance,

other than, in the cases of paragraphs (vi) and (vii) above, pursuant to clause 8.2 (*Term A6/A7 Cash Sweep Mandatory Prepayment*) of the Issuer/Borrower Facility Agreement;

- (h) *eighth*, to pay or provide for the amounts then due and payable or to be provided for in respect of the Borrowers' liability or possible liability for all amounts of tax arising out of each Borrower's own activities payable by that Borrower:
- (i) *ninth*, to pay or provide for payment by way of Periodic Fee of any other amount due by the Issuer (including the Liquidity Subordinated Amounts, but excluding sums referred to in paragraph (b) of the Issuer Pre-Acceleration Priority of Payments) due under the Liquidity Facility Agreement to the Liquidity Facility Providers;
- (j) *tenth*, to pay or provide for Issuer IB Hedging Subordinated Amounts then due and payable to the Issuer;
- (k) *eleventh, pro rata* according to the respective amounts thereof, to pay or provide for amounts payable:
 - (i) by the Managed Borrower to AdminCo by way of Service Fee and Increased Costs under the Administrative Services Agreement;
 - (ii) by the Leased Borrower to AdminCo by way of Service Fee and Increased Costs under the Leased Borrower ASA;
 - (iii) by the Managed Borrower to SupplyCo by way of management fee under the Back-to-Back Supply Agreement; and
 - (iv) by the Leased Borrower to SupplyCo by way of management fee under the Leased Borrower Back-to-Back Supply Agreement;
- (l) *twelfth, pro rata* to pay or provide for amounts then due and payable by the Borrowers to the Issuer in respect of each Borrower's obligations to pay:
 - (i) by way of Periodic Fee, an amount equal to the Ambac Subordinated Fees;
 - (ii) Term A1 Step-Up Amounts;
 - (iii) Term A2 Step-Up Amounts;
 - (iv) Term A3 Step-Up Amounts;
 - (v) Term A4 Step-Up Amounts;

- (vi) Term A5 Step-Up Amounts;
 - (vii) Term A6 Step-Up Amounts; and
 - (viii) Term A7 Step-Up Amounts;
- (m) *thirteenth*, to retain an aggregate amount in the Operating Accounts equal to the Operating Cash Reserve;
- (n) *fourteenth*, (1) in or towards satisfaction of any liability of the Borrowers in respect of tax not paid or provided for under paragraph (h) above and (2) to pay or provide for:
- (i) the payment of any amount into a Reserve Account (as defined in the Tax Deed of Covenant) pursuant to clause 6.1(D) (*Cash Reserve in the event of a secondary tax liability arising as a result of a Securitisation Group Company, which has not acceded to this Deed, failing to discharge a liability to tax*) of the Tax Deed of Covenant and of any amount into a Disposal Proceeds Account pursuant to clause 11.4(C) (*Exit charges*) of the Tax Deed of Covenant;
 - (ii) any amounts expressly required or permitted to be paid by clauses 12 (*Further undertakings in relation to intra-group asset transfers and degrouping charges*) or 13 (*Representations and covenants relating to group relief, etc.*) or 16 (*General sweeper*) of the Tax Deed of Covenant arising out of each Borrower's own activities payable by that Borrower; and
 - (iii) any other Obligor's or Charging Company's liability or possible liability for (1) all amounts of tax, (2) payments expressly required or permitted by clause 13 (*Representations and covenants relating to group relief, etc.*) of the Tax Deed of Covenant, and (3) payments in consideration for Group Relief surrendered by another Obligor or Charging Company, but, in the case of (1) and (2), only to the extent that either a balancing payment or other payment equal to such amount of tax or payment has been made to the relevant Obligor or Charging Company pursuant to clause 14 (*Representations and covenants relating to Schedule 28AA to the ICTA and Part 4 of the TIOPA*) or clause 16 (*General sweeper*) of the Tax Deed of Covenant or, in the case of (1), a payment has been made by Spirit Pub Company plc to the relevant Obligor or Charging Company pursuant to clause 19.7 (*Rights and obligations under other tax covenants, etc.*) of the Tax Deed of Covenant in respect of that liability or possible liability for tax;
- (o) *fifteenth*, to transfer to the Debt Service Reserve Account such amount (if any) as the Borrowers may elect and as a director of each of the Borrowers has, in accordance with clause 8.11 (*Debt Service Reserve*) of the Borrower Group Deed of Charge, certified as being required to be credited to a Debt Service Reserve Account;
- (p) *sixteenth*, *pro rata* according to the respective amounts thereof, to pay or provide for payment of:
- (i) the amounts then due and payable by the Borrowers to the Issuer in respect of each Borrower's obligations to repay:

- (A) principal in respect of the Term A6 Advance; and
- (B) principal in respect of the Term A7 Advance,

in each case, pursuant to clause 8.2 (*Term A6/A7 Cash Sweep Mandatory Prepayment*) of the Issuer/Borrower Facility Agreement; and

- (ii) the amounts (if any) due and payable by the Borrowers to the Borrower Hedge Provider pursuant to the Issuer/Borrower Hedging Agreement upon termination (in whole or in part) of:
 - (A) the A1/A6 Issuer/Borrower Swap as a result of the mandatory prepayment of the Term A6 Advance in accordance with clause 8.2 (*Term A6/A7 cash sweep mandatory prepayment*) of the Issuer/Borrower Facility Agreement;
 - (B) the A3/A7 Issuer/Borrower Swap as a result of the mandatory prepayment of the Term A7 Advance in accordance with clause 8.2 (*Term A6/A7 cash sweep mandatory prepayment*) of the Issuer/Borrower Facility Agreement,

then due and payable;

- (q) *seventeenth, pro rata* according to the respective amounts thereof, to pay or provide for the amounts then due and payable in respect of each Borrower's obligations to pay:
 - (i) interest then due and payable in respect of the LoanCo/Borrower Subordinated Loan; and
 - (ii) interest then due and payable in respect of the Issuer/Borrower Subordinated Loan;
- (r) *eighteenth, pro rata* according to the respective amounts thereof, to pay or provide for the amounts then due and payable in respect of each Borrower's obligations to repay:
 - (i) principal in respect of the LoanCo/Borrower Subordinated Loan; and
 - (ii) principal in respect of the Issuer/Borrower Subordinated Loan;
- (s) *nineteenth*, to make any prudent provisioning required in respect of contingent liabilities under the Administrative Services Agreement or the Leased Borrower ASA; and
- (t) *twentieth*, to the Borrowers for their own use, including to make Permitted Outside Payments not included in paragraph (n) above.

In addition to the foregoing, to the extent that a Borrower is required to make a balancing payment in respect of any transfer pricing or thin capitalisation adjustment in accordance with the terms of the Tax Deed of Covenant, the Borrower will be entitled to make such payment in accordance with those terms, and payment such amounts will be provided for at paragraph (n)

on a *pro rata* basis of the Borrower Group Pre-Enforcement Priority of Payments (subject to the terms of the Tax Deed of Covenant).

Furthermore, if H.M. Revenue & Customs opens an enquiry into any land transaction return relating to the acquisition by a Borrower of Borrower Mortgaged Properties, that Borrower will be required to create a reserve (the **SDLT Reserve**) for the amount of stamp duty land tax which that Borrower would be liable to pay (together with interest and penalties, an estimate of which shall be agreed with the Borrower Group Security Trustee) in the event of group relief being denied, unless leading tax counsel shall provide the Borrowers with a written opinion that an appeal against any amended assessment to that effect would be successful. The Borrowers will be required to provide for amounts in respect of the SDLT Reserve immediately senior to any sum payable or to be provided for at paragraph (h) of the Borrower Group Pre-Enforcement Priority of Payments but immediately junior to sums payable or to be provided for under paragraph (g) of the Borrower Group Pre-Enforcement Priority of Payments.

In relation to any payment to be made by a Borrower under paragraphs (p), (q) and (s), it shall only be entitled to make the same if the relevant conditions pursuant to which an Outside Payment is rendered a Permitted Outside Payment (as described in *Summary of Principal Documents – Issuer/Borrower Facility Agreement – Restrictions on Outside Payments*) have been satisfied and, if applicable, pending delivery of the certificate referred to therein, any funds otherwise available to make any such payments shall be held in the relevant Operating Account of that Borrower.

Debt Service Reserve Account means, in respect of each Borrower, an account in the name of such Borrower which is charged in favour of the Borrower Group Security Trustee and to which amounts are to be credited in accordance with clause 8.11 (*Debt Service Reserve*) of the Borrower Group Deed of Charge.

Clause 8.11 (*Debt Service Reserve*) of the Borrower Group Deed of Charge specifies that, on and from the Interest Payment Date falling in September 2018, for so long as there are any Class A6 Debenture Bonds or Class A7 Debenture Bonds outstanding, either Borrower may transfer any amounts standing to the credit of its Operating Account, after paying for all amounts which are due and payable in accordance with paragraphs (a) to (n) (inclusive) of the Borrower Group Pre-Enforcement Priority of Payments, to its Debt Service Reserve Account, subject to (a) the relevant Debt Service Reserve Account (opened in the relevant Borrower's name) being charged in the favour of the Borrower Group Security Trustee, (b) such transfer not leading to the Debt Service Reserve being in excess of the Debt Service Reserve Limit, and (c) delivery of a certificate from a director of each of the Borrowers certifying that the directors are of the opinion that such transfer is necessary to ensure that the Borrowers will have sufficient sums available to them in order to meet their anticipated obligations under the Issuer/Borrower Facility Agreement as they fall due.

On and from the Interest Payment Date falling in March 2019, on each Interest Payment Date falling in March, no amounts may be transferred to the Debt Service Reserve Accounts, and any amounts standing to the credit thereof shall be applied in accordance with the Borrower Group Pre-Enforcement Priority of Payments or (as the case may be) the Borrower Group Post-Enforcement Priority of Payments.

Debt Service Reserve means the aggregate amount standing to the credit of the Debt Service Reserve Accounts from time to time.

Debt Service Reserve Limit means:

- (a) in respect of the Interest Payment Dates falling in June, September and December each year, an amount equal to the aggregate of:
 - (i) the lesser of:
 - (A) the aggregate of all amounts (other than any amounts payable under clauses 8.2 (*Term A6/A7 cash sweep mandatory prepayment*) or 9.4 (*Prepayment of Term Facilities on payment of compensation amounts*) of the Issuer/Borrower Facility Agreement) which are anticipated to fall due under the terms of the Issuer/Borrower Facility Agreement on or prior to each of the next two following Interest Payment Dates; and
 - (B) £40,000,000; and
 - (ii) the aggregate of any amounts which are anticipated to be paid under clause 9.4 (*Prepayment of Term Facilities on payment of compensation amounts*) of the Issuer/Borrower Facility Agreement on or prior to each of the next two following Interest Payment Dates; and
- (b) in respect of the Interest Payment Date falling in March each year, an amount equal to the aggregate of:
 - (i) zero; and
 - (ii) the aggregate of any amounts which are anticipated to be paid under clause 9.4 (*Prepayment of Term Facilities on payment of compensation amounts*) of the Issuer/Borrower Facility Agreement on or prior to each of the next two following Interest Payment Dates.

Post-enforcement Pre-acceleration

Upon the service of a Borrower Group Enforcement Notice, the Borrower Group Security Trustee may cancel the commitment of the Issuer to make Additional Term Advances, declare the Term Advances due and payable immediately or on demand, and/or otherwise exercise all rights available to it, including the enforcement of the security granted by the Obligors.

To the extent that the Borrower Group Security Trustee decides not to accelerate the Term Advances as described above, it may declare the security enforceable through the service of a Borrower Group Enforcement Notice, such notice to be given to, *inter alios*, the Borrower Group Secured Creditors. The effect of such service will be, *inter alia*, to crystallise the floating charges over the operating accounts of the Obligors and the Charging Companies (the **Operating Accounts**). At the same time, the Borrower Group Security Trustee may exercise its powers to appoint a receiver in respect of each Obligor and thereafter the Borrower Group Security Trustee will have control over the Operating Accounts and, to the extent of the funds available,

will cause them to be applied in making payments to the Borrower Group Secured Creditors in the same manner as prior to the appointment of the receiver provided that no payment in respect of the items referred to in paragraphs (h) to (s) above may be made without the consent of the Borrower Group Security Trustee.

The Borrower Group Security Trustee may, at any time following the enforcement of the security under the Borrower Group Deed of Charge, discontinue such enforcement, provided that the circumstances that, *inter alia*, gave rise to the enforcement no longer apply and provided further that no other Borrower Group Event of Default has occurred and is continuing. Following the discontinuance of such enforcement, the Borrowers shall make payments in accordance with the priority set forth under "*Priority of payments – Pre-enforcement*", above.

Post-acceleration

All moneys received or recovered by the Borrower Group Security Trustee (or a receiver appointed on its behalf) (including amounts standing to the credit of the bank amounts of the Borrowers) from (i) any Security Provider following service of a Borrower Group Enforcement Notice; and (ii) the acceleration of the Term Advances, shall be applied in the following order (and in each case only and to the extent that payments or provisions of a higher priority have been made in full) (unless otherwise required by operation of law) (***Borrower Group Post-Acceleration Priority of Payments***) (including in each case any amount in respect of value added tax payable thereon):

- (a) *first, pro rata*, to the respective amounts then due or to be provided:
 - (i) to the Borrower Group Security Trustee in respect of the fees or other remuneration and indemnity payments then payable to, and any costs, charges, liabilities and expenses then incurred by, the Borrower Group Security Trustee under the Borrower Group Deed of Charge; and
 - (ii) to any receiver appointed by the Borrower Group Security Trustee in respect of the fees or other remuneration and indemnity payments then payable to, and any costs, charges, liabilities and expenses then incurred by, such Receiver under the Borrower Group Deed of Charge;
- (b) *second*, to pay by way of Periodic Fee or provide for all amounts then due and payable or to be provided to the Issuer to satisfy in full:
 - (i) *first*, all of the Issuer's obligations set out in paragraph (a) of the Issuer Post-Acceleration Priority of Payments (set out in "*Issuer Deed of Charge – Priority of payments – Post-acceleration*", below); and
 - (ii) *second*, all of the Issuer's obligations set out in paragraph (b) of the Issuer Post-Acceleration Priority of Payments;
- (c) *third*, to pay or provide for amounts then due and payable to the Issuer under the Issuer/Borrower Hedging Agreement (other than Issuer IB Hedging Subordinated Amounts);

- (d) *fourth, pro rata* according to the respective amounts thereof, to pay by way of Periodic Fee or provide for the amounts then due and payable by the Borrowers to the Issuer in respect of the Issuer's obligations set out in paragraph (d) of the Issuer Post-Acceleration Priority of Payments;
- (e) *fifth, pro rata* according to the respective amounts thereof, to pay or provide for the amounts then due and payable:
 - (i) by the Managed Borrower to AdminCo pursuant to the Administrative Services Agreement (other than the Service Fee and/or Increased Costs under the Administrative Services Agreement);
 - (ii) by the Leased Borrower to AdminCo pursuant to the Leased Borrower ASA (other than the Service Fee and/or Increased Costs under the Leased Borrower ASA);
 - (iii) by the Managed Borrower to SupplyCo by way of management fee under the Back-to-Back Supply Agreement; and
 - (iv) by the Leased Borrower to SupplyCo by way of management fee under the Leased Borrower Back-to-Back Supply Agreement;
- (f) *sixth, pro rata* according to the respective amounts thereof, to pay or provide for the amounts then due and payable by the Borrowers to the Issuer in respect of each Borrower's obligation to pay:
 - (i) interest in respect of the Term A1 Advance (other than Term A1 Step-Up Amounts);
 - (ii) interest in respect of the Term A2 Advance (other than Term A2 Step-Up Amounts);
 - (iii) interest in respect of the Term A3 Advance (other than Term A3 Step-Up Amounts);
 - (iv) interest in respect of the Term A4 Advance (other than Term A4 Step-Up Amounts);
 - (v) interest in respect of the Term A5 Advance (other than Term A5 Step-Up Amounts);
 - (vi) interest in respect of the Term A6 Advance (other than Term A6 Step-Up Amounts); and
 - (vii) interest in respect of the Term A7 Advance (other than Term A7 Step-Up Amounts);

- (g) *seventh, pro rata* according to the respective amounts thereof, to pay or provide for the amounts then due and payable by the Borrowers to the Issuer in respect of each Borrower's obligation to pay:
- (i) principal in respect of the Term A1 Advance;
 - (ii) principal in respect of the Term A2 Advance;
 - (iii) principal in respect of the Term A3 Advance (other than an amount equal to the Redemption Premium Amount (if any) payable by the Issuer set out in paragraph (j) of the Issuer Pre-Acceleration Priority of Payments and paragraph (i) of the Issuer Post-Acceleration Priority of Payments);
 - (iv) principal in respect of the Term A4 Advance (other than an amount equal to the Redemption Premium Amount (if any) payable by the Issuer set out in paragraph (j) of the Issuer Pre-Acceleration Priority of Payments and paragraph (i) of the Issuer Post-Acceleration Priority of Payments);
 - (v) principal in respect of the Term A5 Advance (other than an amount equal to the Redemption Premium Amount (if any) payable by the Issuer set out in paragraph (j) of the Issuer Pre-Acceleration Priority of Payments and paragraph (i) of the Issuer Post-Acceleration Priority of Payments);
 - (vi) principal in respect of the Term A6 Advance; and
 - (vii) principal in respect of the Term A7 Advance (other than an amount equal to the Redemption Premium Amount (if any) payable by the Issuer set out in paragraph (j) of the Issuer Pre-Acceleration Priority of Payments and paragraph (i) of the Issuer Post-Acceleration Priority of Payments);
- (h) *eighth*, to pay or provide for the amounts then required by the Issuer to satisfy the Issuer's obligations set out in paragraph (h) of the Issuer Post-Acceleration Priority of Payments;
- (i) *ninth, pro rata* according to the respective amounts thereof, to pay or provide for amounts then due and payable by the Borrowers to the Issuer in respect of each Borrower's obligation to pay:
- (i) an amount in respect of the Term A3 Advance equal to the Redemption Premium Amount (if any) in respect of the Class A3 Debenture Bonds;
 - (ii) an amount in respect of the Term A4 Advance equal to the Redemption Premium Amount (if any) in respect of the Class A4 Debenture Bonds;
 - (iii) an amount in respect of the Term A5 Advance equal to the Redemption Premium Amount (if any) in respect of the Class A5 Debenture Bonds; and
 - (iv) an amount in respect of the Term A7 Advance equal to the Redemption Premium Amount (if any) in respect of the Class A7 Debenture Bonds;

- (j) *tenth*, to pay or provide for IB Hedging Subordinated Amounts then due and payable to the Issuer;
- (k) *eleventh, pro rata* according to the respective amounts thereof, to pay or provide for amounts then due and payable by the Borrowers to the Issuer in respect of each Borrower's obligations to pay:
 - (i) by way of Periodic Fee, an amount equal to the Ambac Subordinated Fees;
 - (ii) Term A1 Step-Up Amounts;
 - (iii) Term A2 Step-Up Amounts;
 - (iv) Term A3 Step-Up Amounts;
 - (v) Term A4 Step-Up Amounts;
 - (vi) Term A5 Step-Up Amounts;
 - (vii) Term A6 Step-Up Amounts; and
 - (viii) Term A7 Step-Up Amounts;
- (l) *twelfth, pro rata* according to the respective amounts thereof, to pay or provide for the amounts then due and payable by the Borrowers in respect of each Borrower's obligations to pay:
 - (i) interest in respect of the LoanCo/Borrower Subordinated Loan; and
 - (ii) interest in respect of the Issuer/Borrower Subordinated Loan;
- (m) *thirteenth, pro rata* according to the respective amounts thereof, to pay or provide for the amounts then due and payable by the Borrowers in respect of each Borrower's obligations to repay:
 - (i) principal in respect of the LoanCo/Borrower Subordinated Loan; and
 - (ii) principal in respect of the Issuer/Borrower Subordinated Loan; and
- (n) *fourteenth*, the surplus (if any) to the Security Providers.

Governing law

The Borrower Group Deed of Charge is governed by English law (other than in respect of any fixed charge over Scottish Assets, which will be governed by Scots law).

LIQUIDITY FACILITY AGREEMENT

Each Liquidity Facility Provider is required to be a bank which has a short-term rating of at least the Liquidity Facility Requisite Rating.

On the Original Closing Date, the Issuer entered into a liquidity facility agreement (the **Liquidity Facility Agreement**) with the Initial Liquidity Facility Provider and the Issuer Security Trustee. The Liquidity Facility Agreement was amended and restated pursuant to an agreement dated 7 July 2006 to reflect the addition of the Leased Borrower to the Spirit Debenture and further amended and restated on the Second Closing Date to reflect the issue of the Second Issue Debenture Bonds. Under the terms of the Liquidity Facility Agreement, the Liquidity Facility Provider(s) will provide a 364-day commitment to permit a drawing to be made of up to a maximum aggregate principal amount of, as at the Second Issue Date, approximately £127 million in circumstances where, subject as set out below, the Issuer has insufficient funds available on an Interest Payment Date falling within such 364 day period to pay in full any of the items specified in paragraphs (a) to (f) (inclusive) and (g)(i)(2), (g)(ii), (g)(iii)(2), (g)(iv), (g)(v)(2), (g)(vi) and (g)(vii) of the Issuer Pre-Acceleration Priority of Payments set out in *Issuer Deed of Charge – Priority of Payments – Pre-Acceleration* below (such insufficiency being a **Liquidity Shortfall**). Upon any reduction in the aggregate Principal Amount Outstanding of the Debenture Bonds by virtue of any prepayment or repayment in accordance with Condition 6 (*Redemption, Purchase and Cancellation – Redemption at the option of the Issuer*), the available Liquidity Facility Commitment shall be reduced by a percentage amount equal to the percentage reduction in the aggregate Principal Amount Outstanding of the Debenture Bonds as a result of any such prepayment or repayment.

The Liquidity Facility shall not be available for the purpose of meeting any shortfall which arises only in respect of payments of Step-Up Amounts, Redemption Premium Amounts or payments under the “cash sweep” provisions in Condition 6(b)(B)(iii) (*Repayment, Purchase and Cancellation – Scheduled and mandatory redemption – Mandatory redemption*).

The Liquidity Facility Agreement provides that, if at any time the rating of the short-term unsecured, unsubordinated and unguaranteed debt obligations of a Liquidity Facility Provider falls below the Liquidity Facility Requisite Rating or a Liquidity Facility Provider refuses to extend the term of the Liquidity Facility, the Issuer may require the relevant Liquidity Facility Provider to pay into a designated bank account of the Issuer (the **Liquidity Facility Reserve Account**) maintained with an appropriately rated bank an amount equal to its undrawn commitment under the Liquidity Facility Agreement. Amounts standing to the credit of the Liquidity Facility Reserve Account will be available to the Issuer for drawing in the event of there being a Liquidity Shortfall and in the circumstances provided in the Liquidity Facility Agreement. The Issuer may also, at any time, replace such Liquidity Facility Provider, provided that such Liquidity Facility Provider is replaced by an appropriately rated bank and all amounts outstanding to such Liquidity Facility Provider are repaid in full. Any costs incurred by the Issuer in obtaining a replacement liquidity facility will be borne by the then-current Liquidity Facility Provider in accordance with the provisions of the existing Liquidity Facility Agreement.

The Liquidity Facility Agreement contains certain events of default (each a **Liquidity Facility Event of Default**) including (a) non-payment by the Issuer of amounts due under the Liquidity Facility Agreement; (b) the service of an Issuer Enforcement Notice; (c) it becoming unlawful for the Issuer to perform any of its obligations under the Transaction Documents; (d) any

unremedied breach by the Issuer of any material obligation contained in the Liquidity Facility Agreement; and (e) certain limited insolvency events affecting the Issuer. Following the occurrence of a Liquidity Facility Event of Default, the Liquidity Facility Provider(s) may (i) cancel the Liquidity Facility; and/or (ii) demand that, *inter alia*, all or part of the loans made under the Liquidity Facility Agreement be immediately due and payable.

The Issuer may at any time, with the prior written consent of the Issuer Security Trustee, cancel the undrawn and uncanceled part of the Liquidity Facility provided that the Rating Agencies have confirmed that (a) neither the then-current ratings of the Debenture Bonds nor (for so long as any of the Class A1 Debenture Bonds, any of the Class A3 Debenture Bonds or any of the Class A5 Debenture Bonds is outstanding) the Underlying Rating will be adversely affected as a result of such cancellation; and (b) if the Debenture Bonds have previously been downgraded, that such cancellation will not prevent the restoration of such ratings.

In the event of the introduction or a variance of a law (or compliance with a request that, if not having the force of law, does accord with the general practice of banks) which has the effect of (a) increasing the Liquidity Facility Provider's cost of making and/or maintaining its Liquidity Facility Commitment or (b) reducing the amount of any sum receivable by the Liquidity Facility Provider in respect of the Liquidity Facility Loan, the Liquidity Facility Provider can (under the terms of the Liquidity Facility Agreement) require the Issuer to pay on demand such amounts as are necessary to compensate the Liquidity Provider for (a) the increased costs of providing the Liquidity Facility Commitment or (b) its loss in the event that there is a reduction in the amount it receives in respect of the Liquidity Facility Loan.

The Liquidity Facility Agreement is governed by English law.

HEDGING AGREEMENT

On the Original Closing Date, the Issuer entered into the Hedging Agreement with the Initial Hedge Provider in order to hedge the obligations of the Issuer with respect to (a) the floating rate component of interest payments under the Class A1 Debenture Bonds and the Class A2 Debenture Bonds; and (b) the floating rate component of interest payments under the Class A3 Debenture Bonds, the Class A4 Debenture Bonds and the Class A5 Debenture Bonds after their respective Step-Up Dates. The Hedging Agreement was amended and restated on the Second Issue Date in order to hedge the obligations of the Issuer (in addition to the above) with respect to (x) the floating rate component of interest payments under the Class A6 Debenture Bonds and (y) the floating rate component of interest payments under the Class A7 Debenture Bonds after the Interest Payment Date falling in December 2014 (although the profile of the swap transactions was not altered, with the consequences described in "*Risk Factors – Risks Relating to the Second Issue Debenture Bonds – Overhedging and underhedging*", above). The transactions under the Hedging Agreement take the form of fixed/floating interest rate swaps.

Pursuant to the terms of the Hedging Agreement, on each Interest Payment Date in respect of the Debenture Bonds which bear interest at a floating rate until the Expected Maturity Date (as defined in the Master Definitions and Construction Schedule) of such Debenture Bonds, the Issuer will make fixed rate payments to the Hedge Provider in Sterling which the Issuer will fund using interest payments which it receives from the Borrowers under the Issuer/Borrower Facility Agreement and/or payments received under the Issuer/Borrower Hedging Agreement. The Hedge Provider will, on the corresponding Interest Payment Date, make floating rate payments

in Sterling (calculated by reference to LIBOR for three-month Sterling deposits) to the Issuer. The amounts payable by the Issuer and the Hedge Provider under the Hedging Agreement will be netted so that only a net amount will be due from the Issuer or the Hedge Provider (as the case may be) on an Interest Payment Date.

As from the Second Closing Date, the swap rate for the Issuer (and, through the Issuer/Borrower Hedging Agreement, the Borrowers) is:

- (i) in respect of (a) the transaction relating to the Class A1 Debenture Bonds and the Class A6 Debenture Bonds, and (b) the transaction relating to the Class A2 Debenture Bonds, prior to the Interest Payment Date falling in September 2018 (the **Class A1/A2/A6 Swap Step-Up Date**), 6.6810 per cent. and, following the Class A1/A2/A6 Swap Step-Up Date, 6.7910 per cent.; and
- (ii) in respect of (a) the transaction relating to the Class A3 Debenture Bonds and the Class A7 Debenture Bonds, (b) the transaction relating to the Class A4 Debenture Bonds, and (c) the transaction relating to the Class A5 Debenture Bonds, following the Class A3 Step-Up Date (in respect of the Class A3 Debenture Bonds and the Class A7 Debenture Bonds), the Class A4 Step-Up Date (in respect of the Class A4 Debenture Bonds) and the Class A5 Step-Up Date (in respect of the Class A5 Debenture Bonds), 4.5550 per cent.

The 11 basis point step-up under (a) the transaction in respect of the Class A1 Debenture Bonds and the Class A6 Debenture Bonds and (b) the transaction in respect of the Class A2 Debenture Bonds described above is retrospective. If any transaction in relation to any class of Debenture Bonds under the Hedging Agreement is outstanding on the Class A1/A2/A6 Swap Step-Up Date, then an amount in respect of the period between the Interest Payment Date falling in March 2013 and the Class A1/A2/A6 Swap Step-Up Date will become payable. The amount that will become payable will be calculated by applying a rate of 11 basis points per annum to the outstanding notional amount of such transactions, as such outstanding notional amounts may have varied from time to time, during the period between the Interest Payment Date falling in March 2013 and the Class A1/A2/A6 Swap Step-Up Date. If no transaction in relation to any class of Debenture Bonds under the Hedging Agreement is outstanding under the Hedging Agreement on the Class A1/A2/A6 Swap Step-Up Date, no such retrospective amount will be payable.

Ratings downgrade of Hedge Provider

Initial Hedge Provider Guarantor downgrade

If the rating assigned to the long-term unsecured, unsubordinated and unguaranteed debt obligations of the Initial Hedge Provider Guarantor is downgraded below “A+” by S&P or Fitch or “A1” by Moody’s, the Initial Hedge Provider will be required to take certain remedial measures which may include the provision of collateral for its obligations under the Hedging Agreement or the taking of such other action as the Initial Hedge Provider may agree with the relevant Rating Agency and Ambac.

As at the date of this Second Issue Prospectus, the ratings assigned to the Initial Hedge Provider Guarantor’s long-term unsecured, unsubordinated and unguaranteed debt obligations

have fallen to “A-” (S&P), “Baa1” (Moody’s) and “BBB” (Fitch). As a result, the Initial Hedge Provider has put in place arrangements to post collateral to Spirit where the mark-to-market value of the hedges is in the Issuer’s favour. As of the Second Closing Date, no such collateral has been posted as the mark-to-market value of the hedges is in the Initial Hedge Provider’s favour.

Save as provided below, where the rating assigned to the long-term unsecured, unsubordinated and unguaranteed debt obligations of the Initial Hedge Provider Guarantor is downgraded below the Hedge Provider Requisite Rating, the Initial Hedge Provider will either transfer its obligations under the Hedging Agreement to a Replacement Hedge Provider or procure another person to guarantee those obligations provided that such Replacement Hedge Provider or (as the case may be) its guarantor has the Hedge Provider Requisite Rating or take such other action as it may agree with the relevant Rating Agency and Ambac. The Initial Hedge Provider will be required to continue posting collateral until such time as the transfer has been completed or (as the case may be) the guarantee has been provided. A failure by the Initial Hedge Provider to take the required remedial action following a ratings downgrade will, subject to certain conditions, give the Issuer a right to terminate the transactions under the Hedging Agreement.

Following the fall of the Initial Hedge Provider Guarantor’s Fitch credit rating below the Hedge Provider Requisite Rating, arrangements for the monitoring of the placing of collateral were put in place as required by the preceding paragraph.

Pursuant to an amendment agreement (the **2012 Hedge Amendments**) entered into between the Issuer, the Issuer Security Trustee, the Initial Hedge Provider and the Initial Hedge Provider Guarantor, no termination event will arise as a result of the Initial Hedge Provider’s failure to comply with the obligations set out in the paragraph above in respect of the rating assigned by either Moody’s or S&P falling below the Hedge Provider Requisite Rating where either:

- (i) the mark-to-market value of the swap transactions is both in the Initial Hedge Provider’s favour and equal to or greater than £25,000,000; or
- (ii) the credit rating of the Initial Hedge Provider Guarantor is at least “BBB+” (S&P) and “Baa1” (Moody’s).

Accordingly, despite the fact that the Initial Hedge Provider Guarantor’s Moody’s credit rating has fallen below the relevant Hedge Provider Requisite Rating, no termination event has occurred.

In respect of the Initial Hedge Provider Guarantor, **Hedge Provider Requisite Rating** means a rating assigned to the long-term unsecured, unsubordinated and unguaranteed debt obligations of the Initial Hedge Provider Guarantor of at least “A-” by S&P and Fitch and “A3” by Moody’s.

Replacement Hedge Provider downgrade

If either:

- (a) the rating assigned to the long-term unsecured, unsubordinated and unguaranteed debt obligations of any Replacement Hedge Provider or, of the guarantor of any

Replacement Hedge Provider (if applicable), is downgraded below “A+” by S&P or Fitch or “A1” by Moody’s; or

- (b) the rating assigned to any short-term unsecured, unsubordinated and unguaranteed debt obligations of any Replacement Hedge Provider or, of its guarantor (if applicable), is downgraded below “A-1” by S&P, “F1” by Fitch or “P-1” by Moody’s (to the extent such Replacement Hedge Provider and/or, as the case may be, its guarantor, have been issued short-term ratings),

the Replacement Hedge Provider will be required to take certain remedial measures which may include the provision of collateral for its obligations under the Hedging Agreement or the taking of such other action as the Replacement Hedge Provider (as the case may be) may agree with the relevant Rating Agency and Ambac.

If the rating assigned to the long-term unsecured, unsubordinated and unguaranteed debt obligations or to the short-term unsecured, unsubordinated and unguaranteed debt obligations of any Replacement Hedge Provider, or of the guarantor of any such Replacement Hedge Provider (if applicable), is downgraded below the Hedge Provider Requisite Rating, such Hedge Provider will either transfer its obligations under the Hedging Agreement to a Replacement Hedge Provider or procure another person to guarantee those obligations provided that such Replacement Hedge Provider or (as the case may be) its guarantor has the Hedge Provider Requisite Rating, or take such action as it may agree with the relevant Rating Agency and Ambac. The Replacement Hedge Provider will be required to continue posting collateral until such time as the transfer has been completed or (as the case may be) the guarantee has been provided.

In respect of any Replacement Hedge Provider, ***Hedge Provider Requisite Rating*** means a rating assigned to:

- (a) the long-term unsecured, unsubordinated and unguaranteed debt obligations of the Replacement Hedge Provider, or of the guarantor of any such Replacement Hedge Provider (if applicable), of at least “A-” by S&P and Fitch and “A3” by Moody’s; and
- (b) the short-term unsecured, unsubordinated and unguaranteed debt obligations of the Replacement Hedge Provider, or of the guarantor of any such Replacement Hedge Provider (if applicable), of at least “A-2” by S&P, “F2” by Fitch or “P-2” by Moody’s (to the extent that such Replacement Hedge Provider and/or, as the case may be, its guarantor, have been issued short-term ratings).

A failure by the Replacement Hedge Provider to take the required remedial action following a ratings downgrade will, subject to certain conditions (in particular, those contained in the 2012 Hedge Amendments), give the Issuer a right to terminate the transactions under the Hedging Agreement.

Excess collateral

Any collateral transferred by the Hedge Provider in accordance with the Hedging Agreement which (i) is in excess of the termination amount that it would otherwise be required to pay to the Issuer under the Hedging Agreement; or (ii) it is entitled to have returned to it under the Hedging

Agreement will be returned to the Hedge Provider directly (and as a consequence, prior to the distribution of any amounts due to the Debenture Bondholders or the other Issuer Secured Creditors).

Termination rights

Each transaction (or in certain circumstances, part thereof) entered into under the Hedging Agreement may be terminated by one party if (i) an applicable event of default (including a failure to pay or certain insolvency-related events) or termination event (including an illegality or certain tax events (each as specified in the Hedging Agreement) occurs) in relation to the other party; (ii) the relevant Class of Debenture Bonds is redeemed, repurchased or cancelled (in each case, in full and in certain circumstances, in part) prior to their stated maturity; or (iii) a Debenture Bond Acceleration Notice is served.

Termination payments

If any transaction under the Hedging Agreement is terminated, whether in whole or in part, prior to its stated termination date, a termination amount may be payable by one party to the other. Any such termination amount may be substantial and if payable to the Hedge Provider, will, other than in limited circumstances, rank in priority to amounts due to the Debenture Bondholders. Payment by the Issuer of any such termination amount may, therefore, affect the ability of the Issuer to make full and timely payment of amounts due to the Debenture Bondholders.

Tax

If the Issuer is required to withhold or deduct an amount in respect of tax from payments due from it to the Hedge Provider, the Issuer will not be required pursuant to the terms of the Hedging Agreement to pay to the Hedge Provider any additional amounts in respect of any such withholding or deduction.

If the Hedge Provider is required to withhold or deduct an amount in respect of tax from payments due from it to the Issuer, the Hedge Provider will be required, pursuant to the terms of the Hedging Agreement, to pay to the Issuer such additional amounts as are required to ensure that the Issuer receives the same amounts that it would have received had no such withholding or deduction been required.

Transfer

The Hedge Provider may at its discretion and its own cost transfer all of its rights and obligations under the Hedging Agreement to a third party, provided that, *inter alia*, such third party has the Hedge Provider Requisite Rating. Additionally, following the occurrence of an Issuer Payment Default (as defined in the Hedging Agreement) Ambac will have the right (provided that it has at that time a rating of at least the Hedge Provider Requisite Rating) to require transfer of the rights and obligations of the Hedge Provider under the Hedging Agreement to Ambac.

The Issuer's obligations to the Hedge Provider under the Hedging Agreement will be secured pursuant to the Issuer Deed of Charge. Such obligations (other than in respect of Hedging

Agreement Subordinated Amounts) will rank senior to the obligations of the Issuer to the Debenture Bondholders.

The Hedging Agreement is governed by English law.

ISSUER DEED OF CHARGE

The Issuer Deed of Charge was entered into on the Original Closing Date by, *inter alios*, the Issuer, Ambac, the Liquidity Facility Provider, the Hedge Provider, the Debenture Bond Trustee, the Borrowers and the Issuer Security Trustee. The Issuer Deed of Charge will be amended and restated on or about the Second Closing Date in order to reflect the issue of the Second Issue Debenture Bonds.

Under the terms of the Issuer Deed of Charge, the Issuer granted the following security in favour of the Issuer Security Trustee who holds such security on trust for the benefit of itself and the other Issuer Secured Creditors:

- (a) an assignment by way of a first fixed security of its right, title, interest and benefit, present and future, in, to and under the Transaction Documents to which it is a party, including the security trusts created under the Borrower Group Deed of Charge;
- (b) a charge by way of a first fixed security over the amounts from time to time standing to the credit of the Issuer Transaction Account (as defined by reference in the Issuer/Borrower Facility Agreement) and the Liquidity Facility Reserve Account (which security interests may take effect as a floating charge and thus rank behind the claims of certain preferential and other creditors);
- (c) a first fixed charge over all investments in Eligible Investments permitted to be made pursuant to the Servicing Agreement (which security interests may take effect as a floating charge and thus rank behind the claims of certain preferential and other creditors); and
- (d) a first floating charge (ranking behind the claims of certain preferential and other creditors) over all of the property, assets and undertakings of the Issuer not already subject to fixed security (but extending over all of its Scottish Assets),

all as more particularly set out in the Issuer Deed of Charge.

In addition, the Issuer Parent granted an equitable mortgage over the shares in the Issuer in favour of the Issuer Security Trustee to be held for the benefit of the Debenture Bondholders and the other Issuer Secured Creditors.

The assets of the Issuer, which will constitute the security for the Debenture Bonds as described above (the **Issuer Security**), will also stand as security for amounts payable by the Issuer to, *inter alios*:

- (a) the Issuer Security Trustee and the Debenture Bond Trustee under the Issuer Deed of Charge, the Trust Deed and the Agency Agreement;

- (b) Ambac under the terms of the Ambac Guarantee and Reimbursement Agreement and the Issuer Deed of Charge;
- (c) the Liquidity Facility Provider(s) under the Liquidity Facility Agreement and the Issuer Deed of Charge;
- (d) the Hedge Provider under the Hedging Agreement and the Issuer Deed of Charge;
- (e) the Agent Bank under the Agency Agreement and the Issuer Deed of Charge;
- (f) the Servicer under the Servicing Agreement and the Issuer Deed of Charge;
- (g) the Account Bank under the Bank Agreement and the Issuer Deed of Charge;
- (h) the Borrowers under the Issuer/Borrower Hedging Agreement; and
- (i) the Corporate Services Provider under the Corporate Services Agreement.

Priority of Payments

Pre-Acceleration

Prior to the service of a Debenture Bond Acceleration Notice by the Debenture Bond Trustee, amounts standing to the credit of the Issuer Transaction Account (the **Issuer Available Amounts**) shall be applied in the following order of priority (the **Issuer Pre-Acceleration Priority of Payments**) (including, in each case, any amount in respect of value added tax payable thereon):

- (a) *first, pro rata* according to the respective amounts thereof, to pay or provide for payment of amounts then due or to be provided for, the fees or other remuneration and indemnity payments (if any) payable to:
 - (i) the Issuer Security Trustee and any costs, charges, liabilities and expenses incurred by it under the provisions of the Issuer Deed of Charge and any of the other Transaction Documents, together with interest thereon as provided for herein or therein;
 - (ii) the Debenture Bond Trustee and any costs, charges, liabilities and expenses incurred by it under the provisions of the Trust Deed and any of the other Transaction Documents, together with interest thereon as provided for therein; and
 - (iii) the Paying Agents and the Agent Bank and any costs, charges, liabilities and expenses incurred under the provisions of the Agency Agreement and any of the other Transaction Documents, together with interest thereon as provided for therein;
- (b) *second*, to pay or provide for payment (after application of all amounts standing to the credit of the Liquidity Facility Reserve Account (if any)) of all amounts of principal,

interest, commitment fees and all other amounts due or accrued due but unpaid to the Liquidity Facility Agent and the Liquidity Facility Provider(s) under the terms of the Liquidity Facility Agreement (but excluding any Liquidity Subordinated Amounts);

- (c) *third, pro rata* according to the respective amounts thereof, to pay or provide for all amounts due and payable (if any) to:
 - (i) the Hedge Provider pursuant to the Hedging Agreement (other than any Class A6/A7 Swap Cash Sweep Amount or any Hedging Agreement Subordinated Amounts); and
 - (ii) to the Borrowers pursuant to the Issuer/Borrower Hedging Agreement (other than any A6/A7 IB Swap Cash Sweep Amount or any Borrower IB Hedging Subordinated Amounts);
- (d) *fourth*, to pay or provide for amounts in respect of guarantee fees (including, for the avoidance of doubt, Cancellation Fees) and all other amounts then due to Ambac pursuant to the terms of the Ambac Guarantee and Reimbursement Agreement (other than (i) amounts provided for in paragraphs (g)(i), (g)(iii), (g)(v), (h)(i), (h)(iii) and (h)(v) below and (ii) Ambac Subordinated Fees);
- (e) *fifth, pro rata* according to the respective amounts thereof, to pay or provide for remuneration then payable to:
 - (i) the Servicer together with all other costs, charges, liabilities, expenses, indemnity amounts and losses incurred under the provisions of the Servicing Agreement;
 - (ii) the Account Bank incurred under the provisions of the Bank Agreement; and
 - (iii) the Corporate Services Provider together with all other costs, charges, liabilities, expenses, indemnity amounts and losses incurred under the provisions of the Corporate Services Agreement;
- (f) *sixth*, to pay or provide for the amounts then due or to be provided for in respect of the Issuer's liability or possible liability to third parties under obligations incurred in the course of the Issuer's business (including any amounts due to the Rating Agencies, any Stock Exchange or listing agent, and any amounts of corporation tax on profits due to H.M. Revenue and Customs or any successor tax authority), other than amounts paid under paragraphs (a), (b), (c), (d) or (e) above;
- (g) *seventh, pro rata* according to the respective amounts thereof, to pay or provide for payment of:
 - (i) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of amounts of Scheduled Interest paid by Ambac to the Class A1 Debenture Bondholders together with any interest on such amounts; and (B) all amounts of interest due but unpaid in respect of the Class A1

Debenture Bonds (other than Class A1 Step-Up Amounts), such amounts to be applied in the following order of priority:

- (I) *first*, to pay to Ambac the amounts described at (A) above; and
 - (II) *second*, to pay to the Class A1 Debenture Bondholders the amounts described at (B) above;
- (ii) all amounts of interest due but unpaid in respect of the Class A2 Debenture Bonds (other than Class A2 Step-Up Amounts);
- (iii) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of amounts of Scheduled Interest paid by Ambac to the Class A3 Debenture Bondholders together with any interest on such amounts; and (B) all amounts of interest due but unpaid in respect of the Class A3 Debenture Bonds (other than Class A3 Step-Up Amounts), such amounts to be applied in the following order of priority:
- (I) *first*, to pay to Ambac the amounts described at (A) above; and
 - (II) *second*, to pay to the Class A3 Debenture Bondholders the amounts described at (B) above;
- (iv) all amounts of interest due but unpaid in respect of the Class A4 Debenture Bonds (other than Class A4 Step-Up Amounts);
- (v) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of amounts of Scheduled Interest paid by Ambac to the Class A5 Debenture Bondholders together with any interest on such amounts; and (B) all amounts of interest due but unpaid in respect of the Class A5 Debenture Bonds (other than Class A5 Step-Up Amounts), such amounts to be applied in the following order of priority:
- (I) *first*, to pay to Ambac the amounts described at (A) above; and
 - (II) *second*, to pay to the Class A5 Debenture Bondholders the amounts described at (B) above;
- (vi) all amounts of interest due but unpaid in respect of the Class A6 Debenture Bonds (other than Class A6 Step-Up Amounts); and
- (vii) all amounts of interest due but unpaid in respect of the Class A7 Debenture Bonds (other than Class A7 Step-Up Amounts);
- (h) *eighth, pro rata* according to the respective amounts thereof, to pay or provide for payment of:
- (i) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of Ultimate Principal paid by Ambac to the Class A1

Debenture Bondholders together with any interest on such amounts; and (B) all amounts of principal payable in respect of the Class A1 Debenture Bonds in accordance with Condition 6(b)(A)(ii) (*Class A1 Debenture Bonds*), such amounts to be applied in the following order of priority:

- (I) *first*, to pay to Ambac the amounts described at (A) above; and
 - (II) *second*, to pay to the Class A1 Debenture Bondholders the amounts described at (B) above;
- (ii) all amounts of principal payable in respect of the Class A2 Debenture Bonds in accordance with Condition 6(b)(A)(iii) (*Class A2 Debenture Bonds*);
- (iii) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of Ultimate Principal paid by Ambac to the Class A3 Debenture Bondholders together with any interest on such amounts and (B) all amounts of principal payable (other than any Redemption Premium Amount) in respect of the Class A3 Debenture Bonds in accordance with Condition 6(b)(A)(iv) (*Class A3 Debenture Bonds*), such amounts to be applied in the following order of priority:
- (I) *first*, to pay to Ambac the amounts described at (A) above; and
 - (II) *second*, to pay to the Class A3 Debenture Bondholders the amounts described at (B) above;
- (iv) all amounts of principal payable (other than any Redemption Premium Amount) in respect of the Class A4 Debenture Bonds in accordance with Condition 6(b)(A)(v) (*Class A4 Debenture Bonds*);
- (v) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of Ultimate Principal paid by Ambac to the Class A5 Debenture Bondholders together with any interest on such amounts; and (B) all amounts of principal payable (other than any Redemption Premium Amount) in respect of the Class A5 Debenture Bonds in accordance with Condition 6(b)(A)(vi) (*Class A5 Debenture Bonds*), such amounts to be applied in the following order of priority:
- (I) *first*, to pay to Ambac the amounts described at (A) above; and
 - (II) *second*, to pay to the Class A5 Debenture Bondholders the amounts described at (B) above;
- (vi) all amounts of principal payable in respect of the Class A6 Debenture Bonds in accordance with Condition 6(b)(A)(vii) (*Class A6 Debenture Bonds*); and
- (vii) all amounts of principal payable (other than any Redemption Premium Amount) in respect of the Class A7 Debenture Bonds in accordance with Condition 6(b)(A)(viii) (*Class A7 Debenture Bonds*);

- (i) *ninth*, in or towards satisfaction of any other amounts (including the Liquidity Subordinated Amounts, but excluding any sums referred to in paragraph (b) above) due under the Liquidity Facility Agreement to the Liquidity Facility Agent and the Liquidity Facility Provider(s);
- (j) *tenth, pro rata* according to the respective amounts thereof, to pay or provide for amounts then due and payable by way of:
 - (i) Redemption Premium Amount (if any) in respect of the Class A3 Debenture Bonds (including any accrued but unpaid interest thereon);
 - (ii) Redemption Premium Amount (if any) in respect of the Class A4 Debenture Bonds (including any accrued but unpaid interest thereon);
 - (iii) Redemption Premium Amount (if any) in respect of the Class A5 Debenture Bonds (including any accrued but unpaid interest thereon); and
 - (iv) Redemption Premium Amount (if any) in respect of the Class A7 Debenture Bonds (including any accrued but unpaid interest thereon);
- (k) *eleventh, pro rata* according to the respective amounts thereof, to pay or provide for payment of:
 - (i) Hedging Agreement Subordinated Amounts due and payable to the Hedge Provider under the Hedging Agreement; and
 - (ii) Borrower IB Hedging Subordinated Amounts due and payable to the Borrowers under the Issuer/Borrower Hedging Agreement;
- (l) *twelfth*, in or towards satisfaction of any other amounts (but excluding any sums referred to in paragraph (f) above) due to any tax authority;
- (m) *thirteenth, pro rata* according to the respective amounts thereof, to pay or provide for payment of:
 - (i) Ambac Subordinated Fees;
 - (ii) Class A1 Step-Up Amounts;
 - (iii) Class A2 Step-Up Amounts;
 - (iv) Class A3 Step-Up Amounts;
 - (v) Class A4 Step-Up Amounts;
 - (vi) Class A5 Step-Up Amounts;
 - (vii) Class A6 Step-Up Amounts; and

- (viii) Class A7 Step-Up Amounts,
then due and payable;
- (n) *fourteenth, pro rata* according to the respective amounts thereof, to pay or provide for payment of:
 - (i) any Class A6 Cash Sweep Amount;
 - (ii) any Class A7 Cash Sweep Amount;
 - (iii) any Class A6 Swap Cash Sweep Amount;
 - (iv) any Class A7 Swap Cash Sweep Amount;
 - (v) any A6 IB Swap Cash Sweep Amount; and
 - (vi) any A7 IB Swap Cash Sweep Amount,
 then due and payable;
- (o) *fifteenth*, to pay or provide for amounts then due and payable in respect of the Issuer's obligations to pay interest on the LoanCo/Issuer Subordinated Loan;
- (p) *sixteenth*, to pay or provide for amounts then due and payable in respect of the Issuer's obligations to repay principal of the LoanCo/Issuer Subordinated Loan; and
- (q) *seventeenth*, the surplus (if any) to the Issuer.

Payments may not be made out of the Issuer Transaction Account on any day other than on an Interest Payment Date other than to satisfy liabilities set out in paragraph (f) above.

In addition to the payments described above, on any Interest Payment Date after the Original Closing Date but prior to the service of a Debenture Bond Acceleration Notice, the Issuer was entitled to pay a dividend to Issuer Parent until such time as it had paid dividends in an aggregate amount of £15,000 to Issuer Parent, which amount, together with the provision for corporation tax on the profits out of which any such amount is paid, was provided for at paragraph (e) of the Issuer Pre-Acceleration Priority of Payments. As the Issuer has now paid dividends in an aggregate amount in excess of £15,000 to Issuer Parent (as at the Second Closing Date, the Issuer had paid dividends in an aggregate amount of £18,000 to the Issuer Parent), the Issuer is now only entitled to pay further amounts by way of dividend to Issuer Parent out of the surplus described at paragraph (q) above.

For the avoidance of doubt, the following amounts will not form part of the Issuer Available Amounts but will be payable directly to the Hedge Provider as set out below:

- (a) if the Hedging Agreement is terminated in circumstances where the Issuer enters into a replacement hedging arrangement (a **Replacement Hedging Agreement**) with a Replacement Hedge Provider:

- (i) any payment received from such Replacement Hedge Provider by the Issuer as part of doing so will be paid directly to the Hedge Provider being replaced until any termination payment to such Hedge Provider is made in full; and
 - (ii) any payment paid by the existing Hedge Provider to such Replacement Hedge Provider will be paid directly to the replacement Hedge Provider until any termination payment payable by such existing Hedge Provider is made in full; and
- (b) any Hedging Agreement Excluded Amounts payable by the Issuer will be payable directly by the Issuer to the existing Hedge Provider in accordance with the terms of the existing Hedging Agreement.

Hedging Agreement Excluded Amounts means (i) an amount equal to the value of the collateral (or part thereof) transferred by the existing Hedge Provider to the Issuer under the existing Hedging Agreement which (a) is in excess of the termination amount that would, but for the transfer of such collateral, be payable by such existing Hedge Provider under such Hedging Agreement or (b) the Hedge Provider is entitled to have returned to it under such existing Hedging Agreement and (ii) an amount equal to the Cash Benefit of any Tax Credit.

Cash Benefit and **Tax Credit** have the meanings given in the Master Definitions and Construction Schedule.

To the extent that the Issuer's funds on the relevant Interest Payment Date are insufficient to make payments under paragraphs (a) to (f) (inclusive) and (g)(i)(2), (g)(ii), (g)(iii)(2), (g)(iv), (g)(v)(2), (g)(vi) and (g)(vii) above, the Issuer may make a drawing under the Liquidity Facility (subject to specified limits, as to which see "*Liquidity Facility Agreement*", above) or, to the extent credited thereto, the Liquidity Facility Reserve Account (see "*Liquidity Facility Agreement*", above).

Post-Acceleration

All moneys received or recovered by the Issuer Security Trustee or the Receiver following the service of a Debenture Bond Acceleration Notice by the Debenture Bond Trustee (including amounts standing to the credit of: (a) the Liquidity Facility Reserve Account to the Liquidity Facility Provider(s); and (b) the Issuer Transaction Account) shall be applied in the following order of priority (the **Issuer Post-Acceleration Priority of Payments**) (and in each case only and to the extent that payments or provisions of a higher priority have been made in full) (unless otherwise required by law) (including in each case any value added tax payable thereon) provided that no such payments shall be made unless and until (if in the sole discretion of the Issuer Security Trustee and/or the Debenture Bond Trustee it is expedient to do so) a reserve fund is first established in the amount of £750,000 (or such lesser or greater amount as the Issuer Security Trustee and/or the Debenture Bond Trustee may reasonably determine) on account of any contingent costs, charges, liabilities, and expenses which in the opinion of the Issuer Security Trustee and/or the Debenture Bond Trustee (as the case may be) may be incurred by the Issuer Security Trustee and/or the Debenture Bond Trustee under the Transaction Documents:

- (a) *first, pro rata* according to the respective amounts thereof, to pay or provide for payment of amounts then due or to be provided for, the fees or other remuneration and indemnity payments (if any) payable to:
- (i) the Issuer Security Trustee and any Receiver appointed by the Issuer Security Trustee and any costs, charges, liabilities and expenses incurred by the Issuer Security Trustee and any Receiver under the provisions of the Issuer Deed of Charge and any of the other Transaction Documents, together with interest thereon as provided for therein;
 - (ii) the Debenture Bond Trustee and any costs, charges, liabilities and expenses incurred by it under the provisions of the Trust Deed and any of the other Transaction Documents, together with interest thereon as provided for therein; and
 - (iii) the Paying Agents and the Agent Bank and any costs, charges, liabilities and expenses incurred under the provisions of the Agency Agreement and any of the other Transaction Documents, together with interest thereon as provided therein;
- (b) *second*, to pay or provide for (after application of all amounts standing to the credit of the Liquidity Facility Reserve Account (if any)) all amounts of principal, interest, commitment fees and all other amounts due or accrued due but unpaid to the Liquidity Facility Agent and the Liquidity Facility Provider(s) under the terms of the Liquidity Facility Agreement (but excluding any Liquidity Subordinated Amounts);
- (c) *third, pro rata* according to the respective amounts thereof, to pay or provide for payment of all amounts due and payable (if any) to:
- (i) the Hedge Provider pursuant to the Hedging Agreement (other than any Hedging Agreement Subordinated Amounts); and
 - (ii) the Borrowers under the Issuer/Borrower Hedging Agreement (other than any Borrower IB Hedging Subordinated Amounts);
- (d) *fourth*, to pay or provide for amounts in respect of guarantee fees and all other amounts then due to Ambac pursuant to the terms of the Ambac Guarantee and Reimbursement Agreement (other than (i) amounts provided for in paragraphs (f)(i), (f)(iii), (f)(v), (g)(i), (g)(iii) and (g)(v) below and (ii) Ambac Subordinated Fees);
- (e) *fifth, pro rata* according to the respective amounts thereof, to pay or provide for payment of:
- (i) amounts then due or to be provided for the remuneration then payable to the Account Bank, together with all other costs, charges, liabilities, expenses, indemnity amounts and losses incurred under the provisions of the Bank Agreement; and

- (ii) amounts then due or to be provided for the remuneration then payable to the Corporate Services Provider, together with all other costs, charges, liabilities, expenses, indemnity amounts and losses incurred under the provisions of the Corporate Services Agreement;
- (f) *sixth, pro rata* according to the respective amounts thereof, to pay or provide for payment of:
- (i) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of amounts of Scheduled Interest paid by Ambac to the Class A1 Debenture Bondholders together with any interest on such amounts; and (B) all amounts of interest due but unpaid in respect of the Class A1 Debenture Bonds (other than Class A1 Step-Up Amounts), such amounts to be applied in the following order of priority:
 - (I) *first*, to pay to Ambac the amounts described at (A) above; and
 - (II) *second*, to pay to the Class A1 Debenture Bondholders the amounts described at (B) above;
 - (ii) all amounts of interest due but unpaid in respect of the Class A2 Debenture Bonds (other than Class A2 Step-Up Amounts);
 - (iii) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of amounts of Scheduled Interest paid by Ambac to the Class A3 Debenture Bondholders together with any interest on such amounts; and (B) all amounts of interest due but unpaid in respect of the Class A3 Debenture Bonds (other than Class A3 Step-Up Amounts), such amounts to be applied in the following order of priority:
 - (I) *first*, to pay to Ambac the amounts described at (A) above; and
 - (II) *second*, to pay to the Class A3 Debenture Bondholders the amounts described at (B) above;
 - (iv) all amounts of interest due but unpaid in respect of the Class A4 Debenture Bonds (other than Class A4 Step-Up Amounts);
 - (v) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of amounts of Scheduled Interest paid by Ambac to the Class A5 Debenture Bondholders, together with any interest on such amounts; and (B) all amounts of interest due but unpaid in respect of the Class A5 Debenture Bonds (other than Class A5 Step-Up Amounts), such amounts to be applied in the following order of priority:
 - (I) *first*, to pay to Ambac the amounts described at (A) above; and
 - (II) *second*, to pay to the Class A5 Debenture Bondholders the amounts described at (B) above;

- (vi) all amounts of interest due but unpaid in respect of the Class A6 Debenture Bonds (other than Class A6 Step-Up Amounts); and
 - (vii) all amounts of interest due but unpaid in respect of the Class A7 Debenture Bonds (other than Class A7 Step-Up Amounts);
- (g) *seventh, pro rata* according to the respective amounts thereof, to pay or provide for payment of:
- (i) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of Ultimate Principal paid by Ambac to the Class A1 Debenture Bondholders together with any interest on such amounts; and (B) all amounts of principal payable in respect of the Class A1 Debenture Bonds, until redemption in full, such amounts to be applied in the following order of priority:
 - (I) *first*, to pay to Ambac the amounts described at (A) above; and
 - (II) *second*, to pay to the Class A1 Debenture Bondholders the amounts described at (B) above;
 - (ii) all amounts of principal payable in respect of the Class A2 Debenture Bonds, until redemption in full;
 - (iii) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of Ultimate Principal paid by Ambac to the Class A3 Debenture Bondholders together with any interest on such amounts and (B) all amounts of principal payable (other than any Redemption Premium Amount) in respect of the Class A3 Debenture Bonds, until redemption in full, such amounts to be applied in the following order of priority:
 - (I) *first*, to pay to Ambac the amounts described at (A) above; and
 - (II) *second*, to pay to the Class A3 Debenture Bondholders the amounts described at (B) above;
 - (iv) all amounts of principal payable (other than any Redemption Premium Amount) in respect of the Class A4 Debenture Bonds, until redemption in full;
 - (v) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of Ultimate Principal paid by Ambac to the Class A5 Debenture Bondholders together with any interest on such amounts; and (B) all amounts of principal payable (other than any Redemption Premium Amount) in respect of the Class A5 Debenture Bonds, until redemption in full, such amounts to be applied in the following order of priority:
 - (I) *first*, to pay to Ambac the amounts described at (A) above; and
 - (II) *second*, to pay to the Class A5 Debenture Bondholders the amounts described at (B) above;

- (vi) all amounts of principal payable in respect of the Class A6 Debenture Bonds, until redemption in full; and
- (vii) all amounts of principal payable (other than any Redemption Premium Amount) in respect of the Class A7 Debenture Bonds, until redemption in full;
- (h) *eighth*, to pay or provide for payment of any other amount (including the Liquidity Subordinated Amounts but excluding any sums referred to in paragraph (b) above) due under the Liquidity Facility Agreement to the Liquidity Facility Agent and the Liquidity Facility Provider(s);
- (i) *ninth, pro rata* according to the respective amounts thereof, to pay or provide for amounts then due and payable by way of:
 - (i) Redemption Premium Amount (if any) in respect of the Class A3 Debenture Bonds (including any accrued but unpaid interest thereon);
 - (ii) Redemption Premium Amount (if any) in respect of the Class A4 Debenture Bonds (including any accrued but unpaid interest thereon);
 - (iii) Redemption Premium Amount (if any) in respect of the Class A5 Debenture Bonds (including any accrued but unpaid interest thereon); and
 - (iv) Redemption Premium Amount (if any) in respect of the Class A7 Debenture Bonds (including any accrued but unpaid interest thereon);
- (j) *tenth, pro rata* according to the respective amounts thereof, to pay or provide for payment of:
 - (i) Hedging Agreement Subordinated Amounts due and payable to the Hedge Provider under the Hedging Agreement; and
 - (ii) Borrower IB Hedging Subordinated Amounts due and payable to the Borrowers under the Issuer/Borrower Hedging Agreement;
- (k) *eleventh, pro rata* according to the respective amounts thereof, to pay or provide for payment of:
 - (i) Ambac Subordinated Fees;
 - (ii) Class A1 Step-Up Amounts;
 - (iii) Class A2 Step-Up Amounts;
 - (iv) Class A3 Step-Up Amounts;
 - (v) Class A4 Step-Up Amounts;
 - (vi) Class A5 Step-Up Amounts;

(vii) Class A6 Step-Up Amounts; and

(viii) Class A7 Step-Up Amounts,

then due and payable;

- (l) *twelfth*, to pay or provide for payment of the amounts then due and payable in respect of the Issuer's obligations to pay interest on the LoanCo/Issuer Subordinated Loan;
- (m) *thirteenth*, to pay or provide for the amounts then due and payable in respect of the Issuer's obligations to repay principal of the LoanCo/Issuer Subordinated Loan;
- (n) *fourteenth*, to pay or provide for remuneration then payable to the Servicer together with all other costs, charges, liabilities and expenses incurred under the provisions of the Servicing Agreement; and
- (o) *fifteenth*, the surplus (if any) to the Issuer.

Direction of the Debenture Bond Trustee and consent of Ambac

As described in "*Risk Factors – Conflicts of Interest*", above, the Issuer Deed of Charge will contain provisions requiring the Issuer Security Trustee to act only in accordance with the directions of the Debenture Bond Trustee.

The Trust Deed provides for the Debenture Bond Trustee:

- (i) whether or not there is any conflict of interest between two or more Classes of Debenture Bondholders and/or any other Issuer Secured Creditors, to act only at the direction of Ambac if the aggregate Principal Amount Outstanding of the Guaranteed Debenture Bonds is more than 50 per cent. of the aggregate Principal Amount Outstanding of all of the Debenture Bonds and if no Ambac Termination Event has occurred; or
- (ii) if the aggregate Principal Amount Outstanding of Guaranteed Debenture Bonds is less than or equal to 50 per cent. of the aggregate Principal Amount Outstanding of all of the Debenture Bonds and/or an Ambac Termination Event has occurred:
 - (A) to act in such manner as it thinks fit, but subject to obtaining the consent of Ambac (provided that no Ambac Termination Event has occurred) where such action would, in the opinion of the Debenture Bond Trustee, affect the interests of the holders of the Guaranteed Debenture Bonds; and
 - (B) to act at the direction of (1) where expressly permitted, the holders of at least 25 per cent. in Principal Amount Outstanding of all of the Debenture Bonds then outstanding; or (2) an Extraordinary Resolution of the Debenture Bondholders (subject to provisions for determining whether any such Extraordinary Resolution must be passed at a single Meeting of all Debenture Bondholders or the affected Class (as the case may be) or at separate Meetings of each Class of Debenture Bondholders); but subject, in either case, to obtaining the consent

of Ambac (except if an Ambac Termination Event has occurred), if the aggregate Principal Amount Outstanding of the Guaranteed Debenture Bonds is more than 25 per cent., but not more than 50 per cent., of the aggregate Principal Amount Outstanding of all of the Debenture Bonds, in the case of a direction to accelerate the Debenture Bonds or to enforce the Issuer Security, subject, in all cases, to provisions for indemnification of the Debenture Bond Trustee as provided in the Trust Deed.

For the purposes of paragraph (ii)(B) above, Ambac shall be treated as the holder of all the Guaranteed Debenture Bonds (except if an Ambac Termination Event has occurred).

The foregoing provisions requiring the Debenture Bond Trustee to act at the direction of Ambac or only to act subject to obtaining its consent or providing for Ambac to be treated as the holder of all the Guaranteed Debenture Bonds do not apply in relation to the taking of action against Ambac and certain other matters (together, ***Debenture Bondholder Reserved Matters***) described in the Conditions of the Debenture Bonds.

In addition, the Transaction Documents contain provisions requiring the Obligors to obtain the Issuer Security Trustee's consent to certain actions of the Obligors including in respect of the variation or waiver of any provision of the Transaction Documents. The relevant Transaction Documents provide that in certain circumstances the consent of the Issuer Security Trustee shall be given if certain conditions are satisfied at the relevant time, including if the Rating Agencies issue Rating Confirmations in respect of the Debenture Bonds (including the Underlying Rating) and the consent of Ambac (other than in respect of a request for Additional Term Advances or the incurrence of Additional Financial Indebtedness) (if required) is obtained. Where the Rating Agencies have provided Rating Confirmations to the Issuer with respect to an action under or in relation to the Transaction Documents or the Debenture Bonds, the Debenture Bond Trustee, in considering the No Material Prejudice Test shall be entitled to take into account such Rating Confirmation provided that the Debenture Bond Trustee shall continue to be responsible for taking into account, for the purpose of the No Material Prejudice Test, all other matters which would be relevant to such No Material Prejudice Test.

Any reference in this Second Issue Prospectus or the Transaction Documents to the consent of Ambac being required, notice required to be given to Ambac or any person to have regard to the interests of Ambac, any person being acceptable to Ambac or any direction or request by Ambac, shall only apply if any Class A1 Debenture Bonds, Class A3 Debenture Bonds or Class A5 Debenture Bonds are outstanding and no Ambac Termination Event has occurred and a reference to "if required" in respect of Ambac shall be construed accordingly.

Each of the Issuer Secured Creditors (other than the Debenture Bondholders) will agree in the Issuer Deed of Charge that only the Issuer Security Trustee may enforce the security created pursuant to the Issuer Deed of Charge and that it will not take any steps or pursue any action whatsoever (other than in accordance with the terms of the relevant Transaction Document) for the purpose of recovering any debts due or owing to it by the Issuer or to petition or procure the petitioning for the winding-up of the Issuer or to apply to the court for an administration order, file documents with the court for the appointment of an administrator or serve notice of intention to appoint an administrator, in each case, in respect of the Issuer unless an Issuer Enforcement Notice shall have been served or the Debenture Bond Trustee, having become bound to serve an Issuer Enforcement Notice and/or the Issuer Security Trustee having become bound to take

any steps or proceedings to enforce the said security pursuant to the Issuer Deed of Charge, fails to do so within a reasonable period of becoming so bound and such failure is continuing (in which case each of such Issuer Secured Creditors shall be entitled to take any such steps and proceedings as it shall deem necessary other than the presentation of a petition for the winding-up of the Issuer or to apply to the court for an administration order, file documents with the court for the appointment of an administrator or serve notice of intention to appoint an administrator). Unless it is satisfied at that time that it is adequately indemnified and/or secured, the Issuer Security Trustee has absolute discretion to refrain from taking any action under the Issuer Deed of Charge.

The Issuer Security will become enforceable upon service of an Issuer Enforcement Notice (as defined in Condition 11 (*Enforcement*)), provided that, if the Issuer Security has become enforceable otherwise than by reason of a default in payment of any amount due on the Debenture Bonds, the Issuer Security Trustee will not be entitled to dispose of the assets comprised in the Issuer Security or any part thereof unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Debenture Bondholders and all amounts payable in priority thereto as set out in "*Priority of payments – Post-enforcement*", above, or the Issuer Security Trustee is of the opinion, which shall be binding on the Issuer Secured Creditors, reached after considering at any time and from time to time the advice of such professional advisers as are at the time selected by the Issuer Security Trustee, that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Debenture Bondholders and all amounts payable in priority thereto as set out in "*Priority of payments – Post-enforcement*", above and that the shortfall will (or there is a significant risk that it will) exceed the shortfall resulting from disposal of the assets comprised in the Issuer Security.

The Issuer Deed of Charge will be governed by English law (other than in respect of any fixed charge over Scottish assets, which will be governed by Scots law).

BANK AGREEMENT

The Bank Agreement was entered into on the Original Closing Date by the Managed Borrower, the Issuer, the Account Bank, the Borrower Group Security Trustee and the Issuer Security Trustee. It was amended and restated pursuant to an agreement dated 7 July 2006 in order to join the Leased Borrower as a party.

The Issuer will establish at the Account Bank the accounts described in paragraphs (a) and (b) below (the **Bank Accounts**) pursuant to the Bank Agreement:

- (a) **Issuer Transaction Account:** Payments of principal, interest and fees received from the Borrowers under the Issuer/Borrower Facility Agreement are paid into the Issuer Transaction Account, and amounts standing to the credit of the Issuer Transaction Account are applied, *inter alia*, in making payments of interest and repayments of principal on the Debenture Bonds and payments to the Liquidity Facility Provider(s) under the Liquidity Facility Agreement; and
- (b) **Liquidity Facility Reserve Account:** the proceeds of any drawing made by the Issuer under the Liquidity Facility Agreement upon the occurrence of certain specified events

(see "*Liquidity Facility Agreement*", above) will be credited to the Liquidity Facility Reserve Account and to the extent that funds are available, payments of any Liquidity Shortfall will be paid by the Issuer from the Liquidity Facility Reserve Account.

Other than the unit-level collection accounts referred to below, all of the Operating Accounts of the Borrowers are maintained with the Account Bank and are the subject of the Bank Agreement. Under the Bank Agreement, the Account Bank will agree to operate and the Borrowers, the Issuer and the Account Bank are prohibited from amending the mandates in relation to such accounts without the consent of the Borrower Group Security Trustee or, as the case may be, the Issuer Security Trustee. The unit-level collection accounts are currently held with Alliance and Leicester/Girobank. Funds received into these collection accounts will be swept into the Borrower Operating Account, which is held with the Account Bank, on a daily basis (see "*Business of Spirit Group – Cash Collection*", below).

The Bank Agreement is governed by English law.

SERVICING AGREEMENT

Under the Servicing Agreement, entered into on the Original Closing Date, AdminCo, as servicer (the **Servicer**), will agree to provide certain corporate administrative services to and on behalf of the Issuer. In addition, the Servicer will agree, subject to the consent of the Issuer Security Trustee on behalf of the Issuer to invest certain sums standing to the credit of the Issuer Transaction Account and the Liquidity Facility Reserve Account in Eligible Investments.

For these purposes, **Eligible Investments** means:

- (a) Sterling gilt-edged securities; and/or
- (b) Sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper),

provided that in all cases such investments have a maturity date falling no later than the next following Interest Payment Date (unless the person making the investment determines that such moneys may be required towards payment of an amount under the Transaction Documents prior to such date) and the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised bank under the Financial Services and Markets Act 2000 (**FSMA**)) are rated "A-1" and "F1" and "P-1" (or equivalent) or higher by the Rating Agencies or are otherwise acceptable to the Rating Agencies and Ambac.

The Servicing Agreement is governed by English law.

TAX DEED OF COVENANT

On the Original Closing Date, Spirit Holdings and, *inter alios*, the Borrower Group, BankCo, the Issuer, Issuer Parent, the Borrower Group Security Trustee, the Issuer Security Trustee and the Bank Security Agent entered into a tax deed of covenant (the **Tax Deed of Covenant**).

Following the acquisition of the Spirit Group by the Punch Group in January 2006 and as part of a further restructuring of the Borrower Group and the Borrower Group Estate, the Tax Deed of Covenant was amended and restated and the Leased Borrower acceded to the Tax Deed of Covenant as an additional Borrower with effect from 7 July 2006. The Covenantors and the Common Security Group Companies were also released from their obligations and liabilities to the Bank Security Agent under the Tax Deed of Covenant.

The Tax Deed of Covenant was further amended and restated with effect from 5 July 2007 and will be further amended and restated with effect from the Second Issue Date.

Pursuant to the Tax Deed of Covenant, among other things, certain representations were made and warranties and covenants given by the Issuer or Issuer Parent in favour of the Security Trustees regarding various tax-related risks. Further, certain representations were made and warranties and covenants given by other parties in favour of the Issuer, Issuer Parent and the Security Trustees regarding various tax-related risks. Among the matters covered by such representations, warranties and covenants are secondary tax liabilities, VAT grouping, tax residency, group tax matters, degrouping charges, worldwide debt cap and transfer pricing. There are also provisions setting out certain rights of the Security Trustees in relation to the Tax Deed of Covenant.

The Tax Deed of Covenant is governed by English law.

ADMINISTRATIVE SERVICES AGREEMENT

On the Original Closing Date, the Managed Borrower, AdminCo, the Borrower Group Security Trustee and SGPL entered into an administrative services agreement (the **Administrative Services Agreement**), pursuant to which AdminCo agreed to provide or procure the provision to the Managed Borrower of certain administrative services in respect of the Borrower Group Estate. The Administrative Services Agreement was amended pursuant to an agreement dated 23 February 2013 in order to take account of certain consequences of the demerger of the Spirit Group from the corporate group of Punch Taverns plc in August 2011.

These services include the provision of all unit level and, to the relevant extent, non-unit level employees and certain centrally procured or provided services (including employee management services, payroll, cash management, IT infrastructure and software supply and maintenance, car leasing and other group wide arrangements). AdminCo recharges to the Managed Borrower the costs of providing all such services, and also charges a fee of 5 per cent. of all such costs (other than the employment costs of those staff working exclusively in the pubs comprising the Borrower Group Estate) (the **Service Fee**). The Service Fee element is payable quarterly in arrear, whereas the costs recharge is payable as and when the relevant costs fall due for payment by AdminCo.

Payment of the Service Fee will be suspended if certain trigger events occur, including:

- (i) the appointment of a Financial Adviser, as referred to below; and
- (ii) the DSCR (OpFlex) is less than 1.30:1.

If any such trigger event occurs, the Managed Borrower will be required to establish over time a liquidity reserve up to the appropriate level, by retaining the Service Fee and amounts that would otherwise have been paid out by way of dividend or subordinated loan service. At the time of occurrence of the trigger event, the appropriate level of reserve will equate to the working capital facility then in place and being utilised by AdminCo, to the extent that, in consequence of such trigger event, that working capital facility ceases to be available to AdminCo and no alternative source of liquidity is then made available to AdminCo directly by third parties or via the Managed Borrower working capital facility as described below. The appropriate level will reduce or will fall away to the extent that an alternative liquidity source (e.g. a new revolving credit facility) is available (or a facility that has ceased temporarily to be available becomes available again). The Managed Borrower may lend the liquidity reserve to AdminCo to enable AdminCo to meet its costs generally (and not just the costs and overheads of the Managed Borrower). Once the liquidity reserve has reached the appropriate level, (determined is by the board of AdminCo, acting reasonably) to be less or more than the initial liquidity requirement at the time of the trigger event as referred to above, the Managed Borrower may again start paying out the Service Fee, paying dividends and servicing the subordinated loan.

In order to address the liquidity concerns referred to above, in certain circumstances the Borrowers will be entitled to obtain its own working capital facility which may be drawn to fund AdminCo's working capital requirements (thereby reducing or eliminating the necessity to establish a liquidity reserve to the relevant extent) but only in any such case insofar as these relate solely to the Managed Borrower's business (see "*Issuer/Borrower Facility Agreement*", above).

In certain circumstances, the Borrower Group Security Trustee will be entitled to appoint a financial adviser, who can investigate, among other things, whether the costs recharged to the Managed Borrower have been allocated in accordance with the Fair and Reasonable Principle (see "*Issuer/Borrower Facility Agreement*", above).

The sole activity of AdminCo will be to act as a group services company. AdminCo will be permitted to enter into substantially equivalent administrative services arrangements with other members of Spirit Group and also, subject to certain safeguards intended to minimise the exposure of AdminCo and the members of Spirit Group constituting its main service recipients to third party credit risk, to provide services to certain existing and future joint ventures of Spirit Group and, on a transitional basis, to the purchaser of any company or business disposed of by Spirit Group for a short period following such disposal.

AdminCo will be entitled to terminate the Administrative Services Agreement only in the event of an unremedied payment default by the Borrowers. The Managed Borrower will be entitled to terminate the Administrative Services Agreement:

- (a) in the event of the material or persistent unremedied default by AdminCo or if AdminCo ceases to be a member of the same corporate group as those companies to whom it provides administrative services (other than pursuant to the permitted Transfer provisions referred to below);
- (b) on notice if, following a six month work-out period, additional costs arising in AdminCo from the termination of any equivalent group services arrangement (such as the

BankCo administrative services agreement and recharged to the Managed Borrower are not reduced to a level acceptable to the Managed Borrower; or

- (c) upon payment of a termination fee to cover all direct costs arising in AdminCo from such termination.

In the event of the termination of the Administrative Services Agreement, depending on the grounds for such termination (and subject, in the case of a voluntary termination by the Managed Borrower, to payment by the Managed Borrower of the termination payment referred to above), the Managed Borrower will be entitled to call for a transfer of all unit level and certain non-unit level employees in order to ensure that it can continue to operate the Borrower Group Estate and to facilitate, if desired, the sale of the Borrower Group Estate as a going concern. To the extent that any such employee transfer would not in any event be effected pursuant to the provisions of the Transfer of Undertaking (Protection of Employment) Regulations 2006 (as amended) (**TUPE**), the Administrative Services Agreement provides a contractual framework intended to achieve the same results in the event of a valid termination thereof.

AdminCo (or its successor) may outsource some or all of its functions in accordance with Spirit Group's policy on outsourcing as at the Original Closing Date and/or in the ordinary course of the business of Spirit Group or its successor and/or similar to the contemporaneous practice of at least one other major participant in the pub industry.

If the outsourcing:

- (i) commences after any Transfer of AdminCo's obligations, as described below, and no share security has been granted over the shares in the Alternative Servicer (as defined below); and
- (ii) relates to payroll, information technology, cash management, and employee management services required for the management of the Borrower Group Estate or constitutes a material outsourcing of the Manager Borrower unit level employees by way of a single transaction or a series of linked transactions with the same or related counterparties,

then AdminCo will be required to procure that the Borrower Group Security Trustee is granted step-in rights in respect of any material contracts with the outsourced service provider.

In addition to the right of AdminCo set out above, AdminCo will also have the right to novate (**Transfer**) the Administrative Services Agreement, to any entity (whether or not it is part of the then Spirit Group) (an **Alternative Servicer**) without the consent of the Managed Borrower or the Borrower Group Security Trustee provided that, *inter alia*, at the time of completion of the Transfer:

- (i) it obtains confirmation from the Rating Agencies that the then current ratings in respect of the Class A2 Debenture Bonds and the Class A4 Debenture Bonds and the current Underlying Ratings of the Class A1 Debenture Bonds, Class A3 Debenture Bonds and Class A5 Debenture Bonds, will not be adversely affected notwithstanding any such Transfer;

- (ii) the Back-to-Back Supply Agreement is novated to the Alternative Servicer;
- (iii) AdminCo procures that the Alternative Servicer's immediate holding company grants an equitable share mortgage in respect of its holding of shares in the Alternative Servicer and a negative pledge covenant to the Borrower Group Security Trustee, unless the relevant holding company is restricted from granting any such share mortgage or negative pledge covenant by the terms of any existing contractual arrangement or, in the reasonable opinion of AdminCo, the granting of that share mortgage or negative pledge covenant would be commercially prejudicial to the business of any member of the enlarged group; and
- (iii) arrangements are put in place with respect to the unit level staff of the Managed Borrower which reflect the effect of TUPE legislation so that if the Borrower Group Security Trustee effects the disposal of the Managed Borrower and the Borrower Group pursuant to enforcement of the Borrower Security or if the Administrative Services Agreement is otherwise lawfully terminated by the Managed Borrower for any reason, substantially all the unit level staff will (subject only to their own consent in that respect) continue to provide their services to their respective units at the time of, and following, the disposal or termination.

The Borrower Group Security Trustee will have the right in certain circumstances, including a Borrower Group Event of Default, a Borrower Potential Event of Default or an uncured/unwaived termination event under the Administrative Services Agreement, to require AdminCo to undertake such a Transfer to an entity which need not be a member of the then Spirit Group. In such circumstances, AdminCo would itself be precluded from effecting such a Transfer.

The Borrower Group Security Trustee is party to the Administrative Services Agreement for certain purposes and, in particular, to facilitate enforcement of the security created in connection with the Administrative Services Agreement, comprising an equitable mortgage over the shares in AdminCo held by SGPL (which is also party to the Administrative Services Agreement for certain limited purposes).

The Administrative Services Agreement is governed by English law.

LEASED BORROWER ASA

Pursuant to an agreement dated 23 February 2012, with effect from 23 April 2012, the Leased Borrower, AdminCo, the Borrower Group Security Trustee and SGPL entered into an administrative services agreement (the **Leased Borrower ASA**), pursuant to which AdminCo agreed to provide or procure the provision to the Leased Borrower of certain administrative services in respect of the Borrower Group Estate.

These services will include the provision of all non-unit level employees and certain centrally procured or provided services (including cash management, IT infrastructure and software supply and maintenance and other group wide arrangements) on substantially the same terms as AdminCo provides services to the Managed Borrower under the Administrative Services ASA.

The Leased Borrower ASA is governed by English law.

BACK-TO-BACK SUPPLY AGREEMENT

On 4 July 2011, the Managed Borrower and AdminCo entered into a back-to-back supply agreement with SupplyCo (the ***Back-to-Back Supply Agreement***), pursuant to which SupplyCo agreed to provide or procure the provision to the pubs comprising the Managed Estate of certain products and services, primarily food, (alcoholic and non-alcoholic) beverages and related distribution and technical services, pursuant to the terms of certain third party contracts entered into by SupplyCo (or to be entered into in the future) on a group-wide basis exploiting the purchasing power of Spirit's entire pub estate. The Back-to-Back Supply Agreement was amended pursuant to an agreement dated 23 February 2012, in order to deal with certain consequences of Demerger.

The Back-to-Back Supply Agreement sets out the framework within which the benefit of the relevant third party contracts (and any amendment, renewal or agreed replacement thereof within the agreed scope of the products and services to which the relevant agreement applies) will be supplied to the Borrower Group Estate, effectively on a cost-pass through basis. In addition, the Managed Borrower will pay to SupplyCo a fixed fee of £5,000 per month for its services.

SupplyCo's only source of income is under the Back-to-Back Supply Agreement, the Leased Borrower Back-to-Back Supply Agreement and any equivalent back-to-back supply arrangements it enters into with other Spirit Group companies. SupplyCo's sole activity is to act as the internal supply company for pub businesses owned by other members of Spirit Group, subject to the same limited exceptions for joint ventures and transitional service arrangements as are permitted in relation to AdminCo under the Administrative Services Agreement (see above).

Notwithstanding that certain of the third party contracts to which SupplyCo is party contain minimum purchasing levels, these are not passed on to or imposed upon the Managed Borrower pursuant to the Back-to-Back Supply Agreement (see "*Business of Spirit Group – Beer supply and other drink products*", below). The Managed Borrower and AdminCo may only terminate the Back-to-Back Supply Agreement as a result of breach or insolvency of the other party, it being intended that otherwise the Back-to-Back Supply Agreement will last for the life of the underlying third party contracts.

The Borrower Group Security Trustee is party to the Back-to-Back Supply Agreement for certain purposes and, in particular, to facilitate enforcement of security created in connection with the Back-to-Back Supply Agreement, comprising an equitable mortgage over the shares in SupplyCo held by SGPL.

The Back-to-Back Supply Agreement is governed by English law.

LEASED BORROWER BACK-TO-BACK SUPPLY AGREEMENT

On 4 July 2011, the Leased Borrower and AdminCo entered into a back-to-back supply agreement with SupplyCo (the ***Leased Borrower Back-to-Back Supply Agreement***), pursuant to which SupplyCo agreed to provide or procure the provision to the pubs comprising the Leased Estate of certain products and services, primarily food, (alcoholic and non-alcoholic) beverages and related distribution and technical services, pursuant to the terms of certain third

party contracts entered into by SupplyCo (or to be entered into in the future) on a group-wide basis exploiting the purchasing power of Spirit's entire pub estate. The Leased Borrower Back-to-Back Supply Agreement was amended pursuant to an agreement dated 23 February 2012, in order to deal with certain consequences of Demerger.

The Leased Borrower Back-to-Back Supply Agreement is on materially the same terms as the Back-to-Back Supply Agreement.

The Leased Borrower Back-to-Back Supply Agreement is governed by English law.

AMBAC FINANCIAL GUARANTEE

On the Original Closing Date, Ambac issued in favour of the Debenture Bond Trustee (as trustee for itself and on behalf of the Class A1 Debenture Bondholders, the Class A3 Debenture Bondholders and the Class A5 Debenture Bondholders) an unconditional and irrevocable financial guarantee (the **Ambac Financial Guarantee**) in respect of Scheduled Interest and Ultimate Principal (each as described below) of the Class A1 Debenture Bonds, the Class A3 Debenture Bonds and the Class A5 Debenture Bonds, provided that, to the extent that amounts are available to be drawn under the Liquidity Facility to make payments of interest on the Class A1 Debenture Bonds, the Class A3 Debenture Bonds and the Class A5 Debenture Bonds, the Issuer is obliged to first draw under the Liquidity Facility.

Upon any early redemption of the Guaranteed Debenture Bonds or an Issuer Event of Default, if not cured, the obligations of Ambac will continue to be to pay the relevant Guaranteed Amounts as they fall Due for Payment on each Interest Payment Date. Ambac will not be obliged under any circumstances to accelerate payment under the Ambac Financial Guarantee. However, if Ambac does so, it may do so in whole or in part and the amount payable by Ambac will be determined in accordance with Condition 6(c)(iv) (*Redemption, Purchase and Cancellation – Redemption at the option of the Issuer*) (and any amount due in excess thereof will not be guaranteed by Ambac under the Ambac Financial Guarantee).

For these purposes:

Scheduled Interest has the meaning given in the Ambac Financial Guarantee.

Ultimate Principal has the meaning given in the Ambac Financial Guarantee.

Ambac Event of Default means, with respect to Ambac under the Ambac Financial Guarantee:

- (i) any Guaranteed Amount which is Due for Payment by Ambac under the Ambac Financial Guarantee and is not paid by Ambac within two Business Days of the date stipulated in the Ambac Financial Guarantee;
- (ii) Ambac disclaims, disaffirms, repudiates and/or challenges the validity of any of its obligations under the Ambac Financial Guarantee or seeks to do so;
- (iii) a court of competent jurisdiction enters a final and non-appealable order, judgment or decree for the winding-up, or the appointment of an administrator or receiver (including

an administrative receiver or manager) of Ambac (or, as the case may be, of a material part of its property or assets); or

- (iv) Ambac:
- (A) presents any petition or takes any proceedings for the winding-up or the appointment of an administrator or receiver (including an administrative receiver or manager) of Ambac (or, as the case may be, of a material part of its property or assets); or
 - (B) makes or enters into any general assignment, composition, arrangement (including, without limitation, a voluntary arrangement under Part 1 of the Insolvency Act 1986) or compromise with or for the benefit of any of its creditors; or
 - (C) becomes unable to pay its debts within the meaning of Section 123(2) or Section 123(1)(e) of the Insolvency Act 1986 or admits in writing its inability, or fails generally, to pay its debts as they become due.

Due for Payment has the meaning given in the Ambac Financial Guarantee.

Guaranteed Amount means the Guaranteed Amount as defined in the Ambac Financial Guarantee.

The Second Issue Debenture Bonds are not covered by the Ambac Financial Guarantee or otherwise guaranteed in any way by Ambac.

The Ambac Guarantee is governed by English law.

AMBAC GUARANTEE AND REIMBURSEMENT AGREEMENT

On the Original Closing Date, the Issuer entered into a guarantee and reimbursement agreement with Ambac (the **Ambac Guarantee and Reimbursement Agreement**) and is obliged, *inter alia*, (a) to reimburse Ambac in respect of any payment made by Ambac under the Ambac Financial Guarantee; and (b) to pay any fees and expenses of Ambac in respect of the provision of the Ambac Financial Guarantee.

Increase in Ambac fee on ratings downgrade

If the relevant shadow ratings of the Class A1 Debenture Bonds are either “BBB-” by S&P or “Baa3” by Moody’s (being the **A1 Initial Downgrade Condition**), the Fee Percentage payable to Ambac shall increase by a fixed rate and, if the relevant shadow ratings of the Class A1 Debenture Bonds and/or the Class A3 Debenture Bonds and/or the Class A5 Debenture Bonds are lower than “BBB-” by S&P or “Baa3” by Moody’s (being the **Further Downgrade Condition**), the Fee Percentage payable to Ambac shall be increased by a higher fixed rate (but such increased Fee Percentage following the Further Downgrade Condition shall be disregarded for the purposes of the calculation of the Additional Guarantee Fee). If (i) the Borrowers raise Additional Financial Indebtedness; (ii) after raising such Additional Financial Indebtedness, the Relevant Financial Indebtedness of the Borrowers is more than £1,250

million; and (iii) within 365 calendar days of the raising of such Additional Financial Indebtedness, the relevant shadow ratings are upgraded to either “A” by S&P or “A2” by Moody’s ((i) to (iii) being the **Upgrade Conditions**), the Fee Percentage shall decrease by a fixed rate.

If the relevant shadow ratings of the Class A3 Debenture Bonds are either “BBB-” by S&P or “Baa3” by Moody’s (being the **A3 Initial Downgrade Condition**), the Fee Percentage shall increase by a fixed rate and, if the Further Downgrade Condition is satisfied, the Fee Percentage shall increase by a higher fixed rate (but such increased Fee Percentage following the Further Downgrade Condition shall be disregarded for the purposes of the calculation of the Additional Guarantee Fee). If the Upgrade Conditions are satisfied, the Fee Percentage shall decrease by a fixed rate.

If the relevant shadow ratings of the Class A5 Debenture Bonds are either “BBB-” by S&P or “Baa3” by Moody’s (being the **A5 Initial Downgrade Condition**), the Fee Percentage shall be increased by a fixed rate and, if the Further Downgrade Condition is satisfied, the Fee Percentage shall be increased by a higher fixed rate (but such increased Fee Percentage following the Further Downgrade Condition shall be disregarded for the purposes of the calculation of the Additional Guarantee Fee). If the Upgrade Conditions are satisfied, the Fee Percentage shall decrease by a fixed rate.

Increases in the fees payable to Ambac as a result of the A1 Initial Downgrade Condition, the A3 Initial Downgrade Condition, the A5 Initial Downgrade Condition and/or the Further Downgrade Condition will result in increased cost to the Issuer and, since such fee is passed on by the Issuer, to the Borrowers.

Subrogation

Insofar as Ambac makes payment under the Ambac Financial Guarantee in respect of Guaranteed Amounts, it shall be subrogated to the rights of the Class A1 Debenture Bondholders, the Class A3 Debenture Bondholders or the Class A5 Debenture Bondholders (as the case may be) against the Issuer in respect of any payments made.

The Ambac Guarantee and Reimbursement Agreement is governed by English law.

SUBORDINATED LOANS

LoanCo/Borrower Subordinated Loan Agreement

On the Original Closing Date, BankCo advanced a subordinated loan of £550,000,000 to the Managed Borrower pursuant to the BankCo/Borrower Subordinated Loan Agreement. This was novated on 22 May 2006 so as to be between, *inter alios*, LoanCo and the Managed Borrower and was further amended and restated pursuant to an agreement dated 7 July 2006 so as to be between, *inter alios*, LoanCo, the Managed Borrower and the Leased Borrower.

LoanCo/Issuer Subordinated Loan Agreement

On the Original Closing Date, LoanCo advanced a subordinated loan of £50,000,000 to the Issuer pursuant to the LoanCo/Issuer Subordinated Loan Agreement.

Issuer/Borrower Subordinated Loan Agreement

On the Original Closing Date, the Issuer advanced the proceeds of the LoanCo/Issuer Subordinated Loan to the Managed Borrower pursuant to the Issuer/Borrower Subordinated Loan Agreement.

Each of the LoanCo/Borrower Subordinated Loan Agreement, the LoanCo/Issuer Subordinated Loan Agent and the Issuer/Borrower Subordinated Loan Agreement is governed by English law.

USE OF PROCEEDS

Pursuant to a subscription agreement dated 21 October 2013 between, *inter alios*, Goldman Sachs International (the **Lead Manager**) and the Issuer (the **Second Issue Subscription Agreement**), the Lead Manager agreed to subscribe and, subject to the satisfaction of certain conditions specified in the Second Issue Subscription Agreement, pay for up to £145 million in aggregate principal amount of Class A6 Debenture Bonds and up to £120 million in aggregate principal amount of Class A7 Debenture Bonds. Pursuant to the Second Issue Subscription Agreement, the Second Issue Debenture Bonds were, on the Second Issue Date, issued (free of payment) to the Lead Manager, and credited to an account in the name of Deutsche Bank AG, London Branch as escrow agent (the **Escrow Agent**), to be held in accordance with an escrow deed dated 21 October 2013 between the Lead Manager, the Issuer, the Borrowers, SPL, the Initial Hedge Provider and the Escrow Agent (the **Escrow Deed**). It is anticipated that, on the Second Closing Date:

- (a) the Lead Manager will pay the Issuer £101,293,000 in consideration for the writing up of the principal amount of Class A6 Debenture Bonds by an equivalent amount; and
- (b) the Lead Manager will pay the Issuer £58,352,000 in consideration for the writing up of the principal amount of Class A7 Debenture Bonds by an equivalent amount,

in accordance with the Second Issue Subscription Agreement.

The proceeds of the issue of the Class A6 Debenture Bonds will be used by the Issuer to make the Term A6 Advance to the Borrowers, in an amount equal to £101,293,000, and the proceeds of the issue of the Class A7 Debenture Bonds will be used by the Issuer to make the Term A7 Advance to the Borrowers, in an amount equal to £58,352,000, pursuant to, and subject to the terms of, the Issuer/Borrower Facility Agreement.

It is anticipated that the Borrowers will apply the proceeds of the Term A6 Advance and the Term A7 Advance, together with amounts standing to the credit of their Operating Accounts, in purchasing from SPL, at a price equal to their outstanding principal amount plus accrued but unpaid interest, Class A1 Debenture Bonds with a Principal Amount Outstanding equal to the principal amount of the Term A6 Loan and Class A3 Debenture Bonds with a Principal Amount Outstanding equal to the principal amount of the Term A7 Loan, in each case which SPL has acquired from existing Debenture Bondholders. Such Class A1 Debenture Bonds and Class A3 Debenture Bonds as are purchased by the Borrowers will, in accordance with the terms of the Issuer/Borrower Facility Agreement, be surrendered to the Issuer for cancellation in consideration for the repayment, discharge and release of a corresponding amount of the then outstanding interest and principal owed by the Borrowers under the Term A1 Loan and the Term A3 Loan.

It is anticipated that SPL:

- (a) will acquire the Class A1 Debenture Bonds and Class A3 Debenture Bonds that it will sell to the Borrowers by offering Class A6 Debenture Bonds and Class A7 Debenture Bonds, respectively, plus an amount of cash equal to the accrued but unpaid interest on such Class A1 Debenture Bonds or Class A3 Debenture Bonds, to existing Class A1

Debenture Bondholders and Class A3 Debenture Bondholders pursuant to the Tender Offer;

- (b) acquire the Class A6 Debenture Bonds and the Class A7 Debenture Bonds from the Lead Manager, for a price equal to their aggregate outstanding principal amount, using the proceeds of the sale to the Borrowers of the Class A1 Debenture Bonds and Class A3 Debenture Bonds acquired pursuant to the Tender Offer;
- (c) transfer to holders of Class A1 Debenture Bonds who have tendered such Debenture Bonds pursuant to the Tender Offer:
 - (i) an aggregate principal amount of Class A6 Debenture Bonds equal to the aggregate outstanding principal amount of the tendered Debenture Bonds; and
 - (ii) an amount of cash equal to the accrued but unpaid interest on such tendered Debenture Bonds; and
- (d) transfer to holders of Class A3 Debenture Bonds who have tendered such Debenture Bonds pursuant to the Tender Offer:
 - (i) an aggregate principal amount of Class A7 Debenture Bonds equal to the aggregate outstanding principal amount of the tendered Debenture Bonds; and
 - (ii) an amount of cash equal to the accrued but unpaid interest on such tendered Debenture Bonds.

THE ISSUER

Introduction

The Issuer was incorporated in England and Wales on 21 October 2004 as a public company with limited liability under the name Spirit Issuer plc with registered number 05266745. The registered office of the Issuer is c/o Wilmington Trust SP Services (London) Limited, Third Floor, 1 King's Arms Yard, London EC2R 7AF and its telephone number is +44 (0)20 7397 3601. The authorised share capital of the Issuer is £50,000 divided into 50,000 ordinary shares of £1 each, 50,000 of which are issued. 49,999 of those shares are held by Spirit Issuer Parent Limited (**Issuer Parent**) and one is held by Mr. Martin McDermott (on trust for Issuer Parent).

The issued share capital of Issuer Parent is held by Wilmington Trust SP Services (London) Limited on behalf of charitable trusts.

Principal activities

The objects of the Issuer are set out in Clause 4 of its Memorandum of Association (which provision is deemed to form part of its Articles of Association), pursuant to which the Issuer is permitted, *inter alia*, to issue the Second Issue Debenture Bonds and to lend the proceeds thereof to the Borrowers.

The Issuer issued the Original Debenture Bonds and on-lent the proceeds of such issue pursuant to the Issuer/Borrower Facility Agreement on the Original Closing Date. The Issuer issued the Second Issue Debenture Bonds on the Second Issue Date and, upon receipt of the proceeds of such issue on the Second Closing Date, will on-lend the proceeds pursuant to the Issuer/Borrower Facility Agreement. The Issuer is also a party to, and undertakes the activities required or contemplated by, certain of the Transaction Documents described herein (see "*Summary of Principal Documents*", above).

The Issuer has not engaged, since its incorporation, in any activities other than those incidental to its incorporation, the authorisation and issue of the Debenture Bonds and the exercise of its rights, and performance of its obligations, under the Transaction Documents to which it is or will be a party and the other documents and matters referred to or contemplated in this Second Issue Prospectus to which it is or will be a party and any matters which are incidental or ancillary to the foregoing.

Save as disclosed in this Second Issue Prospectus, there has been no material adverse change in the financial condition or prospects of the Issuer since the date as of which its last audited annual financial statements were drawn up.

There is no intention to accumulate surpluses in the Issuer except in the circumstances set out in "*Summary of Principal Documents – Issuer Deed of Charge – Priority of Payments and Use of Proceeds*", above.

The Issuer will covenant to continue to observe certain restrictions on its activities which are detailed in Condition 4 (*Covenants*) of the Debenture Bonds.

Directors and Company Secretary

The directors of the Issuer and their respective business addresses are:

| | |
|--|--|
| Mark Filer | Third Floor, 1 King's Arms Yard, London EC2R 7AF |
| Patrick Gallagher | Third Floor, 1 King's Arms Yard, London EC2R 7AF |
| Wilmington Trust SP Services (London) Limited | Third Floor, 1 King's Arms Yard, London EC2R 7AF |

The company secretary of the Issuer is Wilmington Trust SP Services (London) Limited.

As at the date hereof, the Issuer has no employees.

Financial statements

The audited annual financial statements of the Issuer for the financial years ended, respectively, 20 August 2011 and 18 August 2012, together with the audit reports thereon, are incorporated by reference into, and form part of, this Second Issue Prospectus, on the basis set out in "*Incorporation of Certain Information by Reference*", above. The audited annual financial statements of the Issuer, together with the audit report thereon, for the financial year ended 17 August 2013 are set out in "*2013 Financial Statements*", below.

THE MANAGED BORROWER

Introduction

The Managed Borrower was incorporated in England and Wales on 25 October 2004 (registered number 05269240) as a private company with limited liability under the name of Spirit Managed Pubs Limited. The Managed Borrower's name was changed to Punch Pub Company (Pubs) Limited on 27 May 2009 and was further changed to Spirit Pub Company (Managed) Limited on 30 June 2011. The registered office of the Managed Borrower is at Sunrise House, Ninth Avenue, Burton-upon-Trent, Staffordshire DE14 3JZ and its telephone number is +44 (0)1283 498400. The authorised share capital of the Managed Borrower is £2, divided into two ordinary shares of £1 each, each of which has been issued to and is held by Spirit Pubs Parent Limited.

Principal activities

The principal objects of the Managed Borrower are set out in Clause 3 of its Memorandum of Association and are, *inter alia*, to carry on the business of a property investment company and an investment holding company and a beer and other wet products supply company, to enter into loan arrangements and derivative contracts and to issue securities and financial instruments, and to raise or borrow money and to grant security over its assets for such purposes and to lend money with or without security.

The Managed Borrower owns and operates the managed pubs which comprise the Managed Estate. See "*Business of the Spirit Group – Managed Estate*", below, and following sections. The Managed Borrower is a party to, and undertakes the activities required or contemplated by, certain of the Transaction Documents described herein (see "*Summary of Principal Documents*", above). A number of those Transaction Documents (including, without limitation, the Issuer/Borrower Facility Agreement and the Borrower Group Deed of Charge) impose restrictions on the Managed Borrower's activities.

Save as disclosed in this Second Issue Prospectus, there has been no material adverse change in the financial condition or prospects of the Managed Borrower since the date as of which its last audited annual financial statements were drawn up.

Directors and Company Secretary

The directors of the Managed Borrower and their respective business addresses are:

Clive Selwyn Briscoe

Sunrise House
Ninth Avenue
Burton-upon-Trent
Staffordshire DE14 3JZ

Robert Julian Broadbridge

Sunrise House
Ninth Avenue
Burton-upon-Trent
Staffordshire DE14 3JZ

| | |
|-------------------------|--|
| Patrick James Gallagher | Sunrise House Ninth Avenue Burton-upon-Trent Staffordshire DE14 3JZ |
| Deborah Lois Moore | Sunrise House Ninth Avenue Burton-upon-Trent Staffordshire DE14 3JZ |
| Alan Morgan | Sunrise House Ninth Avenue Burton-upon-Trent Staffordshire DE14 3JZ |
| Michael Edward Tye | Sunrise House Ninth Avenue Burton-upon-Trent Staffordshire DE14 3JZ |
| Christopher Welham | Sunrise House Ninth Avenue Burton-upon-Trent Staffordshire DE14 3JZ |

The joint company secretaries of the Managed Borrower are Henry Jones and Claire Susan Stewart.

Each director of the Managed Borrower has confirmed that there are no potential conflicts of interest between any of their duties to the Managed Borrower and their private interests and/or other duties.

As at the date hereof, the Managed Borrower has no employees.

Financial statements

The audited annual financial statements of the Managed Borrower for the financial years ended, respectively, 20 August 2011 and 18 August 2012, together with the audit reports thereon, are incorporated by reference into, and form part of, this Second Issue Prospectus, on the basis set out in "*Incorporation of Certain Information by Reference*", above. The audited annual financial statements of the Managed Borrower for the financial year ended 17 August 2013, together with the audit report thereon, are set out in "*2013 Financial Statements*", below.

THE LEASED BORROWER

Introduction

The Leased Borrower was incorporated in England and Wales on 6 February 2006 (registered number 5699544) as a private company with limited liability under the name of Spirit Leased Pubs Limited. The Leased Borrower's name was changed to Punch Taverns (Pubs) Limited on 24 March 2006 and to Punch Partnerships (Pubs) Limited on 27 May 2009. Its name was further changed to Spirit Pub Company (Leased) Limited on 30 June 2011. The registered office of the Leased Borrower is at Sunrise House, Ninth Avenue, Burton-upon-Trent, Staffordshire DE14 3JZ and its telephone number is +44 (0)1283 498400. The authorised share capital of the Leased Borrower is £2, divided into two ordinary shares of £2 each, each of which has been issued to and is held by Spirit Pubs Parent Limited.

Principal activities

The principal objects of the Leased Borrower are set out in Clause 3 of its Memorandum of Association and are, *inter alia*, to carry on the business of a property investment company and an investment holding company and a beer and other wet products supply company, to enter into loan arrangements and derivative contracts and to issue securities and financial instruments, and to raise or borrow money and to grant security over its assets for such purposes and to lend money with or without security.

The Leased Borrower owns the leased and tenanted pubs which comprise the Leased Estate and leases them to licensees, who operate them. See "*Business of the Spirit Group – Leased Estate*", below, and following sections. The Leased Borrower is a party to, and undertakes the activities required or contemplated by, certain of the Transaction Documents described herein (see "*Summary of Principal Documents*", above). A number of those Transaction Documents (including, without limitation, the Issuer/Borrower Facility Agreement and the Borrower Group Deed of Charge) impose restrictions on the Leased Borrower's activities.

Save as disclosed in this Second Issue Prospectus, there has been no material adverse change in the financial condition or prospects of the Leased Borrower since the date as of which its last audited annual financial statements were drawn up.

Directors and Company Secretary

The directors of the Leased Borrower and their respective business addresses are:

Clive Selwyn Briscoe

Sunrise House
Ninth Avenue
Burton-upon-Trent
Staffordshire DE14 3JZ

Robert Julian Broadbridge

Sunrise House
Ninth Avenue
Burton-upon-Trent
Staffordshire DE14 3JZ

| | |
|-------------------------|--|
| Patrick James Gallagher | Sunrise House Ninth Avenue Burton-upon-Trent Staffordshire DE14 3JZ |
| Deborah Lois Moore | Sunrise House Ninth Avenue Burton-upon-Trent Staffordshire DE14 3JZ |
| Alan Morgan | Sunrise House Ninth Avenue Burton-upon-Trent Staffordshire DE14 3JZ |
| Michael Edward Tye | Sunrise House Ninth Avenue Burton-upon-Trent Staffordshire DE14 3JZ |
| Christopher Welham | Sunrise House Ninth Avenue Burton-upon-Trent Staffordshire DE14 3JZ |

The joint company secretaries of the Leased Borrower are Henry Jones and Claire Susan Stewart.

Each director of the Leased Borrower has confirmed that there are no potential conflicts of interest between any of their duties to the Leased Borrower and their private interests and/or other duties.

As at the date hereof, the Leased Borrower has no employees.

Financial statements

The audited annual financial statements of the Leased Borrower for the financial years ended, respectively, 20 August 2011 and 18 August 2012, together with the audit reports thereon, are incorporated by reference into, and form part of, this Second Issue Prospectus, on the basis set out in "*Incorporation of Certain Information by Reference*", above. The audited annual financial statements of the Leased Borrower for the financial year ended 17 August 2013, together with the audit report thereon, are set out in "*2013 Financial Statements*", below.

THE BORROWER GROUP PARENT

Introduction

The Borrower Group Parent was incorporated in England and Wales on 21 October 2004 (registered number 05266779) as a private company with limited liability under the name of Spirit Pubs Holding Limited. The Borrower Group Parent's name was changed to Spirit Pubs Debenture Holdings Limited on 8 June 2011. The registered office of the Borrower Group Parent is at Sunrise House, Ninth Avenue, Burton-upon-Trent, Staffordshire DE14 3JZ and its telephone number is +44 (0)1283 498400. The authorised share capital of the Borrower Group Parent is £100, divided into one hundred ordinary shares of £1 each, of which four are issued and are held by Spirit Parent Limited.

Principal activities

The objects of the Borrower Group Parent are set out in Clause 3 of its Memorandum of Association (which provision is deemed to form part of its Articles of Association), and are, *inter alia*, to carry on the business of a property investment company and an investment holding company, to enter into loan arrangements and derivative contracts and to issue securities and financial instruments, and to raise or borrow money and to grant security over its assets for such purposes and to lend money with or without security

The Borrower Group Parent is a party to, and undertakes the activities required or contemplated by, certain of the Transaction Documents described herein (see "*Summary of Principal Documents*", above). A number of those Transaction Documents (including, without limitation, the Issuer/Borrower Facility Agreement and the Borrower Group Deed of Charge) impose restrictions on the Borrower Group Parent's activities.

Save as disclosed in this Second Issue Prospectus, there has been no material adverse change in the financial condition or prospects of the Borrower Group Parent since the date as of which its last audited consolidated annual financial statements were drawn up.

Directors and Company Secretary

The directors of the Borrower Group Parent and their respective business addresses are:

Lucy Jane Bell

Sunrise House
Ninth Avenue
Burton-upon-Trent
Staffordshire DE14 3JZ

Patrick James Gallagher

Sunrise House
Ninth Avenue
Burton-upon-Trent
Staffordshire DE14 3JZ

Daryl Antony Kelly

Sunrise House
Ninth Avenue
Burton-upon-Trent
Staffordshire DE14 3JZ

Jonathan Langford

Sunrise House
Ninth Avenue
Burton-upon-Trent
Staffordshire DE14 3JZ

The joint company secretaries of the Borrower Group Parent are Henry Jones and Claire Susan Stewart.

Each director of the Borrower Group Parent has confirmed that there are no potential conflicts of interest between any of their duties to the Borrower Group Parent and their private interests and/or other duties.

As at the date hereof, the Borrower Group Parent has no employees.

Financial statements

The audited consolidated annual financial statements of the Borrower Group Parent (which cover the Borrower Group Parent and each of its subsidiaries) for the financial years ended, respectively, 20 August 2011 and 18 August 2012, together with the audit reports thereon, are incorporated by reference into, and form part of, this Second Issue Prospectus, on the basis set out in "*Incorporation of Certain Information by Reference*", above. The audited consolidated annual financial statements of the Borrower Group Parent (which cover the Borrower Group Parent and each of its subsidiaries) for the financial year ended 17 August 2013, together with the audit report thereon, are set out in "*2013 Financial Statements*", below.

NEW PARENTCO

Introduction

New ParentCo was incorporated in England and Wales on 22 October 2004 (registered number 05267589) as a private company with limited liability under the name of Spirit Pubs Parent Limited. The registered office of New ParentCo is at Sunrise House, Ninth Avenue, Burton-upon-Trent, Staffordshire DE14 3JZ and its telephone number is +44 (0)1283 498400. The authorised share capital of New ParentCo is £100, divided into one hundred ordinary shares of £1 each, of which four are issued and are held by the Borrower Group Parent.

Principal activities

The objects of New ParentCo are set out in Clause 3 of its Memorandum of Association (which provision is deemed to form part of its Articles of Association), and are, *inter alia*, to carry on the business of a property investment company and an investment holding company, to enter into loan arrangements and derivative contracts and to issue securities and financial instruments, and to raise or borrow money and to grant security over its assets for such purposes and to lend money with or without security.

New ParentCo is a party to, and undertakes the activities required or contemplated by, certain of the Transaction Documents described herein (see “*Summary of Principal Documents*”, above). A number of those Transaction Documents (including, without limitation, the Issuer/Borrower Facility Agreement and the Borrower Group Deed of Charge) impose restrictions on New ParentCo’s activities.

Save as disclosed in this Second Issue Prospectus, there has been no material adverse change in the financial condition or prospects of New ParentCo since the date as of which the Borrower Group Parent’s last audited consolidated annual financial statements were drawn up.

Directors and Company Secretary

The directors of New ParentCo and their respective business addresses are:

Lucy Jane Bell

Sunrise House
Ninth Avenue
Burton-upon-Trent
Staffordshire DE14 3JZ

Patrick James Gallagher

Sunrise House
Ninth Avenue
Burton-upon-Trent
Staffordshire DE14 3JZ

Daryl Antony Kelly

Sunrise House
Ninth Avenue
Burton-upon-Trent
Staffordshire DE14 3JZ

Jonathan Langford

Sunrise House
Ninth Avenue
Burton-upon-Trent
Staffordshire DE14 3JZ

The joint company secretaries of New ParentCo are Henry Jones and Claire Susan Stewart.

Each director of New ParentCo has confirmed that there are no potential conflicts of interest between any of their duties to New ParentCo and their private interests and/or other duties.

As at the date hereof, New ParentCo has no employees.

BUSINESS OF THE SPIRIT GROUP

Business Overview

The Spirit Group is currently divided into two main divisions: the managed pub business comprising, as at 12 October 2013, 775 pubs and the leased pub business comprising, as at 12 October 2013, 450 pubs.

The pubs comprising the Spirit Group's managed estate are directly operated by the Spirit Group. Since August 2008, the managed pub business has been focused on improving operating disciplines and revitalising and developing its brands and investing in its estate. Over the last two years, the average weekly sales (excluding VAT) of the managed pub business have increased by 13 per cent. to £16,600 per week and the average EBITDA generated by each pub has increased by 39 per cent. to £126,000 per annum.

Managed Estate

As at 12 October 2013, of the 775 managed pubs held by the Spirit Group, 640 were owned by the Managed Borrower (the **Managed Estate**) and 135 were owned by Spirit Pub Company (Trent) Limited, a member of the Spirit Group which is outside of the Borrower Group.

The Managed Borrower derives its revenue primarily from the sale of drink and food to members of the public through its, predominantly branded, managed pub portfolio. For the financial years ended 20 August 2011, 18 August 2012 and 17 August 2013, the revenue and operating profit of the managed pub business operated by the Managed Borrower before exceptional items as a percentage of the Borrowers' total were as follows:

| | Managed Borrower's business as a percentage of the Borrowers' total | | |
|--|--|----------------------------------|----------------------------------|
| | 2011 Financial Period | 2012 Financial Period | 2013 Financial Period |
| Revenue | 86 | 87 | 88 |
| Operating profit before non- underlying items | 62 | 66 | 72 |

Leased Estate

As at 12 October 2013, the Leased Borrower owned a portfolio of 450 leased pubs (the **Leased Estate**). These are pubs for which the Leased Borrower has a lease or tenancy agreement with retailers who operate a retail business within the pub premises owned by the Leased Borrower. Retailers are required to pay a negotiated rent which is, in most cases, based on a proportion of the pub's predicted (or, in some cases, actual) profit. Many of the pubs that constitute the Leased Estate were previously managed pubs which have been converted to leased pubs. Therefore, they are typically higher quality leased pubs, as measured by revenue, profitability and operating cash flow per pub.

The Leased Borrower has derived its revenue primarily from rent and the sale of beer and other drinks to retailers. For the financial years ended 20 August 2011, 18 August 2012 and 17 August 2013, the revenue and operating profit of the leased pub business operated by the Leased Borrower before exceptional items as a percentage of the Borrowers' total were as follows:

| Leased Borrower's business as a percentage of the Borrowers' total | | | |
|---|-------------------------|-------------------------|-------------------------|
| | 2011 | 2012 | 2013 |
| | Financial Period | Financial Period | Financial Period |
| Revenue | 14 | 13 | 12 |
| Operating profit before exceptional items | 38 | 34 | 28 |

Strategy

The Spirit Group's objective is to be regarded as the best employer in the hospitality industry, to consistently deliver the best experiences for its customers and to create the best returns in the sector for its shareholders. To achieve this, the strategy of the Spirit Group is to focus on investing in its four key assets – (i) its people, (ii) its brands, (iii) its properties and (iv) its infrastructure.

In recent years, the Spirit Group has invested in its portfolio of managed pubs in order to build five core brands and focus on the recruitment, development and retaining of its staff.

The Spirit Group has sought to exert greater influence over the retail offering for customers in its leased pubs. In doing so, the Spirit Group intends to utilise the Spirit Group's scale and the expertise available in the managed estate to expand the range of services offered to lessees. The leased pub business has also begun to trial new forms of operating lease, designed to reflect a better allocation between the lessor and the lessee of the risks and rewards of operating a leased pub.

The Spirit Group will continue to focus on improving the quality of the Managed Estate and the Leased Estate, including (in appropriate circumstances) through acquisitions and disposals of pubs.

Operational Services of the Borrowers

The operations teams provide services to both the Managed Borrower and the Leased Borrower to ensure the optimal performance of each pub and to act as a link between the central support teams and the individual pub teams, lessees and tenants. The services include:

- Commercial – The commercial function is responsible for developing retail offers across the estate involving all aspects of the business, including: food, pricing, amusement machines, category management, customer service, market planning and research.

- Finance – The central finance team provides financial support to the business including information on, amongst other things, performance, ratio analysis, budgeting and forecasting.
- Human Resources – The human resources function is responsible for supporting the business to recruit, train and develop the highest quality management and staff.
- Estates – the estates and property team provide asset management services such as investment planning and management and building maintenance.

Borrowers' Information System Services

The information system services for the Borrowers are provided largely in-house. The in-house services include the maintenance, support and development of all hardware, software and communications, although some third party contracts exist where this is more cost-effective.

In addition to core systems delivery, contracts are in place for on-going field support for point-of-sale and other outlet based systems for the Borrowers. A contract is also in place for the hosting of the payroll application, although application support for payroll is provided in-house.

Where applicable, AdminCo will continue to hold the intellectual property rights in the Borrowers' own applications and systems, although certain of the applications and systems used by the Borrowers are based upon third party packaged software.

A modern Electronic Point of Sale (EPoS) system is used by the Managed Borrower's pubs.

The Borrowers benefit from modern information systems on recognised platforms. There is a continual focus on growing sales and profit and increasing efficiency through the appropriate use of advanced technology.

Cash collection

As part of the cash collection process, the Borrowers have agreed to maintain certain bank accounts in accordance with the provisions of the Bank Agreement (see "*Summary of Principal Documents – Bank Agreement*", above).

Insurance

Management believes that the properties owned or used by the Borrowers are adequately covered by insurance placed with reputable insurers and with commercially reasonable deductibles, aggregates and limits. Insurance policies held or maintained for the benefit of the Borrowers cover such risks as material damage, business interruption, fire, loss of rent and third party liability. However, certain types of risk are not insured fully, either because such insurance is not available or because management believes that the premium costs are disproportionate to the risks in question.

The insurance arrangements for the Borrowers form part of the services provided by AdminCo under the Administrative Services Agreement and the Leased Borrower ASA. The Administrative Services Agreement and the Leased Borrower ASA allocate the appropriate level

of premia payable by the Borrowers respectively (on a fair and reasonable basis) and also allocate appropriate sub-limits within the context of Spirit Group's overall cover limits to each part of the Managed Estate (also on a fair and reasonable basis) (see "*Summary of Principal Documents – Administrative Services Agreement*", above) and the Leased Estate (see "*Summary of Principal Documents – Leased Borrower ASA*", above).

Pension Schemes

The Spirit Group operates two main defined benefit pension schemes, namely:

- the Spirit Group Retail Pension Plan (formerly known as the Punch Pub Company Retail Pension Scheme) (the **SGRPP**), a defined benefit pension plan; and
- the Spirit Group Pension Scheme (formerly known as the Punch Pub Company Pension Scheme) (the **SGPS** and, together with SGRPP, the **Schemes**), a defined benefit pension plan.

The SGRPP was closed to new entrants on 31 January 2004. The most recent actuarial valuation was carried out as at 31 October 2012; the provisional results of this valuation showed that, on the basis of the method and assumptions used by the scheme actuary, there was an ongoing past service deficit as at 31 October 2012 of £20 million (equating to a funding level of 93 per cent.). The final valuation results may differ from this, although the scheme actuary does not expect them to do so. The scheme actuary has estimated that the ongoing funding level of the SGRPP on 12 October 2013 would have been around 103 per cent. (equivalent to a surplus of around £15 million).

The SGPS was closed to new entrants on 31 May 2000. The most recent actuarial valuation was carried out at 31 October 2012; provisional results of this valuation showed that, on the basis of the method and assumptions used by the scheme actuary, there was an ongoing past service deficit as at 31 October 2012 of £19.5 million (equating to a funding level of 87 per cent.). The final valuation results may differ from this, although the scheme actuary does not expect them to do so. The scheme actuary estimated that the ongoing funding level of the SGPS on 12 October 2013 would have been around 102 per cent. (equivalent to a surplus of around £3 million).

It is proposed that additional employer deficit recovery contributions will be paid out at the rate of £3.1 million per annum in respect of the SGPS and £1.9 million per annum in respect of the SGRPP for the period to 31 October 2017. These deficit contributions are additional to and separate from the employer contributions in respect of future benefit accrual, which currently stand at:

- for the SGPS, between 4 and 13 per cent. of defined benefit pensionable pay, depending on employees' age and pension entitlement level; and
- for the SGRPP between 4 and 9 per cent. of defined benefit pensionable pay, depending on employees' age and pension entitlement level.

These contribution rates could increase as well as decrease in the future.

The insurance premiums for the provision of death-in-service benefits are met directly by the Spirit Group.

The Spirit Group's employees are currently offered membership of a group personal pension scheme with Standard Life to which the Spirit Group contributes between 1 and 20 per cent. of pensionable pay depending on employees' pension entitlement level.

Managed Estate

The Managed Estate is owned and operated by the Managed Borrower and, as at 12 October 2013, comprised 640 managed pubs in England, Wales and Scotland, with approximately 126 in London.

Brands used in Managed Estate

The Managed Estate operates under a number of brands and the Spirit Group has continued invest in building the scale of its core brands. A description of each of the five core brands is set out below:

"Chef & Brewer"

Premium quality pub restaurants offering freshly prepared food and a wide range of drinks served in a relaxed and informal atmosphere by friendly and efficient teams. As at 12 October 2013, there were 122 pubs nationwide operating under the Chef & Brewer brand.

"Fayre & Square"

Family orientated pubs offering a wide choice of affordable food and drink in an informal environment where children are made to feel welcome. Often attached to "Wacky Warehouse" play areas, which are aligned with the "Fayre & Square" concept, these pubs are focused on offering competitively priced dishes for families. As at 12 October 2013, there were 139 pubs operating under the Fayre & Square brand.

"Flaming Grill"

Community pubs offering a menu which focuses upon "flaming great steaks in a flaming great pub" in a relaxed and informal atmosphere. As at 12 October 2013, there were 74 pubs operating under the Flaming Grill brand.

"John Barras"

Local pubs designed to be at the heart of their community offering a wide range of drinks together with great value pub food, sport and entertainment tailored specifically to the community catchment. As at 12 October 2013, there were 100 pubs operating under the John Barras brand.

"Taylor Walker"

Traditional metropolitan pubs that aim to deliver the British pub experience to those who live and work in the city as well as those just visiting. Taylor Walker pubs are often traditional and reputable pubs steeped in history, with many located in and around British landmark sites, such as the Punch & Judy in Covent Garden and The Audley in Mayfair.

As at 12 October 2013, there were 102 pubs operating under the Taylor Walker name.

"Un-branded"

Not all of the pubs which form part of the Managed Estate currently operate under one of the brands set out above. As at 12 October 2013, 103 pubs were not operating under any brand.

"Good Night Inns"

In addition, the Spirit Group operates c. 940 hotel rooms within the Managed Estate, with approximately half of these carrying the Good Night Inns brand. The remainder are unbranded or operate as Premier Inns under franchise agreements.

Geographical Analysis of Managed Estate

| Region | Number of pubs | Percentage of total Managed Estate |
|----------------------|-----------------------|---|
| South East | 101 | 15.8 |
| London | 126 | 19.7 |
| North West | 105 | 16.4 |
| East Midlands | 73 | 11.4 |
| Yorkshire/Humberside | 51 | 8.0 |
| West Midlands | 62 | 9.6 |
| East | 43 | 6.7 |
| South West | 24 | 3.8 |
| North East | 28 | 4.4 |
| Scotland | 16 | 2.5 |
| Wales | 11 | 1.7 |
| TOTAL | 640 | 100 |

Managed Borrower's Revenue

The Managed Borrower derives its turnover from three principal sources: sales of drink, sales of food and amusement machine and other income.

An analysis of relative size of these income streams (net of discounts and excluding management fees) for the last financial year is set out in the table below:

| | |
|---|------|
| Beer and Beverages | 53% |
| Food..... | 42% |
| Amusement machine, hotel and other income | 5% |
| | 100% |

Products and Services – Managed Estate

Beer supply and other drink products

The Spirit Group has contracted on a group-wide basis with various suppliers of drink products, ranging from national brewers, including Heineken UK, Molson Coors (UK), AB InBev UK, Carlsberg UK and Diageo, to regional brewers, such as Adnams, Black Sheep, Fullers, Greene King, Marston's, Sharps, Thwaites, and Wells & Young's. Heineken UK, Molson Coors (UK), AB InBev UK, Carlsberg UK and Diageo provided the majority of the beer supplied to the Managed Estate during the financial year ended 17 August 2013. The Spirit Group contracts with five main suppliers for wine and champagne products, being Accolade Wines, Vinimpo, Catalyst Brands, Pernod Ricard and Lanson. Spirits are largely supplied to the Spirit Group by three main suppliers, being Diageo, Pernod Ricard and Bacardi Brown-Forman. Soft drinks are largely supplied to the Spirit Group by Britvic.

The current warehousing and distribution arrangements of drink products for the entire managed pub business are provided pursuant to an agreement with Carlsberg UK, which expires in September 2017.

As a result of the Spirit Group's size, the Spirit Group is able to negotiate material discounts on drink products with its suppliers. The discounts obtained by the Spirit Group, and the resulting margin, constitute the largest component of its profit from sales of drink products to the customers of the pubs in the Managed Estate. Brewers and suppliers set a wholesale price for each of their products which the Spirit Group uses as the basis for setting its prices for the sale of beer and other products to the Managed Estate customers.

The mechanics for wholesale price rises imposed by the brewers and suppliers on the Spirit Group are specified in the supply agreements between the relevant brewer or supplier and the Spirit Group. Generally, as brewers and suppliers change wholesale prices, these changes are reflected in revised prices set by the Spirit Group.

For the financial year ended 17 August 2013, revenue from the sale of drink products to customers accounted for 53 per cent. of the total revenue from the Managed Estate.

Food

The provision of food to its customers continues to be of increasing importance in the managed pub business. For the financial year ended 17 August 2013, revenue from sales of food accounted for 42 per cent. of the Managed Borrower's total revenue from its managed pub business. However, the Board estimates that approximately two-thirds of total sales in the Managed Estate derive from an eating-out occasion.

The current food warehousing and distribution arrangements for the Managed Estate are provided pursuant to an agreement with Kuehne + Nagel (**K+N**), which expires in May 2022. Under the terms of the agreement, K+N acts as a distributor of food products sourced from an underlying network of authorised suppliers who contract directly with the Spirit Group. All major suppliers of food to the Spirit Group are audited and accredited by NSF-CMi (the widely known food assurance brand, which seeks to protect consumers across the food supply chain).

The Spirit Group has a network of approximately 56 providers of bespoke food products, with whom it closely collaborates to continually develop existing and new products, review menus and look to mitigate costs to the Spirit Group. The Managed Borrower also has preferred suppliers for each of poultry, fish, scampi, beef, lamb and pork, chips, fresh fruit and vegetables.

Amusement Machines and other sources of income for the Managed Borrower

The Managed Borrower also derives revenue from:

- gaming and vending machines which are used by customers of its managed pubs;
- c.940 hotel rooms (see "Good Night Inns");
- children's play facilities under the "Wacky Warehouse" brand; and
- merchandise and unlicensed property income.

For the financial year ended 17 August 2013, revenue from such other sources accounted for 5 per cent. of the total revenue from the Managed Estate.

Leased Estate

As at 12 October 2013, the Leased Estate comprised 450 leased and tenanted pubs in England, Wales and Scotland, with approximately 30 in London.

Agreements with retailers

Within the Leased Estate, the Leased Borrower has lease or tenancy agreements with retailers who operate a retail business within the pub premises owned by the Leased Borrower. The Leased Borrower does not directly manage the retail business in these pubs. As a result, the

pubs which constitute the Leased Estate have lower fixed costs for the Spirit Group than those which constitute the Managed Estate.

The relationship between the Leased Borrower and its retailers is generally governed by the type and terms of the lease or tenancy agreement in place between them. The Leased Borrower enters into one of three main categories of such lease or tenancy agreement with its retailers, under which the retailer operates the pub as either a lessee or a tenant and agrees to pay the rent specified in the relevant agreement. The three main categories of tenancy agreement are the standard lease, the standard tenancy and the tenancy-at-will. As part of the lease or tenancy agreement, the retailer also agrees that the Leased Borrower or the Leased Borrower's designated supplier is to be the retailer's sole source of supply for certain products. These "tie" arrangements relate primarily to the retailer's purchase of beer and cider, sales of which generally constitute the majority of the retailer's revenue.

Standard leases are generally fully repairing, which means that the lessee is responsible for repairs to the premises during the term of the lease, and are generally fully assignable after two years (subject to the consent of the Leased Borrower, which is not to be unreasonably withheld). They contain provisions for annual retail price index rent adjustments and, typically, for periodic rent reviews every five years. Tenancy agreements, which are shorter-term arrangements, involve the Leased Borrower undertaking to carry out repairs to the pubs, are generally not assignable and have an annual retail price index rent adjustment. They do not, however, contain provisions for periodic rent reviews. Retailers are usually required to provide a deposit on entry into their agreement. Some forms of leases and tenancy agreements contain the landlord's or the retailer's options to break the lease or tenancy. In addition, there may be circumstances in which the Leased Borrower would allow a retailer to terminate a lease or tenancy agreement early, as it is in the interests of the Leased Borrower to have motivated retailers in its pubs. Tenancy-at-will arrangements are used as transitional arrangements, before installing a retailer on a lease or tenancy agreement. Under a tenancy-at-will, a retailer operates the pub on a short-term basis with no notice period to vacate required by either the Leased Borrower or the retailer.

The use of a lease or tenancy agreement and its terms and conditions vary according to the profit expectations, risk assessment and plans which the Leased Borrower and the retailer may have for the pub concerned.

The table below sets out the percentage of the Leased Estate which operated under the various leases and tenancies as at 12 October 2013:

| Type of Agreement | Percentage of Leased Estate |
|--------------------------|------------------------------------|
| Standard leases | 61 |
| Tenancy agreements | 27 |
| Tenancy-at-will | 7 |
| Not trading | 1 |

| | |
|------------------|-----|
| Other agreements | 4 |
| TOTAL | 100 |

The profile of unexpired terms in lease and tenancy agreements with retailers within the Leased Estate as at 12 October 2013 is set out below:

| Expiry (financial years) | Number of lease and tenancy agreements |
|---------------------------------|---|
| 0 to 2 | 38 |
| 2 to 5 | 188 |
| 5 to 10 | 100 |
| 10+ | 85 |
| Open ended | 35 |
| No agreement | 4 |
| TOTAL | 450 |

The average rental income derived from a pub in the Leased Estate for each of the past three financial years is set out in the table below:

| Financial period | Rental income |
|--------------------------------------|----------------------|
| Financial year ending 17 August 2013 | £38,700 |
| Financial year ending 18 August 2012 | £38,200 |
| Financial year ending 20 August 2011 | £40,200 |

The majority of pubs in the Leased Estate are subject to rent reviews every five years and on the last day of the term and some rents are also adjusted annually by reference to the retail price index. Following a rent review, the rent payable under a lease or tenancy agreement may either increase or decrease. The table below shows the tenancy agreements that will be subject to a rent review in a given period as at 17 August 2013:

| Year of review | Number of lease and tenancy agreements |
|-----------------------------------|---|
| Financial year ending August 2014 | 43 |
| Financial year ending August 2015 | 25 |
| Financial year ending August 2016 | 51 |

| | |
|---|------------|
| Financial year ending August 2017 | 193 |
| Financial year ending August 2018 | 90 |
| Financial year ending August 2019 | 10 |
| No review, or renewal is post the financial year ending August 2009 | 38 |
| TOTAL | 450 |

Over the financial periods covered by the historical financial information incorporated by reference into this Second Issue Prospectus, bad debt write-offs, expressed as a percentage of turnover (rent plus goods and services supplied) for the Leased Estate, have averaged 0.37 per cent. in each period. Bad debts, when they arise, usually relate to forfeiture, bankruptcy or abandonment of pubs.

As at 17 August 2013, the Leased Borrower had either a freehold interest or a leasehold interest of longer than, or equal to, 50 years' remaining duration in approximately 78 per cent. of the pubs in the Leased Estate. As at 17 August 2013, approximately 22 per cent. of pubs in the Leased Estate had a leasehold interest whose remaining duration was less than 50 years. The terms of and rents payable by the Leased Borrower in respect of the head leases of the leasehold properties in the Leased Estate are as follows:

| Remaining term (years) | Total pubs | Total rent per annum (£ millions) |
|-------------------------------|-------------------|--|
| 0-19 | 22 | 1.6 |
| 20-49 | 67 | 4.5 |
| 50-99 | 5 | (negligible) |
| 100-999 | 4 | (negligible) |
| >999 | 0 | 0 |
| TOTAL | 98 | 6.1 |

Future evolution of the leased operating model

Like many pub operators with leased and tenanted estates, the Spirit Group is looking to improve the traditional leased operating model in order to adapt it to the present economic climate and long-term trends within the pub industry (such as the decline in beer sales and the ban on smoking in public places). The Spirit Group is presently trialling a number of different new leased operating models, some of which involve an element of profit sharing between the lessor and the lessee (which is designed to better align the parties' respective interests) and some of which involve making certain services which have traditionally only been provided to the Spirit Group's managed pubs available to lessees. In some cases, this may involve the

Spirit Group effectively entering into a franchise arrangement with a lessee, such that the lessee runs a leased or tenanted pub under one of the Spirit Group's managed brands.

Geographical Analysis of the Leased Estate

| Region | Number of pubs | Percentage of total Leased Estate |
|----------------------|-----------------------|--|
| South East | 49 | 10.9 |
| London | 40 | 11.1 |
| North West | 94 | 20.9 |
| East Midlands | 29 | 6.5 |
| Yorkshire/Humberside | 51 | 11.3 |
| West Midlands | 34 | 7.6 |
| East Anglia | 42 | 9.3 |
| South West | 23 | 5.1 |
| North East | 31 | 6.9 |
| Scotland | 42 | 9.3 |
| Wales | 5 | 1.1 |
| TOTAL | 450 | 100 |

Leased Borrower's Revenue

The Leased Borrower derives its turnover from three principal sources: sales of drink, rental income, and machine and other income.

An analysis of relative size of these income streams (excluding management fees) for the last financial year is set out in the table below:

| | |
|--------------------------------|-----|
| Drinks | 73% |
| Rental Income | 23% |
| Machine and other income | 4% |

Products and Services – Leased Estate

Beer supply and other drink products

Beer and other drink products sold through the Leased Estate are generally sourced under the same supplier contracts as those for the Managed Estate.

The discounts obtained by the Spirit Group, and the resulting margin, constitute the largest component of its profit from sales of drink products to retailers in the Leased Estate. Brewers and suppliers set a wholesale price for each of their products which the Spirit Group uses as the basis for setting its prices for the sale of beer and other products to retailers in the Leased Estate. The mechanics for wholesale price rises imposed by the brewers and suppliers on the Spirit Group are specified in the supply agreements between the relevant brewer or supplier and the Spirit Group. Generally, as brewers and suppliers change wholesale prices, these changes are reflected in revised prices set by the Spirit Group.

For the financial year ended 17 August 2013, revenue from the sale of drink products to retailers accounted for 73 per cent. of the total revenue from the Leased Estate.

Food

The Spirit Group is able to utilise its managed supply chain to provide food to its retailers in the Leased Estate. This is part of the Spirit Group's strategy to exercise greater influence over the retail offer in its Leased Estate and to help its retailers to become more competitive in order to position the business for future success. However, for the financial year ended 17 August 2013, revenue from food supply and services to retailers accounted for less than 1 per cent. of the total revenue from the Leased Estate.

Machine and other income

As with the Managed Estate business, most of the pubs in the Leased Estate offer customers use of gaming and vending machines, the majority of which are coin operated. Retailers choose from a large variety of such machines, including fruit and casino machines, quiz and game machines, pool tables, music systems, internet kiosks and children's equipment.

For the financial year ended 17 August 2013, revenue from such other sources of revenue accounted for 3 per cent. of the total revenue from the Leased Estate.

SUMMARY DETAILS OF CERTAIN MEMBERS OF THE SPIRIT GROUP

Key companies outside the Borrower Group

Spirit Pub Company plc is a public limited company incorporated in England and Wales with registered number 07662835. Its issued share capital is £6,603,505.15, divided into 660,350,515 ordinary shares of £0.01 each. It is the holding company of all other companies within the Spirit Group and its shares are listed on the Official List of the UKLA and admitted to trading on the Main Market of the London Stock Exchange. Spirit Pub Company plc is not a member of the Borrower Group nor is it a party to any of the Transaction Documents, other than the Tax Deed of Covenant. Accordingly, although Spirit Pub Company plc has given certain covenants under the Tax Deed of Covenant, Spirit Pub Company plc is not subject to any of the covenants imposed on the Borrower Group under the Transaction Documents.

Spirit Pub Company (Holdco) Limited (HoldCo) is a private limited company incorporated in England and Wales with registered number 07662211. Its issued share capital is £61,000,006, divided into 61,000,006 ordinary shares of £1 each, which are 100 per cent. legally and beneficially owned by Spirit Pub Company plc. HoldCo is not a member of the Borrower Group nor is it a party to any of the Transaction Documents, other than the Tax Deed of Covenant. Accordingly, although HoldCo has given certain covenants under the Tax Deed of Covenant, HoldCo is not subject to any of the covenants imposed on the Borrower Group under the Transaction Documents.

Spirit Pub Company (SGE) Limited (SGE) is a private limited company incorporated in England and Wales with registered number 07662502. Its issued share capital is £93,128,687, divided into 93,128,687 ordinary shares of £1 each, which are 100 per cent. legally and beneficially owned by HoldCo. SGE provides guarantees of the obligations of the Managed Borrower and the Leased Borrower (amongst others) under certain leases relating to their respective leasehold properties. SGE is not a member of the Borrower Group nor is it a party to any of the Transaction Documents, other than the Tax Deed of Covenant. Accordingly, although SGE has given certain covenants under the Tax Deed of Covenant, SGE is not subject to any of the covenants imposed on the Borrower Group under the Transaction Documents.

Spirit Managed Funding Limited (LoanCo) is a private limited company incorporated in England and Wales with registered number 05266806. Its issued share capital is £259,090,003, divided into 7,000,003 ordinary shares of £1 each and 252,090,000 preference shares of £1 each, which are 100 per cent. legally and beneficially owned by SGE. LoanCo is not a member of the Borrower Group nor is it a party to any of the Transaction Documents, other than the LoanCo/Borrower Subordinated Loan Agreement, the LoanCo/Issuer Subordinated Loan Agreement and the Tax Deed of Covenant. Accordingly, although LoanCo has given certain covenants under the Transaction Documents to which it is a party, LoanCo is not subject to any of the covenants imposed on the Borrower Group under the Transaction Documents.

Spirit Pub Company (Trent) Limited (Trent) is a private limited company incorporated in England and Wales with registered number 05746068. Its issued share capital is £2, divided into 2 ordinary shares of £1 each, which are 100 per cent. legally and beneficially owned by SGE. Trent is not a member of the Borrower Group nor is it a party to any of the Transaction Documents, other than the Tax Deed of Covenant. Accordingly, although Trent has given certain covenants under the Tax Deed of Covenant, Trent is not subject to any of the covenants

imposed on the Borrower Group under the Transaction Documents. Trent was formerly known as Punch Pub Company (Trent) Limited and, prior to that, Spirit Managed (Trent) Limited.

Spirit Group Holdings Limited (*Spirit Holdings*) is a private limited company incorporated in England and Wales with registered number 04872028. Its issued share capital is £157,001,000, divided into 157,001,000 ordinary shares of £1 each, which are 100 per cent. legally and beneficially owned by SGE. Spirit Holdings is not a member of the Borrower Group nor is it a party to any of the Transaction Documents, other than the Tax Deed of Covenant. Accordingly, although Spirit Holdings has given certain covenants under the Tax Deed of Covenant, Spirit Holdings is not subject to any of the covenants imposed on the Borrower Group under the Transaction Documents.

Spirit Intermediate Holdings Limited (*SIHL*) is a private limited company incorporated in England and Wales with registered number 04914762. Its issued share capital is £157,000,005, divided into 157,000,005 ordinary shares of £1 each, which are 100 per cent. legally and beneficially owned by Spirit Holdings. SIHL is not a member of the Borrower Group nor is it a party to any of the Transaction Documents, other than the Tax Deed of Covenant. Accordingly, although SIHL has given certain covenants under the Tax Deed of Covenant, SIHL is not subject to any of the covenants imposed on the Borrower Group under the Transaction Documents.

Spirit Group Parent Limited (*SGPL*) is a private limited company incorporated in England and Wales with registered number 04872039. Its issued share capital is £157,000,101, divided into 157,000,101 ordinary shares of £1 each, which are 100 per cent. legally and beneficially owned by SIHL. It is the immediate holding company of AdminCo, SupplyCo and SMHL. SGPL is not a member of the Borrower Group nor is it a party to any of the Transaction Documents, other than the AdminCo Share Mortgage, the SupplyCo Share Mortgage and the Tax Deed of Covenant. Accordingly, although SGPL has granted security in respect of the Borrower Group's obligations under the AdminCo Share Mortgage and the SupplyCo Share Mortgage (in respect of the shares it holds in AdminCo and SupplyCo) and has given certain covenants thereunder and under the Tax Deed of Covenant, it is not subject to any of the covenants imposed on the Borrower Group under the Transaction Documents.

Spirit Pub Company (Services) Limited (*AdminCo*) is a private limited company incorporated in England and Wales with registered number 05266811. Its issued share capital is £2, divided into two ordinary shares of £1 each which are (subject to the AdminCo Share Mortgage) 100 per cent. legally and beneficially owned by SGPL. AdminCo is not a member of the Borrower Group nor is it a party to any of the Transaction Documents, other than the Administrative Services Agreement, the Leased Borrower ASA, the Back-to-Back Supply Agreement, the Leased Borrower Back-to-Back Supply Agreement, the AdminCo Share Mortgage, the Servicing Agreement, the Issuer Deed of Charge and the Tax Deed of Covenant. Accordingly, although AdminCo has given certain covenants under the Transaction Documents to which it is a party, AdminCo is not subject to any of the covenants imposed on the Borrower Group under the Transaction Documents and has not provided any security in respect of the Borrower Group's obligations. AdminCo is the group services company for the entire Spirit Group, providing, *inter alia*, the services of the relevant group employees and licensing all group intellectual property rights to, *inter alios*, the Borrowers, in order to enable them to conduct their operations. AdminCo was formerly known as Punch Pub Company Limited and, prior to that, Spirit Group Limited and, prior to that, Spirit Administrative Services Limited.

Spirit Pub Company (Supply) Limited (SupplyCo) is a private limited company incorporated in England and Wales with registered number 04341771. Its issued share capital is £2, divided into two ordinary shares of £1 each, which are (subject to the SupplyCo Share Mortgage) legally and 100 per cent. beneficially owned by SGPL. SupplyCo is not a member of the Borrower Group nor is it a party to any of the Transaction Documents, other than the Back-to-Back Supply Agreement, the Leased Borrower Back-to-Back Supply Agreement, the SupplyCo Share Mortgage and the Tax Deed of Covenant. Accordingly, although SupplyCo has given certain covenants under the Transaction Documents to which it is a party, SupplyCo is not subject to any of the covenants imposed on the Borrower Group under the Transaction Documents and has not provided any security in respect of the Borrower Group's obligations. SupplyCo is a group supply company whose business consists of entering into agreements relating to the supply of food, beverages, goods not for resale and related services, which it obtains from third party suppliers and provides to the operating companies within the Spirit Group, including the Managed Borrower and the Leased Borrower. SupplyCo was formerly known as Punch Pub Company (Supply) Limited and, prior to that, Spirit Supply Company Limited.

Spirit Managed Holdings Limited (SMHL) is a private limited company incorporated in England and Wales with registered number 04271973. Its issued share capital is £193,340,596, divided into 193,340,596 ordinary shares of £1 each, which are 100 per cent. legally and beneficially owned by SGPL. SMHL is not a member of the Borrower Group nor is it a party to any of the Transaction Documents other than the Tax Deed of Covenant. Accordingly, although SMHL has given certain covenants under the Tax Deed of Covenant, SMHL is not subject to any of the covenants imposed on the Borrower Group under the Transaction Documents. SMHL was formerly known as Spirit Group Holdings Limited and, prior to that, Punch Managed (Holdings) Limited.

Spirit Group Pension Trustee Limited (SGPTL) is a private limited company incorporated in England and Wales with registered number 03888706. Its issued share capital is £2, divided into two ordinary shares of £1 each, which are 100 per cent. legally and beneficially owned by SMHL. SGPTL is not a member of the Borrower Group nor is it a party to any of the Transaction Documents. Accordingly, SGPTL is not subject to any of the covenants imposed on the Borrower Group under the Transaction Documents. SGPTL is the trustee of the Spirit Group Pension Scheme. SGPTL was formerly known as Punch Pub Company Pension Trustee Limited and, prior to that, Spirit Group Pension Trustee Limited and, prior to that, Punch Pension Trustee Limited.

Spirit Group Retail Pensions Limited (SGRPL) is a private limited company incorporated in England and Wales with registered number 02862968. Its issued share capital is £7, divided into seven ordinary shares of £1 each, which are 100 per cent. legally and beneficially owned by BidCo. SGRPL is not a member of the Borrower Group nor is it a party to any of the Transaction Documents. Accordingly, SGRPL is not subject to any of the covenants imposed on the Borrower Group under the Transaction Documents. SGRPL is the trustee of the Spirit Group Retail Pension Plan. SGRPL was formerly known as Punch Pub Company Retail Pensions Limited and, prior to that, Spirit Group Retail Pensions Limited and, prior to that, Scottish & Newcastle Retail Pensions Limited.

Spirit Group Equity Limited (SGEL) is a private limited company incorporated in England and Wales with registered number 04271971. Its issued share capital is £179,568,692.20, divided into 3,591,373,844 ordinary shares of £0.05 each, which are 100 per cent. legally and

beneficially owned by SMHL. SGEL is not a member of the Borrower Group nor is it a party to any of the Transaction Documents, other than the Tax Deed of Covenant. Accordingly, although SGEL has given certain covenants under the Tax Deed of Covenant, SGEL is not subject to any of the covenants imposed on the Borrower Group under the Transaction Documents. SGEL was formerly known as Spirit Equity Limited and, prior to that, Punch Managed Equity Limited.

Spirit Financial Holdings Limited (Old HoldCo) is a private limited company incorporated in England and Wales with registered number 04320672. Its issued share capital is £150,000,110.32, divided into 15,000,011,032 shares of £0.01 each, which are 100 per cent. legally and beneficially owned by SGEL. Old HoldCo is not a member of the Borrower Group nor is it a party to any of the Transaction Documents, other than the Tax Deed of Covenant. Accordingly, although Old HoldCo has given certain covenants under the Tax Deed of Covenant, Old HoldCo is not subject to any of the covenants imposed on the Borrower Group under the Transaction Documents. Old HoldCo was formerly known as PM Financial Holdings Limited.

Spirit Parent Limited (SPL) is a private limited company incorporated in England and Wales with registered number 04271748. Its issued share capital is £150,000,005, divided into 150,000,005 ordinary shares of £1 each which are 100 per cent. legally and beneficially owned by Old HoldCo. SPL is the immediate holding company of the Borrower Group, but is not itself a member of the Borrower Group nor is it a party to any of the Transaction Documents, other than the Tax Deed of Covenant. Accordingly, although SPL has given certain covenants under the Tax Deed of Covenant, SPL is not subject to any of the covenants imposed on the Borrower Group under the Transaction Documents and has not provided any security in respect of the Borrower Group's obligations. SPL was formerly known as PM Parent Limited.

Spirit Pub Company (Investments) Limited (Investments) is a private limited company incorporated in England and Wales with registered number 07020781. Its issued share capital is £1, comprising one ordinary share of £1, which is legally and beneficially owned by SPL. Investments is not a member of the Borrower Group nor is it a party to any of the Transaction Documents other than the Tax Deed of Covenant. Accordingly, although Investments has given certain covenants under the Tax Deed of Covenant, Investments is not subject to any of the covenants imposed on the Borrower Group under the Transaction Documents. Investments's business consists of acquiring Debenture Bonds in the secondary market (when prices are considered sufficiently attractive) with a view to selling them to the Borrowers for surrender to the Issuer and cancellation in accordance with the Transaction Documents. Investments also owns the property at Sunrise House, which is leased to AdminCo and is the Spirit Group's head office. Investments was formerly known as Punch Taverns Investments (S) Limited.

Allied Kunick Entertainments Limited (AKE) is a private limited company incorporated in England and Wales with registered number 02911600. Its issued share capital is £100,000 divided into 51,000 'A' ordinary shares and 49,000 'B' ordinary shares of £1 each, which are legally and beneficially owned as to 51,000 'A' ordinary shares by Spirit (AKE Holdings) Limited and as to 49,000 'B' ordinary shares by Kunick (109) Limited (formerly known as Gamestec Leisure Limited). AKE is a joint venture company and holds the leasehold for three sites, all of which are currently closed. AKE is not a member of the Borrower Group, nor is it a party to any of the Transaction Documents. Accordingly, AKE is not subject to any of the covenants imposed on the Borrower Group under the Transaction Documents.

Spirit (Faith) Limited (*Faith*) is a private limited company incorporated in England and Wales with registered number 03724077. Its issued share capital is £1,099,994 divided into 2,199,988 shares of £0.50 each, which are legally and beneficially held as to 100 per cent. by SGL. Faith is not a member of the Borrower Group nor is it a party to any of the Transaction Documents (other than as a party to the Tax Deed of Covenant). Accordingly, Faith is not subject to any of the covenants imposed on the Borrower Group under the Transaction Documents (other than pursuant to the Tax Deed of Covenant). Faith holds Spirit Group's interests in certain other dormant companies and a small number of other unlicensed properties and interests. Faith was formerly known as Faith @ Bar Room Bar Limited.

The Borrower Group

Spirit Pubs Debenture Holdings Limited (the *Borrower Group Parent*) is a private limited company incorporated in England and Wales with registered number 05266779. Its issued share capital is £4, divided into four ordinary shares of £1 each, which are 100 per cent. legally and beneficially owned by SPL. Borrower Group Parent is a party to a number of the Transaction Documents and, pursuant to the Issuer/Borrower Facility Agreement, has provided a guarantee in respect of the Borrowers' and New ParentCo's obligations and, pursuant to the Borrower Group Deed of Charge, has provided security over substantially all of its assets in respect of such obligations. Spirit Pubs Debenture Holdings Limited was formerly known as Spirit Pubs Holdings Limited.

Spirit Pubs Parent Limited (*New ParentCo*) is a private limited company incorporated in England and Wales with registered number 05267589. Its issued share capital is £4, divided into four ordinary shares of £1 each, which are 100 per cent. legally and beneficially owned by Borrower Group Parent. ParentCo is a party to a number of the Transaction Documents and, pursuant to the Issuer/Borrower Facility Agreement, has provided a guarantee in respect of the Borrowers' and the Borrower Group Parent's obligations and, pursuant to the Borrower Group Deed of Charge, has provided security over substantially all of its assets in respect of such obligations. New ParentCo is the immediate holding company of the Managed Borrower and the Leased Borrower.

Spirit Pub Company (Managed) Limited (the *Managed Borrower*) is a private limited company incorporated in England and Wales with registered number 05269240. Its issued share capital is £2, divided into two ordinary shares of £1 each, which are 100 per cent. legally and beneficially owned by New ParentCo. The Managed Borrower is a borrower and guarantor under the Issuer/Borrower Facility Agreement and, pursuant to the Borrower Group Deed of Charge, has provided security over substantially all of its assets in respect of such obligations. The Managed Borrower is also the borrower under the Issuer/Borrower Subordinated Loan Agreement and a borrower under the LoanCo/Borrower Subordinated Loan Agreement. The Managed Borrower is also a party to the Tax Deed of Covenant. The Managed Borrower owns and operates the pubs which comprise the Managed Estate. The Managed Borrower was formerly known as Punch Pub Company (Pubs) Limited and, prior to that, Spirit Managed Pubs Limited.

Spirit Pub Company (Leased) Limited (the *Leased Borrower*) is a private limited company incorporated in England and Wales with registered number 05699544. Its issued share capital is £2, divided into two ordinary shares of £1 each, which are 100 per cent. legally and beneficially owned by New ParentCo. The Leased Borrower is a borrower and guarantor under

the Issuer/Borrower Facility Agreement and, pursuant to the Borrower Group Deed of Charge, has provided security over substantially all of its assets in respect of such obligations. The Leased Borrower is also a borrower under the LoanCo/Borrower Subordinated Loan Agreement. The Leased Borrower is also a party to the Tax Deed of Covenant. The Leased Borrower owns and leases the pubs which comprise the Leased Estate. The Leased Borrower was formerly known as Punch Partnerships (Pubs) Limited and, prior to that, Punch Taverns (Pubs) Limited and, prior to that, Spirit Leased Pubs Limited.

Huggins and Company, Limited (registered number 00056674), **Spirit Group Retail Limited** (registered number 03794854), **Partstripe Limited** (registered number 04555293), **Freshwild Limited** (registered number 04555609), **Spirit Group Retail (Pubs) No. 1 Limited** (registered number 04807705), **Spirit Group Retail (Pubs) No. 2 Limited** (registered number 04807709), **Cleveland Place Holdings Limited** (registered number 00057987), CPH (R&L) No. 1 Limited (registered number 04807690), **Narnain** (registered number 04700766), **Dearg Limited** (registered number 04661724), **CPH Palladium Limited** (registered number 04661726), **Aspect Ventures Limited** (registered number 02468264) and **AVL (Pubs) No. 1 Limited** (registered number 04807720) (together, the **Charging Companies**) are each party to certain Transaction Documents and, pursuant to the Borrower Group Deed of Charge, have provided security over substantially all of their assets in respect of the obligations of the Borrowers, the Borrower Group Parent and New ParentCo under the Transaction Documents.

OVERVIEW OF THE UNITED KINGDOM PUB INDUSTRY

Industry Background

The public house, or pub, is a distinctly British institution which continues to play a major role in British society. As at the date of this Second Issue Prospectus, there are approximately 56,000 licensed pubs in the United Kingdom (*CGA Strategy Brand Index, January 2013*). Recent figures suggest that the pub industry accounted for approximately 35 per cent. of sales in the alcoholic drinks market and 43 per cent. (*CGA Strategy Brand Index, January 2013*). of the beer market in the United Kingdom. It is estimated that approximately 20 per cent. of adults living in the United Kingdom aged 18 and over go to a pub at least once a week (*Executive Summary of Pub Catering May 2013, Mintel, page 3*). In addition, pubs have grown in importance as dining and food establishments, with an estimated 46 per cent. of adults using pubs at least once a month for meals in 2012 (*Executive Summary of Pub Catering May 2013, Mintel, page 3*). Spirit's pubs compete in two core markets – drinking out and eating out. Across these markets, there are a wide variety of competitors for different occasions across the day, week and year, including restaurants, pubs, bars, coffee shops, fast food outlets and sandwich retailers.

Licensing Environment

The sale of alcohol in the United Kingdom is a highly regulated industry governed by the licensing system. Licensing covers most premises where alcohol is sold, such as pubs, off-licences, restaurants and supermarkets. The retail sale of alcohol in the England and Wales was, until November 2005, governed by a licensing system set out in the Licensing Act 1964. Pubs, part of the “on-trade” business, generally required a full on-licence in order to sell alcohol on the premises. The licence was generally held by the manager or landlord. That person had to satisfy the licensing authorities that he/she was a fit and proper individual to hold such a licence. The licence would not be approved if the prospective licensee would have been unable to properly discharge his/her functions as a licensee.

Under the former licensing regime, on-licences were renewed every three years and could have been revoked at any time for serious cause, including violation by the manager or landlord or his/her employees of any law or regulation, such as those regulating the minimum age of patrons or employees, advertising and inventory control.

On 24 November 2005, the Licensing Act 2003 became law. The key changes introduced by the Act were:

- the transfer of the management of the licensing system from local magistrates' courts to local authorities, i.e. from the legal system to the local government system. However, licence holders retain the right of appeal to the magistrates' court. Whilst the new regime has not fundamentally changed the regulatory structure of the licensed sector, in practice there are substantive changes because each pub that wishes to vary its hours of operation has to submit details of its operating plan and all pubs now face greater scrutiny from police, local residents and other relevant authorities;
- greater flexibility with respect to pub opening hours as the former limits on late-night trading have been relaxed for some pubs. While longer opening hours undoubtedly

have cost implications, this change benefits pubs where there is a demand for an extra hour or more of drinking, especially at weekends; and

- a dual system of longer-term premises licences and personal licences.

Regulations determine many of the practical implications of the new legislation.

The Licensing (Scotland) Act 2005, which came into full effect on 1 September 2009, introduced a dual system of premises licences and personal licences in Scotland. Each licensed premises requires a personal manager who holds a personal licence and who can only be the premises manager of one licensed premises. Premises licences may continue for an unlimited period of time, (subject to termination upon the occurrence of a number of specified events) and opening hours are authorised by the terms of the relevant premises licence and dependent on the approved operating plan for the premises (save for those premises authorised for off-sales, which are restricted to a maximum of 10am to 10pm).

Irresponsible promotional advertising or discounted pricing of alcohol where such promotion is aimed at encouraging excessive consumption is prohibited under the Act, and there is a prohibition on varying the price of alcohol during a 72 hour period. The Act also imposed a ban on “speed drinking” promotions.

The Act replaced the pre-existing rules about children within licensed premises by substituting a requirement to opt in to have children (those aged 0-15) and young persons (those aged 16-17) in licensed premises, with their presence being regulated by the terms of the approved operating plan for the premises.

Licensing Standards Officers supervise compliance with and the issuing of enforcement notices, and there are sanctions (such as the suspension or revocation of licences) for breaches that take effect immediately notwithstanding any appeal, subject to the right of the court to recall such sanctions pending determination. The licensing system in Scotland is administered through the licensing boards of the 32 local authorities.

The Act provides for a means by which communities can object to licence applications, and requires all licensees to act on a “no proof of age, no sale” basis, with severe penalties for those who do not do so.

Regulatory Environment

In addition to the licensing regime, the pub industry is subject to a number of additional regulatory requirements and taxes, which both impose direct costs on the industry and affect its competitive position versus other industries, including the off-trade. As part of the 2013 budget, the Chancellor of the Exchequer announced the decision to scrap the beer duty escalator and to cut duty on beer by 1p for each pint. Since 2008 beer duty had increased by over 40%.

The Department for Business, Innovation and Skills published proposals to establish a new statutory code of practice and an independent adjudicator for the leased and tenanted pub sector (as described in more detail in paragraph 3.34 of “*Risk Factors*”, above). The consultation period on these proposals has now closed, with the United Kingdom government set to publish a response to the consultation towards the end of 2013.

Recent legislation allowing licensing authorities in England and Wales to introduce late night levies and early morning restriction orders (introduced as part of the Police Reform and Social Responsibility Act 2011) has led to increasing numbers of such licensing authorities seeking to consult on the introduction of one or other of those measures.

Competition law

Article 101(1) of the Treaty on the Functioning of the European Union prohibits anti-competitive agreements, decisions or concerted practices between undertakings which affect trade within the EU or which have as their object or effect the prevention, restriction or distortion of competition within the EU. Chapter 1 of the Competition Act 1998 imposes similar prohibitions within the UK.

There has been some criticism of apparent shortcomings in the pub industry regarding the anti-competitive effect of supply ties in pub tenancies and the imbalance of power in negotiations between pub companies and tenant (see paragraph 3.34 of "*Risk Factors*", above, for more detail).

Drink and driving legislation

The United Kingdom has strict alcohol limits for drivers. The current legal blood alcohol limit for drivers in the United Kingdom is 0.8mg/ml of blood and there have been calls (including at a European level) to reduce the limit further, often with an even stricter limit for certain classes of motorist, such as inexperienced drivers, riders of two-wheeled vehicles, drivers of large vehicles and drivers of vehicles carrying dangerous goods.

Employment legislation

The WT Regulations control the hours employees are legally allowed to work. Under the WT Regulations, workers may only be required to work a 48-hour week (although they may choose to opt out and work longer if they wish). 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 engaged 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.

The United Kingdom requires employers to pay their employees at least the National Minimum Wage. The current National Minimum Wage is £6.31 per hour for employees aged 21 and over and £5.03 for employees aged 18 to 20.

Food regulation standards

Food regulation standards apply to ensure good standards of food hygiene in the food retailing industry, including pubs. In the UK, the principal food hygiene regulation is set out the Food Hygiene (England) Regulations 2006 (as amended from time to time) and the Food Hygiene (Scotland) Regulations 2006 (as amended from time to time). These regulations implement European food hygiene legislation.

Anti-smoking legislation

Since 2006, in Scotland, and 2007, in England and Wales, smoking has been banned in all enclosed public places and workplaces (with a few limited exemptions). This has had a well-publicised impact on pubs bars and other licensed premises, with many smokers choosing to drink more often at home, rather than in licensed establishments.

Gambling legislation

The Gambling Act 2005 and secondary legislation made under such Act regulates, among other things, gaming in alcohol-licensed premises. Pubs and another alcohol licensed premises are automatically entitled to two category C or D gaming machines upon notification to their local licensing authority of their intention to make gaming machines available for use. Local licensing authorities have discretion to issue additional category C and D gaming machine permits.

The maximum permitted stake for a category C gaming machine is £1 and the maximum permitted prize is £70. The maximum permitted stakes and prizes for category D gaming machines vary depending on whether the prize is a money or non-money prize, but are lower than for category C machines. People under 18 are not allowed to gamble on category C machines.

Anti-alcohol guidance

In July 2013 the government published its response to an alcohol strategy consultation it launched in November 2012. In its response, the government announced its intention to:

- introduce a ban on the sale of alcohol in England and Wales below the level of alcohol duty for a product plus VAT, to come into force in spring 2014;
- introduce changes to improve the effectiveness of mandatory licensing conditions, by enabling tougher action on irresponsible drinks promotions, strengthening measures to help people drink more responsibly and improving age verification requirements; and
- challenging the drinks industry so that rapid action is taken to reduce alcohol-related crime and health issues.

In February 2009, the Scottish Government published “Changing Scotland’s Relationship with Alcohol: A Framework for Action”. The framework outlined a series of proposals aimed at reducing alcohol-related harm, including the introduction of minimum per unit prices for alcohol. In June 2012, the Scottish Parliament passed the Alcohol (Minimum Pricing) Scotland Act 2012, which enables the Scottish Government to set a minimum unit price level in respect of alcohol sales and the current intention of the Scottish Government is to set that level at 50p per unit when the Act comes into force. The UK government has notified the draft order establishing the 50p per unit minimum price to the European Commission.

Beer supply

The United Kingdom currently has five national brewers: Heineken, Molson Coors (UK), SAB Miller, Carlsberg UK and AB InBev, as well as a number of regional brewers. With the decline in

the brewers' historic tied and/or managed estates, the brewers now have to compete to supply the market through individual agreements with free houses and supply agreements with independent pub chains and other brewers. Spirit Group management believes that this competition takes place mainly on price (including discounting) and brand strength, although the brewers also try to gain sales by offering other benefits, such as promotional support.

Pub categorisation

The UK pub industry can be broadly categorised into three business models: leased or tenanted pubs; managed pubs; and individual, independently owned pubs.

- **Managed pubs.** Managed pubs are generally owned by a pub company or brewer. The owner of a managed pub employs all of the pub staff, is responsible for the operating expenses of the pub and generally prescribes the entire range of products offered by the pub. Managed pubs tend to be larger and have a higher average weekly turnover than leased or tenanted pubs and individual, independently owned pubs. There are approximately 9,025 (*CGA Strategy Brand Index, January 2013*) managed pubs operating in the United Kingdom.
- **Leased or tenanted pubs.** Leased or tenanted pubs are run and managed by a retailer who does not own the premises, but who operates the pub under a lease or tenancy agreement. The retailer is generally responsible for the maintenance of the pub and is normally required to purchase the majority of drink products for resale from the owner of the pub. Leased or tenanted pubs tend to have a lower average weekly turnover than managed pubs and have historically been more dependent than managed pubs on the sale of draught beer. There were approximately 26,810 (*CGA Strategy Brand Index, January 2013*) leased and tenanted pubs operating in the United Kingdom. In this document, unless the context otherwise requires, references to leased pubs also include tenanted pubs.
- **Individual pubs.** Individual pubs (sometimes known as free houses) are independently owned and operated by private individuals. The owner has full operational and managerial control of the pub and is free to decide which products to sell. There are approximately 20,589 individual pubs operating in the United Kingdom (*CGA Strategy Brand Index, January 2013*).

Economics of managed and leased pubs

From the perspective of the operating company, the underlying pub industry trends and dynamics tend to affect both a leased estate and managed estate in the same way, though to differing degrees. However, the economics of owning and operating managed and leased pubs are different.

Managed estates have higher fixed operating costs at both the pub level and at a head office level versus leased estates. The owner is responsible for paying the salary of the manager and all of the other operating expenses of the pub. The owner typically has a direct management role in the pub operations and must also maintain a significant head office staff to oversee the running of the estate. The owner typically takes all the revenue generated by the pub but also takes all the risk on revenue. Managed pubs must necessarily be significantly higher-turnover

(and consequently, on average, larger) pubs to cover the higher level of operating expenses experienced at the pub level as well as head office costs. Consequently, in general, only pubs above a certain level of turnover are economically more profitable to be run as managed outlets versus leased outlets. The owner would retain the full retail margin of the products sold in the managed pub. Above a certain scale, a managed pub is more profitable than a leased pub, because once the fixed operating costs have been covered the owner captures the entire retail margin. For this reason, managed pubs are typically larger, and therefore are less likely to become unprofitable due to small changes in margins or beer volume.

Leased estates have lower fixed costs both at a pub operating level and at a head office level. The owner typically plays no direct managerial role in a leased estate and the lessee has full responsibility for the day-to-day operations of the pub. Leased estates generate revenue for the owner in the form of rent and tied or other supply income. The owner can afford to maintain a much smaller head office staff due to its lower level of direct managerial responsibility. The owner's major responsibilities are setting and collecting rent, agreeing terms with suppliers, ensuring that the lessee does not purchase beer outside the tie and assessing investment opportunities alongside their lessees.

Over the short term, the owner may have lower downside risk to its revenues in owning a leased estate compared with a managed estate. This is because the lessee is obligated to pay rent irrespective of the trading performance of the pub (although in exchange for assuming this obligation, a proportion of the pub's revenues are retained by the lessee). It is important to note, however, that over time the key factors remain the overall trends and dynamics in the pub industry which tend to affect managed and leased pubs in broadly the same way – so that over a long horizon, the two types of estates might be expected to perform similarly. For example, if the industry declines sharply, leased pubs may turn unprofitable and lessees will no longer be able to afford to pay the level of rent required and will (unless the lessor offers concessions) often default under leases, or refuse to renew leases.

In general, above a certain size, leased pubs tend to be less profitable than managed pubs. This is because the owner is not able to employ the same buying power as it could for a managed pub and gives away a larger proportion of the retail margin to the lessee. There is, therefore, a "natural" upper limit to the size of a pub above which it tends to be more profitable (from the owner's perspective) to run it as a managed outlet.

Nonetheless, there are a number of distinct advantages to running managed pubs over leased pubs. Managed pub operators are able to transfer and develop best practice, apply retail skills and disciplines to a business and exploit the benefits of branding and/or scale. Over the long term, this should enable managed operators to outperform leased pubs.

In running a mixed estate of managed and leased pubs, the Spirit Group is able to identify the most suitable operating model for each pub, which may change over time, and transfer the pub between the Managed Estate and Leased Estates accordingly. The Spirit Group is also able to use its retail expertise from the Managed Estate and apply these skills and disciplines across the Leased Estate.

Industry Trends

The recent overall economic climate in the UK has seen disposable incomes remaining under pressure. It is expected that the consumer environment may remain challenging in the short- to-medium term.

One of the key trends emerging through the economic downturn has been the polarisation of consumer demand towards both premium and value offers.

The general decline in overall alcohol consumption continues, driven by an increasingly health-conscious public and greater regulation, and the availability of cheap off-trade alcohol means that volumes consumed in the on-trade continue to decrease.

The pub trade does, however, continue to see a trend towards increasing volumes of food-led and family-occasion focused business.

The majority of the on-trade volume decline remains in smaller drink-led pubs that have neither the capital to invest nor the facilities to update their offer to meet changing trends. This is exacerbated by the surge in the use of social media and the growing presence of brands as consumers seek a level of certainty in the quality of their experience given constrained budgets.

Alongside the ongoing stratification of the market, the other emerging trend is the growth of premium concepts and gastropubs, often run by independent or small multiple operators.

MANAGEMENT AND OWNERSHIP OF THE SPIRIT GROUP

Management

The management of the Spirit Group includes individuals with significant experience in the managed and leased pub, as well as other, industries. Brief backgrounds of management are set out below:

The Board of Spirit Pub Company plc

Walker Boyd – Chairman

Walker Boyd (aged 61) was appointed Non-Executive Chairman in July 2011 in preparation for the demerger of the Spirit Group from Punch Taverns plc (**Punch Taverns**) where he was a Non-Executive Director from April 2011 until August 2011.

Walker was Non-Executive Chairman of WHSmith, a position he held from 1 September 2010 until 31 August 2013 after joining the Board as a Non-executive Director in February 2010. He has substantial retail expertise both in the UK and the USA. He was Group Finance Director at Signet Jewellers Limited, previously Signet Group plc, until June 2010, having held this position since 1995.

Mike Tye – Chief Executive Officer

Mike Tye (aged 59) was appointed Chief Executive Officer in December 2011 after briefly holding the position of Deputy Chief Executive Officer from June 2011 until December 2011. This appointment was in connection with the demerger of the Spirit Group from Punch Taverns, where he was Managing Director for the managed estate from July 2008 until June 2011.

Mike has spent over 20 years working in many different areas of the leisure business, mainly with Whitbread, Forte and Aramark. In more recent years, he was Managing Director of Costa Coffee, Premier Travel Inn (where he led the acquisition and integration of Premier Lodge to Travel Inn) and David Lloyd Leisure (where he led the business turnaround and subsequent sale). His early career was spent managing FMCG brands and running his own wine and spirit retail and wholesale business.

Paddy Gallagher – Finance Director

Paddy Gallagher (aged 50) was appointed Finance Director in November 2011. Prior to that, Paddy held a number of high profile finance positions, including Chief Financial Officer at Rank Group plc, Chief Financial Officer at Quadriga Worldwide Ltd, UK Finance Director at Dell EMEA and Director of Financial Operations at Wang International.

Tony Rice – Senior Independent Non-Executive Director

Tony Rice (aged 61) was appointed Senior Independent Non-Executive Director of Spirit plc in July 2011. Tony was formerly Senior Independent Non-Executive Director of Punch Taverns from March 2010 and an Independent Non-Executive Director from December 2007 until August 2011.

Tony has many years' experience at board level with some of the UK's leading companies. He spent 16 years with BAE Systems from 1986 to 2002, culminating in the role of Group Managing Director of Commercial Aircraft. He then spent three years at Tunstall plc as Chief Executive from 2002 until its sale to Bridgepoint in 2005. Tony is Chief Executive Officer of Cable & Wireless Communications and a Trustee of Shelter. Tony was also Non-Executive Director and Chairman of the Audit Committee at Cable & Wireless from 2003 to 2006 and at Telewest from 2000 to 2003.

Mark Pain – Independent Non-Executive Director

Mark Pain (aged 51) was appointed as an Independent Non-Executive Director of Spirit plc in July 2011 in preparation for the demerger of the Spirit Group from Punch Taverns, where he was an Independent Non-Executive Director from December 2007. Mark has a wealth of experience as a listed company main board director. Mark served as Chief Financial Officer of Barratt Developments plc from 2006 to 2009. He was previously at Abbey National where he held a number of senior executive and group board positions, including Group Finance Director from 1998 to 2001 and Customer Sales Director from 2002 to 2005. Mark is a Non-Executive Director at Aviva UK, Johnston Press, LSL Property Services and Yorkshire Building Society and is also Chairman of London Square. Mark is a Fellow of the Institute of Chartered Accountants.

Christopher Bell – Independent Non-Executive Director

Christopher Bell (aged 55) was appointed as an Independent Non-Executive Director of Spirit plc in August 2011.

Christopher was Chief Executive Officer of Ladbrokes plc between 2006 and 2010. Prior to that, he spent 12 years at Allied-Lyons and held a number of senior positions, six years as Managing Director at Hilton Group and eight years as Managing Director at Ladbroke Group. Christopher is also currently Senior Independent Director of Quintain Estates and Development, Chairman of Business in Sport and Leisure and was appointed as a Director of Bet Butler Limited in September 2012. He has also been a board member of the Responsible Gaming Strategy Board (RGSB) since 2009.

Julie Chakraverty – Independent Non-Executive Director

Julie Chakraverty (aged 41) was appointed as an Independent Non-Executive Director of Spirit plc in January 2012.

Julie is a Non-Executive Director of Aberdeen Asset Management plc and Amlin plc. She previously spent 13 years at UBS Investment Bank, where she was a board member and held a number of global leadership positions with a specialist background in risk management and fixed income. Julie was also a Non-Executive Director of Paternoster, the specialist pensions insurer. She started her financial services career with JP Morgan.

Senior Management

Alan Morgan – Chief Operating Officer

Alan Morgan (aged 36) was appointed Chief Operating Officer in 2013. Prior to that, Alan was a National Operations Director within the Spirit Group and had held a number of senior operational and commercial roles within Whitbread and David Lloyd Leisure. Alan is also a Governor and Non-Executive Director of Milton Keynes College.

Chris Welham – Managing Director, Spirit Leased

Chris Welham (aged 43) was appointed Managing Director, Spirit Leased in February 2012. Prior to that, Chris was Operations Director at Greene King Pub Partners, leading half of their leased business. Chris has over 16 years' experience in the industry and has held a number of senior operational roles in Greenalls, Pubmaster and Punch Taverns.

Clive Briscoe – Commercial Director

Clive Briscoe (aged 51) was appointed Commercial Director in June 2010. Clive joined the Spirit Group from Ideal Shopping Direct, where he was Director for Customer Operations and Business Development with responsibility for marketing, e-commerce, call centres and new business development.

Clive has held a number of high profile marketing roles with Carlsberg Tetley, GUS Home Shopping and Argos Retail Group. In 2003, he joined Littlewoods Shop Direct Group, where he played a key role in transforming the brands from traditional catalogues into a predominantly online business with web sales in excess of £500m.

Debbie Moore – HR Director

Debbie Moore (aged 51) was appointed HR Director in February 2012. Prior to that, Debbie held a number of high profile HR roles including HR Director at the Post Office from 2007 to 2012, which was a period involving a significant change which affected both employee engagement and business profitability. Previously, Debbie has been HR Director at Hays plc and UK Retail HR Director at the Dixons Group. Debbie is a Non-Executive Governor at the University of Bedford and Trustee of the Burton Breweries Charitable Trust.

Bob Broadbridge – IT Director

Bob Broadbridge (aged 54) was appointed IT Director in May 2010. Bob joined Spirit Group from the Health Lottery, where he held the position of Chief Operating Officer for IT and Operations. Previously he was IT Director at The Tote, WHSmith and Superdrug. His early career was spent with Mars and Cadbury-Schweppes.

Ownership of the Spirit Group

Spirit plc's entire issued share capital is listed on the Official List of the United Kingdom Listing Authority and admitted to trading on the main market of the London Stock Exchange.

TERMS AND CONDITIONS OF THE SECOND ISSUE DEBENTURE BONDS

TERMS AND CONDITIONS OF THE DEBENTURE BONDS

The £150,000,000 Floating Rate Class A1 Secured Debenture Bonds due 2028 (the **Class A1 Debenture Bonds**), the £200,000,000 Floating Rate Class A2 Secured Debenture Bonds due 2031 (the **Class A2 Debenture Bonds**), the £250,000,000 Fixed/Floating Rate Class A3 Secured Debenture Bonds due 2021 (the **Class A3 Debenture Bonds**), the £350,000,000 Fixed/Floating Rate Class A4 Secured Debenture Bonds due 2027 (the **Class A4 Debenture Bonds**), the £300,000,000 Fixed/Floating Rate Class A5 Secured Debenture Bonds due 2034 (the **Class A5 Debenture Bonds** and, together with the Class A1 Debenture Bonds, the Class A2 Debenture Bonds, the Class A3 Debenture Bonds and the Class A4 Debenture Bonds, the **Original Debenture Bonds**), the Floating Rate Class A6 Secured Debenture Bonds due 2036 (the **Class A6 Debenture Bonds**) and the Fixed/Floating Rate Class A7 Secured Debenture Bonds due 2036 (the **Class A7 Debenture Bonds** and, together with the Class A6 Debenture Bonds, the **Second Issue Debenture Bonds** and, together with the Class A6 Debenture Bonds and the Original Debenture Bonds, the **Debenture Bonds**) in each case of Spirit Issuer plc (the **Issuer**) are constituted by a trust deed dated the Original Closing Date (as supplemented, amended and restated by a supplemental trust deed on the Second Issue Date) (the **Trust Deed**) between the Issuer, Deutsche Trustee Company Limited (the **Debenture Bond Trustee**) as trustee for the holders for the time being of the Class A1 Debenture Bonds (the **Class A1 Debenture Bondholders**), the holders for the time being of the Class A2 Debenture Bonds (the **Class A2 Debenture Bondholders**), the holders for the time being of the Class A3 Debenture Bonds (the **Class A3 Debenture Bondholders**), the holders for the time being of the Class A4 Debenture Bonds (the **Class A4 Debenture Bondholders**), the holders for the time being of the Class A5 Debenture Bonds (the **Class A5 Debenture Bondholders** and, together with the Class A1 Debenture Bondholders, the Class A2 Debenture Bondholders, the Class A3 Debenture Bondholders and the Class A4 Debenture Bondholders, the **Original Debenture Bondholders**), the holders for the time being of the Class A6 Debenture Bonds (the **Class A6 Debenture Bondholders**) and the holders for the time being of the Class A7 Debenture Bonds (the **Class A7 Debenture Bondholders** and, together with the Class A6 Debenture Bondholders, the **Second Issue Debenture Bondholders** and, together with the Class A6 Debenture Bondholders and the Original Debenture Bondholders, the **Debenture Bondholders**) and Ambac Assurance UK Limited (**Ambac**). Any reference below to a **Class** of Debenture Bonds or of Debenture Bondholders shall be a reference to the Class A1 Debenture Bonds or the Class A2 Debenture Bonds or the Class A3 Debenture Bonds or the Class A4 Debenture Bonds or the Class A5 Debenture Bonds or the Class A6 Debenture Bonds or the Class A7 Debenture Bonds, as the case may be, or to the respective holders thereof.

The Class A1 Debenture Bonds, the Class A3 Debenture Bonds and the Class A5 Debenture Bonds have been issued with the benefit of a financial guarantee (the **Ambac Financial Guarantee**) by Ambac that was issued pursuant to and in accordance with the terms of a guarantee and reimbursement agreement (the **Ambac Guarantee and Reimbursement Agreement**) dated the Original Closing Date between, *inter alios*, the Issuer and Ambac.

By an agency agreement dated the Original Closing Date (as amended and restated on the Second Issue Date) (the **Agency Agreement**) between the Issuer, the Debenture Bond Trustee, the Principal Paying Agent, the Agent Bank and the Luxembourg Paying Agent, provision is made for, *inter alia*, the payment of interest and repayment of principal in respect of the Debenture Bonds of each Class.

Security for the Debenture Bonds is created pursuant to, and on the terms set out in, a deed of charge dated the Original Closing Date (as supplemented, amended and restated on the Second Issue Date) (the **Issuer Deed of Charge**) between, *inter alios*, the Issuer, the Debenture Bond Trustee, Ambac, the Liquidity Facility Provider, the Hedge Provider and the Issuer Security Trustee.

Any reference in these Conditions to the Trust Deed, the Issuer Deed of Charge, the Ambac Financial Guarantee, the Agency Agreement or to any other Transaction Document is to such

document as from time to time amended, varied, supplemented or novated in accordance with its provisions and any deed or other document expressed to be supplemental to it, as from time to time so modified. Any reference to the Debenture Bond Trustee, the Issuer Security Trustee, the Borrower Group Security Trustee and any Paying Agent includes references to its successors and, in the case of the Debenture Bond Trustee, the Issuer Security Trustee and the Borrower Group Security Trustee, to any additional trustee appointed under, as the case may be, the Trust Deed, the Issuer Deed of Charge or the Borrower Group Deed of Charge.

Copies of the Transaction Documents are available for inspection during normal business hours at the offices of the Principal Paying Agent, being, at the Second Issue Date, at Winchester House, 1 Great Winchester Street, London EC2N 2DB and at the offices of the Luxembourg Paying Agent, being, at the Second Issue Date, at 69 route d'Esch, L-2953 Luxembourg.

The issuance of the Original Debenture Bonds was authorised by a resolution of the Board of Directors of the Issuer passed on 22 November 2004. The issuance of the Second Issue Debenture Bonds was authorised by a resolution of the Board of Directors of the Issuer passed on 18 October 2013.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Agency Agreement and the Issuer Deed of Charge.

1. Definitions

In these Conditions (including the recitals hereto):

A1/A6 Issuer/Borrower Swap means the interest rate swap transaction entered into under the Issuer/Borrower Hedging Agreement on the Original Closing Date in order to hedge the interest payable in respect of the Term A1 Loan and, from the Second Closing Date, the Term A6 Loan;

A3/A7 Issuer/Borrower Swap means the interest rate swap transaction entered into under the Issuer/Borrower Hedging Agreement on the Original Closing Date in order to hedge the interest payable in respect of the Term A3 Loan and, from the Second Closing Date, the Term A7 Loan;

A6 IB Swap Cash Sweep Amount has the meaning given to it in Condition 6(b)(B)(iii)(E) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption – Mandatory redemption*);

A6/A7 IB Swap Cash Sweep Amount means an A6 IB Swap Cash Sweep Amount or an A7 IB Swap Cash Sweep Amount;

A7 IB Swap Cash Sweep Amount has the meaning given to it in Condition 6(b)(B)(iii)(F) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption – Mandatory redemption*);

Account Bank means, as at the Second Issue Date, Barclays Bank plc, acting through its office at 15 Colmore Row, Birmingham B3 2WN;

Accounting Date means, in respect of the Financial Year current at the Original Closing Date, 20 August 2005 and, in each year thereafter, the date falling at the end of the fourth Financial Quarter after the immediately preceding Accounting Date;

AdminCo means Spirit Pub Company (Services) Limited (formerly known as Punch Pub Company Limited and, prior to that, as Spirit Group Limited and, prior to that, as Spirit Administrative Services Limited), a private company with limited liability incorporated under the laws of England and Wales (registered number 05266811) whose registered office is at Sunrise House, Ninth Avenue, Burton-on-Trent, Staffordshire DE14 3JZ;

Agency Agreement has the meaning given to it in the recitals to these Conditions;

Agent Bank means, as at the Second Issue Date, Deutsche Bank AG, acting through its London Branch at Winchester House, 1 Great Winchester Street, London EC2N 2DB;

Ambac Event of Default means, with respect to Ambac under the Ambac Financial Guarantee:

- (i) any Guaranteed Amount which is Due for Payment by Ambac under the Ambac Financial Guarantee is not paid by Ambac within two Business Days of the date stipulated in the Ambac Financial Guarantee;
- (ii) Ambac disclaims, disaffirms, repudiates and/or challenges the validity of any of its obligations under the Ambac Financial Guarantee or seeks to do so;
- (iii) a court of competent jurisdiction enters a final and non-appealable order, judgment or decree for the winding-up, or the appointment of an administrator or receiver (including an administrative receiver or manager), of Ambac (or, as the case may be, of a material part of its property or assets); or
- (iv) Ambac:
 - (A) presents any petition or takes any proceedings for the winding-up or the appointment of an administrator or receiver (including an administrative receiver or manager) of Ambac (or, as the case may be, of a material part of its property or assets);
 - (B) makes or enters into any general assignment, composition, arrangement (including, without limitation, a voluntary arrangement under Part 1 of the Insolvency Act 1986) or compromise with or for the benefit of any of its creditors; or
 - (C) becomes unable to pay its debts within the meaning of Section 123(2) or Section 123(1)(e) of the Insolvency Act 1986 or admits in writing its inability, or fails generally, to pay its debts as they become due;

Ambac Financial Guarantee has the meaning given to it in the recitals to these Conditions;

Ambac Guarantee and Reimbursement Agreement has the meaning given to it in the recitals to these Conditions;

Ambac Reserved Rights means:

- (a) any of the matters referred to in the Transaction Documents as requiring the consent of Ambac (if required); and
- (b) any amendment to modify or vary the terms of Conditions 5 (*Interest*) and 6 (*Redemption, Purchase and Cancellation*) in so far as such relate to payment of principal or interest on the Class A1 Debenture Bonds, the Class A3 Debenture Bonds and the Class A5 Debenture Bonds;

Ambac Subordinated Fees has the meaning given to it in Condition 3(c) (*Status, Priority and Security – Issuer Pre-Acceleration Priority of Payments*);

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;

Bank Agreement means the agreement dated the Original Closing Date, as amended and restated pursuant to an agreement dated 7 July 2006, between the Issuer, the Borrowers, the Account Bank, the Borrower Group Security Trustee and the Issuer Security Trustee relating to the maintenance and operation of the bank accounts of the Borrowers and the Issuer;

BankCo means Spirit Managed Inns Limited, a private company with limited liability incorporated under the laws of England and Wales (registered number 5266815) whose registered office is at Sunrise House, Ninth Avenue, Burton-on-Trent, Staffordshire DE14 3JZ;

Basic Terms Modification means:

- (i) any modification which would have the effect of (A) postponing or altering any day for payment of interest on and repayment of principal of any particular Class of Debenture Bonds, (B) reducing, cancelling or rescheduling the amount of principal or the rate of interest payable in respect of any particular Class of Debenture Bonds, (C) altering the

priority of payment of interest or principal on any particular Class of Debenture Bonds, (D) altering the currency of payment of any particular Class of Debenture Bonds (other than pursuant to Condition 7(j) (*Payments – Change in Currency*) or (E) altering the Final Maturity Date of any particular Class of Debenture Bonds;

- (ii) removing or replacing the Debenture Bond Trustee or the Issuer Security Trustee; or
- (iii) an alteration of (A) the definition of Basic Terms Modification, (B) the majority required to effect a Basic Terms Modification or (C) the majority required to pass an Extraordinary Resolution;

BidCo means Spirit Retail BidCo Limited, a private company with limited liability incorporated under the laws of England and Wales (registered number 04872046) whose registered office is at Sunrise House, Ninth Avenue, Burton-on-Trent, Staffordshire DE14 3JZ;

Borrower Group means the Borrowers, the Borrower Group Parent, New ParentCo, SGL and the SNR Group Companies;

Borrower Group Deed of Charge means the deed of charge dated the Original Closing Date, as amended and restated pursuant to an agreement dated 7 July 2006, further amended pursuant to an agreement dated 23 February 2012 and further supplemented, amended and restated on the Second Issue Date and as further supplemented, amended and/or restated from time to time, between, *inter alios*, the Borrowers, the Issuer and the Borrower Group Security Trustee;

Borrower Group Estate means the 1,080 properties acquired by the Managed Borrower on the Original Closing Date and references to the Borrower Group Estate shall, where the context requires, include properties which have been acquired by the Borrowers since the Original Closing Date and exclude such properties as have been disposed of by the Borrowers since the Original Closing Date, in each case in accordance with the provisions of the Transaction Documents;

Borrower Group Parent means Spirit Pubs Debenture Holdings Limited (formerly known as Spirit Pubs Holdings Limited), a private company with limited liability incorporated in England and Wales (registered number 5266779) whose registered office is at Sunrise House, Ninth Avenue, Burton-on-Trent, Staffordshire DE14 3JZ;

Borrower Group Security Trustee means, as at the Second Issue Date, Deutsche Trustee Company Limited, whose registered office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB;

Borrower Group Standard Securities means the standard securities granted over the Borrower Scottish Properties or any other heritable or leasehold property in Scotland pursuant to the Borrower Group Deed of Charge in the form set out in the Borrower Group Deed of Charge and **Borrower Group Standard Security** shall be construed accordingly;

Borrower IB Hedging Subordinated Amounts has the meaning given to it in Condition 3(c) (*Status, Priority and Security – Issuer Pre-Acceleration Priority of Payments*);

Borrower Mortgaged Properties means the freehold and leasehold properties situated in England and Wales and the heritable and leasehold properties situated in Scotland, details of which are set out in part 2 (*Heritable and leasehold property of the Security Providers in Scotland*) of schedule 2 (*Borrower Mortgaged Properties*) to the Borrower Group Deed of Charge, together with those additional freehold and leasehold properties situated in England and Wales and heritable and leasehold properties situated in Scotland acquired by the Borrowers since the preparation of those schedules, details of which are set out in the deeds of charge supplemental to the Borrower Group Deed of Charge, but excluding any such properties which have been disposed of by the relevant Borrower and released from the security constituted by the Borrower Group Deed of Charge and **Borrower Mortgaged Property** shall be construed accordingly;

Borrower Scottish Properties means the Borrower Mortgaged Properties situated in Scotland and **Borrower Scottish Property** shall be construed accordingly;

Borrowers means the Managed Borrower and the Leased Borrower and **Borrower** shall be construed accordingly;

Business Day means any day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London;

Calculation Date means, in relation to any Interest Payment Date, the day falling on the fifth Business Day prior to such Interest Payment Date;

Class A1 Debenture Bondholders has the meaning given to it in the recitals to these Conditions;

Class A1 Debenture Bonds has the meaning given to it in the recitals to these Conditions;

Class A1 Expected Amortisation Amount has the meaning given to it in Condition 6(b) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption – Scheduled redemption*);

Class A1 Final Maturity Date means the Interest Payment Date falling in December 2028;

Class A1 Margin has the meaning given to it in Condition 5(c) (*Interest – Rates of Interest*);

Class A1 Rate of Interest has the meaning given to it in Condition 5(c) (*Interest – Rates of Interest*);

Class A1 Step-Up Amounts has the meaning given to it in Condition 3(c) (*Status, Priority and Security – Issuer Pre-Acceleration Priority of Payments*);

Class A1 Step-Up Date means the Interest Payment Date falling in December 2011;

Class A1 Step-Up Margin has the meaning given to it in Condition 5(c) (*Interest – Rates of Interest*);

Class A1/A6 Swap means the interest rate swap transaction entered into under the Hedging Agreement in order to hedge the interest payable in respect of the Class A1 Debenture Bonds and, from the Second Issue Date, the Class A6 Debenture Bonds;

Class A2 Debenture Bondholders has the meaning given to it in the recitals to these Conditions;

Class A2 Debenture Bonds has the meaning given to it in the recitals to these Conditions;

Class A2 Expected Amortisation Amount has the meaning given to it in Condition 6(b) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption – Scheduled redemption*);

Class A2 Final Maturity Date means the Interest Payment Date falling in December 2031;

Class A2 Margin has the meaning given to it in Condition 5(c) (*Interest – Rates of Interest*);

Class A2 Rate of Interest has the meaning given to it in Condition 5(c) (*Interest – Rates of Interest*);

Class A2 Step-Up Amounts has the meaning given to it in Condition 3(c) (*Status, Priority and Security – Issuer Pre-Acceleration Priority of Payments*);

Class A2 Step-Up Date means the Interest Payment Date falling in December 2011;

Class A2 Step-Up Margin has the meaning given to it in Condition 5(c) (*Interest – Rates of Interest*);

Class A3 Debenture Bondholders has the meaning given to it in the recitals to these Conditions;

Class A3 Debenture Bonds has the meaning given to it in the recitals to these Conditions;

Class A3 Expected Amortisation Amount has the meaning given to it in Condition 6(b) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption – Scheduled redemption*);

Class A3 Final Maturity Date means the Interest Payment Date falling in December 2021;

Class A3 Margin has the meaning given to it in Condition 5(c) (*Interest – Rates of Interest*);

Class A3 Rate of Interest has the meaning given to it in Condition 5(c) (*Interest – Rates of Interest*);

Class A3 Step-Up Amounts has the meaning given to it in Condition 3(c) (*Status, Priority and Security – Issuer Pre-Acceleration Priority of Payments*);

Class A3 Step-Up Date means the Interest Payment Date falling in December 2014;

Class A3 Step-Up Margin has the meaning given to it in Condition 5(c) (*Interest – Rates of Interest*);

Class A3/A7 Swap means the interest rate swap transaction entered into under the Hedging Agreement in order to hedge the interest payable in respect of the Class A3 Debenture Bonds and, from the Second Issue Date, the Class A7 Debenture Bonds;

Class A4 Debenture Bondholders has the meaning given to it in the recitals to these Conditions;

Class A4 Debenture Bonds has the meaning given to it in the recitals to these Conditions;

Class A4 Expected Amortisation Amount has the meaning given to it in Condition 6(b) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption – Scheduled redemption*);

Class A4 Final Maturity Date means the Interest Payment Date falling in December 2027;

Class A4 Margin has the meaning given to it in Condition 5(c) (*Interest – Rates of Interest*);

Class A4 Rate of Interest has the meaning given to it in Condition 5(c) (*Interest – Rates of Interest*);

Class A4 Step-Up Amounts has the meaning given to it in Condition 3(c) (*Status, Priority and Security – Issuer Pre-Acceleration Priority of Payments*);

Class A4 Step-Up Date means the Interest Payment Date falling in December 2018;

Class A4 Step-Up Margin has the meaning given to it in Condition 5(c) (*Interest – Rates of Interest*);

Class A5 Debenture Bondholders has the meaning given to it in the recitals to these Conditions;

Class A5 Debenture Bonds has the meaning given to it in the recitals to these Conditions;

Class A5 Expected Amortisation Amount has the meaning given to it in Condition 6(b) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption – Scheduled redemption*);

Class A5 Final Maturity Date means the Interest Payment Date falling in December 2034;

Class A5 Margin has the meaning given to it in Condition 5(c) (*Interest – Rates of Interest*);

Class A5 Rate of Interest has the meaning given to it in Condition 5(c) (*Interest – Rates of Interest*);

Class A5 Step-Up Amounts has the meaning given to it in Condition 3(c) (*Status, Priority and Security – Issuer Pre Acceleration Priority of Payments*);

Class A5 Step-Up Date means the Interest Payment Date falling in December 2028;

Class A5 Step-Up Margin has the meaning given to it in Condition 5(c) (*Interest – Rates of Interest*);

Class A6 Cash Sweep Amount has the meaning given to it in Condition 6(b)(B)(iii)(A) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption – Mandatory redemption*);

Class A6 Debenture Bondholders has the meaning given to it in the recitals to these Conditions;

Class A6 Debenture Bonds has the meaning given to it in the recitals to these Conditions;

Class A6 Expected Amortisation Amount has the meaning given to it in Condition 6(b) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption – Scheduled redemption*);

Class A6 Final Maturity Date means the Interest Payment Date falling in December 2036;

Class A6 Margin has the meaning given to it in Condition 5(c) (*Interest – Rates of Interest*);

Class A6 Rate of Interest has the meaning given to it in Condition 5(c) (*Interest – Rates of Interest*);

Class A6 Step-Up Amounts has the meaning given to it in Condition 3(c) (*Status, Priority and Security – Issuer Pre-Acceleration Priority of Payments*);

Class A6 Step-Up Date means the Interest Payment Date falling in September 2018;

Class A6 Step-Up Margin has the meaning given to it in Condition 5(c) (*Interest – Rates of Interest*);

Class A6 Swap Cash Sweep Amount has the meaning given to it in Condition 6(b)(B)(iii) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption – Mandatory redemption*);

Class A6/A7 Cash Sweep Amount means a Class A6 Cash Sweep Amount or a Class A7 Cash Sweep Amount;

Class A6/A7 Swap Cash Sweep Amount means a Class A6 Swap Cash Sweep Amount or a Class A7 Swap Cash Sweep Amount;

Class A7 Cash Sweep Amount has the meaning given to it in Condition 6(b)(B)(iii) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption – Mandatory redemption*);

Class A7 Debenture Bondholders has the meaning given to it in the recitals to these Conditions;

Class A7 Debenture Bonds has the meaning given to it in the recitals to these Conditions;

Class A7 Expected Amortisation Amount has the meaning given to it in Condition 6(b) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption – Scheduled redemption*);

Class A7 Final Maturity Date means the Interest Payment Date falling in December 2036;

Class A7 Margin has the meaning given to it in Condition 5(c) (*Interest – Rates of Interest*);

Class A7 Rate of Interest has the meaning given to it in Condition 5(c) (*Interest – Rates of Interest*);

Class A7 Step-Up Amounts has the meaning given to it in Condition 3(c) (*Status, Priority and Security – Issuer Pre-Acceleration Priority of Payments*);

Class A7 Step-Up Date means the Interest Payment Date falling in September 2018;

Class A7 Step-Up Margin has the meaning given to it in Condition 5(c) (*Interest – Rates of Interest*);

Class A7 Swap Cash Sweep Amount has the meaning given to it in Condition 6(b)(B)(iii)(D) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption – Mandatory redemption*);

Clearstream, Luxembourg means Clearstream Banking, *société anonyme*;

Co-Lead Manager means Merrill Lynch International (having its office at Merrill Lynch Financial Centre, 2 King Edward Street, London EC1A 1HQ);

Conditions means these terms and conditions;

Corporate Services Agreement means the agreement dated the Original Closing Date between, *inter alios*, the Issuer and the Corporate Services Provider;

Corporate Services Provider means, as at the Second Issue Date, Wilmington Trust SP Services (London) Limited (formerly known as SPV Management Limited), a private company with limited liability incorporated under the laws of England and Wales (registered number 2548079) whose registered office is at Third Floor, 1 King's Arms Yard, London EC2R 7AF;

Couponholders means the holders from time to time of the Coupons;

Coupons means the bearer interest coupons in, or substantially in, the form set out in part D (*Form of Coupon*) of schedule 1 to the Trust Deed and for the time being outstanding or, where the context so requires, a specific number of them and includes (where applicable) the Talons in respect of such Coupons;

Day Count Fraction has the meaning given to it in Condition 5(b) (*Interest – Interest Payment Dates; Interest Periods; Day Count Fractions*);

Debenture Bond Acceleration Notice has the meaning given to it in Condition 10(a) (*Issuer Events of Default – Determination of an Issuer Event of Default*);

Debenture Bond Principal Payment has the meaning given to it in Condition 6(e) (*Redemption, Purchase and Cancellation – Debenture Bond Principal Payments and Principal Amount Outstanding and Redemption Amount*);

Debenture Bond Trustee means, as at the Second Issue Date, Deutsche Trustee Company Limited, whose registered office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB, or any other person or persons for the time being acting as trustee or trustees pursuant to the Trust Deed;

Debenture Bondholder has the meaning given to it in the recitals to these Conditions and shall include:

- (i) in relation to any Debenture Bonds represented by a Global Debenture Bond, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular Principal Amount Outstanding of those Debenture Bonds, for which purpose any certificate or letter of confirmation (or any other form of record made by any of them) as to the Principal Amount Outstanding of Debenture Bonds standing to the account of any person shall be conclusive and binding on the basis that such person shall be treated by the Issuer, the Debenture Bond Trustee, the Issuer Security Trustee, the Paying Agents and all other persons as the holder of that Principal Amount Outstanding of those Debenture Bonds for all purposes other than the right to payments in respect of those Debenture Bonds which shall be vested, as against the Issuer, solely in the bearer of the relevant Global Debenture Bond, who shall be regarded as the **Debenture Bondholder** for that purpose; and
- (ii) in relation to any Definitive Debenture Bonds issued under Condition 2(d) (*Form, Denomination and Title – Issue of Definitive Debenture Bonds*), the bearer of such Definitive Debenture Bonds,

and related expressions shall be construed accordingly;

Debenture Bondholder Reserved Matters means any of the following:

- (i) any modification of the obligations or liabilities of Ambac set forth in, or waiver or authorisation of any breach or proposed breach by Ambac of, 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;

- (ii) 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);
- (iii) 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;
- (iv) 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
- (v) 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;

Debenture Bonds has the meaning given to it in the recitals to these Conditions and shall include any Definitive Debenture Bonds or Global Debenture Bonds or, where the context so requires, any of them;

Default Interest has the meaning given to it in Condition 5(i) (*Interest – Default Interest*);

Definitive Debenture Bond means, in respect of each Class of Debenture Bonds, each bearer Debenture Bond issued or to be issued in definitive form for that Class of Debenture Bond in or substantially in the form set out in part C (*Form of Definitive Debenture Bond*) of schedule 1 to the Trust Deed;

Due for Payment means, in relation to any Guaranteed Amount, that the relevant due date for payment of such Guaranteed Amount in accordance with the Conditions has occurred (and, for the avoidance of doubt, does not refer to any earlier date upon which payment of any Guaranteed Amount may become due in respect of the Guaranteed Debenture Bonds, by reason of prepayment, acceleration of maturity or otherwise);

Early Redemption Price has the meaning given to it in Condition 6(c) (*Redemption, Purchase and Cancellation – Redemption at the option of the Issuer*);

Eligible Investments means:

- (i) Sterling gilt-edged securities; and/or
- (ii) Sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper),

provided that in all cases such investments have a maturity date falling no later than the next following Interest Payment Date (unless the person making the investment determines that such moneys may be required to be applied towards payment of an amount under the Transaction Documents prior to such date) and the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised bank under the Financial Services and Markets Act 2000) are rated “A-1” and “F1” and “P-1” (or equivalent) or higher by the Rating Agencies or are otherwise acceptable to the Rating Agencies and Ambac;

EMU means European Economic and Monetary Union;

ER Amount has the meaning given to it in Condition 6(c)(iii) (*Redemption, Purchase and Cancellation – Redemption at the option of the Issuer*) in respect of the relevant Class of Debenture Bonds;

euro means the single currency introduced at the start of the third stage of EMU pursuant to the Treaty;

Euroclear means Euroclear Bank S.A./N.V.;

Euro Exchange Date means the date on which the Issuer gives notice (the **Euro Exchange Notice**) to the Debenture Bondholders and the Debenture Bond Trustee that replacement Debenture Bonds denominated in euro are available for exchange;

Excess Amounts has the meaning given in Condition 6(b)(B)(i) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption – Mandatory redemption*);

Exchange Date means with respect to a Debenture Bond the first day following the expiry of 40 days after the date of issue of such Debenture Bond;

Exchange Event means:

- (i) the Class A1 Debenture Bonds become due and repayable pursuant to Condition 10 (*Issuer Events of Default*);
- (ii) the Class A2 Debenture Bonds become due and repayable pursuant to Condition 10 (*Issuer Events of Default*);
- (iii) the Class A3 Debenture Bonds become due and repayable pursuant to Condition 10 (*Issuer Events of Default*);
- (iv) the Class A4 Debenture Bonds become due and repayable pursuant to Condition 10 (*Issuer Events of Default*);
- (v) the Class A5 Debenture Bonds become due and repayable pursuant to Condition 10 (*Issuer Events of Default*);
- (vi) the Class A6 Debenture Bonds become due and repayable pursuant to Condition 10 (*Issuer Events of Default*);
- (vii) the Class A7 Debenture Bonds become due and repayable pursuant to Condition 10 (*Issuer Events of Default*);
- (viii) both Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business and in fact do so cease business and no other clearing system satisfactory to the Debenture Bond Trustee is available; or
- (ix) as a result of any amendment to, or change in the laws or regulation of the United Kingdom (or any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court or in the administration of such laws or regulations which becomes effective on or after the Original Closing Date (in the case of the Original Debenture Bonds) or the Second Issue Date (in the case of the Second Issue Debenture Bonds), the Issuer or any Paying Agent is or will be required to make any withholding or deduction from any payment in respect of the Debenture Bonds which would not be required if the Debenture Bonds were in definitive form;

Expert means a leading broker, primary dealer or other expert operating in the gilt market or index linked gilt market, as the case may be, in each case selected by the Issuer and approved by the Debenture Bond Trustee;

Extraordinary Resolution means a resolution passed at a Meeting duly convened and held in accordance with the Provisions for Meetings of Debenture Bondholders by a majority of not less than 75 per cent. of the votes cast, whether on a show of hands or a poll;

Final Maturity Date means the Class A1 Final Maturity Date, the Class A2 Final Maturity Date, the Class A3 Final Maturity Date, the Class A4 Final Maturity Date, the Class A5 Final Maturity Date, the Class A6 Final Maturity Date or the Class A7 Final Maturity Date, as appropriate;

Financial Indebtedness means, broadly, without limitation, in relation to any Obligor at any time any indebtedness incurred (other than between Obligors) in respect of money borrowed or raised, the principal and other amounts (if any) and interest in respect of any debenture or similar debt instrument, liabilities in respect of any letter of credit or similar debt instrument, rental or hire payments under any finance lease and hire purchase agreement, the deferred

purchase price of assets or services, liabilities in respect of any foreign exchange agreement or similar arrangements and any other transactions which are accounted for in the financial statements of the Obligor as a borrowing entered into by such Obligor;

Financial Quarter means each period from (and including) the day after a Financial Quarter Date to (and including) the next Financial Quarter Date and, in respect of the first Financial Quarter, the period from (and including) the Original Closing Date to (and including) 19 February 2005;

Financial Quarter Date means, in respect of the Financial Year current at the time of the Original Closing Date, 19 February 2005, 21 May 2005 and 20 August 2005 and, thereafter, the dates notified by the Borrowers for the accounting quarter in the relevant Financial Year but in any case being a period of not fewer than 12 weeks and not more than 16 weeks;

Financial Year means: (a) the period beginning on (but excluding) 21 August 2004 and ending on (and including) the next following Accounting Date; and (b) thereafter each year commencing on (but excluding) each Accounting Date and ending on (and including) the following Accounting Date;

Fitch means Fitch Ratings Ltd. or any successor to its rating business;

Further Debenture Bonds means any Further Class A1 Debenture Bonds, any Further Class A2 Debenture Bonds, any Further Class A3 Debenture Bonds, any Further Class A4 Debenture Bonds, any Further Class A5 Debenture Bonds, any Further Class A6 Debenture Bonds and any Further Class A7 Debenture Bonds issued pursuant to Condition 17(a) (*Further Issues – Further Debenture Bonds*) or, where the context so requires, any of them;

Global Debenture Bonds means the Temporary Global Debenture Bonds and the Permanent Global Debenture Bonds for each Class of Debenture Bonds or, where the context so requires, any of them;

Gross Redemption Yield means a yield calculated in accordance with principles consistent with those used in the United Kingdom Debt Management Office notice “Formula for Calculating Gilt Prices from Yields” page 5, Section One: Price/Yield Formulae “Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date” published on 8 June 1998, updated on 15 January 2002 and further updated on 16 March 2005 (and as further updated, supplemented, amended or replaced from time to time);

Guarantee Excluded Amounts means, in respect of the Guaranteed Obligations:

- (i) any principal or other sums payable on an accelerated basis by the Issuer in respect of any redemption of the Guaranteed Debenture Bonds pursuant to Condition 6 (*Redemption, Purchase and Cancellation*) (other than pursuant to Condition 6(c)(iv) (*Redemption, Purchase and Cancellation – Redemption at the option of the Issuer*)) or Condition 10 (*Issuer Events of Default*);
- (ii) any default interest on any of the Guaranteed Obligations due pursuant to Condition 5(i) (*Interest – Default Interest*) or otherwise;
- (iii) any amounts which the Issuer would be obliged to gross up under Condition 8 (*Taxation*); and
- (iv) any amounts payable relating to the Guaranteed Debenture Bonds which have been purchased by any member of the Spirit Group;

Guaranteed Amounts means the sum of (i) Scheduled Interest payable on each Interest Payment Date and (ii) Ultimate Principal (if any) payable on the Final Maturity Date. **Guaranteed Amounts** excludes (a) any Scheduled Interest and Ultimate Principal in respect of which, in either case, Ambac has made an Accelerated Payment on an Accelerated Payment Date falling prior to such Interest Payment Date and (b) any Guarantee Excluded Amounts;

Guaranteed Debenture Bonds means, as the context may require, the Class A1 Debenture Bonds, the Class A3 Debenture Bonds and the Class A5 Debenture Bonds and any New

Debenture Bonds ranking *pari passu* with them and guaranteed by Ambac, in each case for as long as they have the benefit of the Ambac Financial Guarantee;

Guaranteed Obligations means the Guaranteed Debenture Bonds, and shall include, where the context so requires, the coupons and receipts to the Guaranteed Debenture Bonds (other than any Guaranteed Debenture Bonds which have been purchased by the Issuer or any member of the Spirit Group), but shall in all cases exclude all Guarantee Excluded Amounts;

Hedge Provider means the Initial Hedge Provider or any Replacement Hedge Provider;

Hedge Provider Requisite Rating means:

- (i) in respect of the Initial Hedge Provider Guarantor, a rating assigned to the long-term unsecured, unsubordinated and unguaranteed debt obligations of the Initial Hedge Provider Guarantor of at least "A-" by S&P and Fitch and "A3" by Moody's; and
- (ii) in respect of any Replacement Hedge Provider, a rating assigned to:
 - (A) the long-term unsecured, unsubordinated and unguaranteed debt obligations of the Replacement Hedge Provider, or of the guarantor of any such Replacement Hedge Provider (if applicable), of at least "A-" by S&P and Fitch and "A3" by Moody's; and
 - (B) the short-term unsecured, unsubordinated and unguaranteed debt obligations of the Replacement Hedge Provider, or of the guarantor of any such Replacement Hedge Provider (if applicable), of at least "A-2" by S&P, "F2" by Fitch or "P-2" by Moody's (to the extent that such Replacement Hedge Provider, and/or, as the case may be, its guarantor, have been issued short-term ratings);

Hedging Agreement means the hedging arrangements entered into by the Issuer with the Hedge Provider on the Original Closing Date, as amended on the Second Issue Date;

Hedging Agreement Subordinated Amounts has the meaning given to it in Condition 3(c) (*Status, Priority and Security – Issuer Pre-Acceleration Priority of Payments*);

Initial Hedge Provider means AIG Management France S.A. (formerly known as Banque AIG), acting through its office at 112 avenue Kléber, CS 31603, 75773 Paris, Cedex 16, France;

Initial Hedge Provider Guarantor means the guarantor of the obligations of the Initial Hedge Provider under the Hedging Agreement;

Insolvency Official means, in respect of any company, a liquidator, provisional liquidator, administrator (whether appointed by the court or otherwise), administrative receiver, receiver or manager, nominee, supervisor, trustee in bankruptcy, conservator, guardian or other similar official in respect of such company or in respect of all (or substantially all) of the company's assets or in respect of any arrangement or composition with creditors;

Insolvency Proceedings means the winding-up, dissolution, company voluntary arrangement or administration of a company or corporation and shall be construed so as to include any equivalent or analogous proceedings under the law of the jurisdiction in which such company or corporation is incorporated or of any jurisdiction in which such company or corporation carries on business including the seeking of liquidation, winding-up, reorganisation, dissolution, administration, arrangement, adjustment, protection or relief from creditors or the appointment of an Insolvency Official;

Interest Amount has the meaning given to it in Condition 5(d) (*Interest – Determination of Rates of Interest and calculation of Interest Amounts*);

Interest Determination Date has the meaning given to it in Condition 5(c) (*Interest – Rates of Interest*);

Interest Payment Date means the 28th day of March, the 28th day of June, the 28th day of September and the 28th day of December in each year, except if such day is not a Business Day, in which case it shall be the next succeeding Business Day unless such day falls in the next month, in which case it shall be the preceding Business Day;

Interest Period means each period from (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date (provided that the first Interest Period shall be:

- (i) in respect of the Original Debenture Bonds, the period from (and including) the Original Closing Date to (but excluding) the Interest Payment Date falling on 28 March 2005; and
- (ii) in respect of the Second Issue Debenture Bonds, the period from (and including) the Second Closing Date to (but excluding) the Interest Payment Date falling in December 2013);

Intra-Group Subordinated Loans means any Financial Indebtedness incurred between a Borrower and any other member of the Spirit Group on a fully subordinated, limited recourse basis with appropriate non-petition covenants;

Issue Price means, in the case of the Class A1 Debenture Bonds, the Class A2 Debenture Bonds and the Class A6 Debenture Bonds, par, and, in the case of the Class A3 Debenture Bonds, the Class A4 Debenture Bonds, the Class A5 Debenture Bonds and the Class A7 Debenture Bonds, 105 per cent. of par;

Issuer has the meaning given in the recitals to these Conditions;

Issuer Available Amounts has the meaning given to it in Condition 3 (*Status, Priority and Security – Issuer Pre-Acceleration Priority of Payments*);

Issuer Charged Property means the whole of the right, title, benefit and interest of the Issuer in the property, assets and rights of the Issuer described in Condition 3(b) (*Status, Priority and Security – Security*) and all other property, assets and rights whatsoever and wheresoever situated, present and future of the Issuer;

Issuer Deed of Charge means the deed of charge dated the Original Closing Date, and supplemented, amended and restated on the Second Issue Date, between, *inter alios*, the Issuer and the Issuer Security Trustee, and as further supplemented, amended and/or restated from time to time;

Issuer Enforcement Notice has the meaning given to it in Condition 11 (*Enforcement*);

Issuer Event of Default has the meaning given to it in Condition 10(b) (*Issuer Events of Default – Events*);

Issuer Parent means Spirit Issuer Parent Limited, a private company with limited liability incorporated in England and Wales (registered number 5260533) whose registered office is c/o Wilmington Trust SP Services (London) Limited, Third Floor, 1 King's Arms Yard, London EC2R 7AF;

Issuer Post-Acceleration Priority of Payments has the meaning given to it in Condition 3(d) (*Status, Priority and Security – Issuer Post-Acceleration Priority of Payments*);

Issuer Pre-Acceleration Priority of Payments has the meaning given to it in Condition 3(c) (*Status, Priority and Security – Issuer Pre-Acceleration Priority of Payments*);

Issuer Secured Creditors means the Debenture Bondholders, the Couponholders, the Debenture Bond Trustee, the Issuer Security Trustee, Ambac, the Paying Agents, the Agent Bank, the Servicer, the Account Bank, the Corporate Services Provider, the Liquidity Facility Provider(s), the Liquidity Facility Agent, the Hedge Provider, the Borrowers and any Receiver;

Issuer Secured Obligations means all moneys, liabilities and obligations whatsoever, present and future and whether actual or contingent, which from time to time become due, owing or payable by the Issuer:

Issuer Security means the security created by or pursuant to the Issuer Deed of Charge and the other Issuer Security Documents over the Issuer Charged Property as more fully described in Condition 3(b) (*Status, Priority and Security – Security*);

Issuer Security Documents means the Issuer Deed of Charge, any Supplemental Issuer Deed of Charge and the Security Powers of Attorney and, where the context so requires, any of them;

Issuer Security Trustee means, as at the Second Issue Date, Deutsche Trustee Company Limited, whose registered office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB;

Issuer Transaction Account means the account held in the name of the Issuer with the Account Bank designated "Issuer Transaction Account", with account number 30966967 and sort code 20-07-71;

Issuer/Borrower Facility Agreement means the facility agreement dated the Original Closing Date, as amended and restated pursuant to an agreement dated 7 July 2006, amended on 25 August 2006, 15 May 2009 and pursuant to an agreement dated 23 February 2012 and amended and restated on the Second Issue Date, between, *inter alios*, the Issuer and the Obligors;

Issuer/Borrower Hedging Agreement means the back-to-back hedging agreement entered into between the Issuer and the Borrowers dated the Original Closing Date, amended and restated pursuant to an agreement dated 7 July 2006 and amended and restated on the Second Issue Date;

Issuer/Borrower Subordinated Loan means the £50,000,000 of subordinated debt lent by the Issuer to the Managed Borrower pursuant to the Issuer/Borrower Subordinated Loan Agreement (or, as the context requires, the outstanding amount of such debt);

Issuer/Borrower Subordinated Loan Agreement means a loan agreement dated the Original Closing Date between, *inter alios*, the Issuer and the Managed Borrower, pursuant to which the Issuer lent £50,000,000 of subordinated debt to the Managed Borrower;

Lead Managers means Goldman Sachs International (having its offices at Peterborough Court, 133 Fleet Street, London EC4A 2BB), Barclays Bank plc (having its offices at 5 The North Colonnade, Canary Wharf, London E14 4BB), Citigroup Global Markets Limited (having its offices at Citigroup Centre, 33 Canada Square, Canary Wharf, London E14 5LB) and The Royal Bank of Scotland plc (having its offices at 135 Bishopsgate, London EC2M 3UR);

Leased Borrower means Spirit Pub Company (Leased) Limited (formerly known as Punch Partnerships (Pubs) Limited and, prior to that, Punch Taverns (Pubs) Limited and, prior to that, Spirit Leased Pubs Limited), a private company with limited liability incorporated in England and Wales (registered number 05699544) whose registered office is at Sunrise House, Ninth Avenue, Burton-on-Trent, Staffordshire DE14 3JZ;

LIBOR means:

- (a) the arithmetic mean of the offered quotations to leading banks (rounded to four decimal places with the mid-point rounded up) for three month Sterling deposits (or three month deposits for such other currency or currency unit as may replace Sterling as the lawful currency of the United Kingdom) in the London interbank market which appear on the appropriate page of the Reuters screen (or if that service ceases to display such information, such page as displays such information on such equivalent service (or, if more than one, that one which is approved by the Debenture Bond Trustee) as may replace the Reuters service) (the **Screen Rate**) (rounded to four decimal places with the mid-point rounded upwards) calculated on the basis of the number of days in such Interest Period and the Screen Rate at or about 11.00 a.m. (London time) on such date or:
 - (A) in respect of the Original Debenture Bonds, and in the case of the first Interest Period following the Original Closing Date only, the rate obtained by the linear interpolation of the rate for four month and five month Sterling deposits in the market calculated on the basis of the actual number of days in excess of four months in such Interest Period; and

- (B) in respect of the Second Issue Debenture Bonds, and in the case of the first Interest Period following the Second Closing Date only, the rate applicable to the Original Debenture Bonds for such Interest Period; or
- (b) if the Screen Rate is not then available for three month (or, where required, any other period) Sterling deposits then the rate for the relevant Interest Period shall be the arithmetic mean (rounded to four decimal places with the mid-point rounded up) of the rates notified to the Agent Bank at its request by each of the Reference Banks (referred to in Condition 5(h) (*Interest – Reference Banks and Agent Bank*) as the rate at which three month Sterling deposits or:
 - (A) in respect of the Original Debenture Bonds, and in the case of the first Interest Period following the Original Closing Date only, four and five month Sterling deposits; and
 - (B) in respect of the Second Issue Debenture Bonds, in the case of the first Interest Period following the Second Closing Date, the rate applicable to the Original Debenture Bonds for such Interest Period,

in an amount of £10,000,000 are offered for the same period as that Interest Period by that Reference Bank to leading banks in the London Interbank market at or about 11.00 a.m. (London time) on that date. If on any such Interest Determination Date, two only of the Reference Banks provide such offered quotations to the Agent Bank, the relevant rate shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, only one of the Reference Banks provides the Agent Bank with such an offered quotation, the Agent Bank shall forthwith consult with the Debenture Bond Trustee and the Issuer for the purposes of agreeing one additional bank to provide such a quotation or quotations to the Agent Bank (which bank is in the opinion of the Debenture Bond Trustee suitable for such purpose) and the rate for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed. If no such bank or banks is or are so agreed or such bank or banks as so agreed does or do not provide such a quotation or quotations, then the rate for the relevant Interest Period shall be the rate in effect for the last preceding Interest Period to which sub-paragraph (a) above shall have applied and:

- (i) in respect of the Original Debenture Bonds, and in the case of the first Interest Period following the Original Closing Date only, shall be the arithmetic mean of the rates quoted by such other leading banks in the London Interbank Market as are selected by the Agent Bank and approved by the Debenture Bond Trustee on the relevant Interest Determination Date; and
- (ii) in respect of the Second Issue Debenture Bonds, and in the case of the first Interest Period following the Second Closing Date only, shall be the rate applicable to the Original Debenture Bonds for such Interest Period;

Liquidity Facility means the liquidity facility provided by the Liquidity Facility Provider to the Issuer pursuant to the Liquidity Facility Agreement;

Liquidity Facility Agreement means the liquidity facility agreement dated the Original Closing Date, as amended and restated pursuant to an agreement dated 7 July 2006 and further amended and restated on the Second Issue Date, between, *inter alios*, the Issuer and the Liquidity Facility Provider(s);

Liquidity Facility Provider means, as at the Second Issue Date, Lloyds Bank plc or any other person or persons for the time being acting as liquidity facility provider or liquidity facility providers pursuant to the Liquidity Facility Agreement and **Liquidity Facility Providers** shall be construed accordingly;

Liquidity Facility Reserve Account means the Sterling denominated account held in the name of the Issuer with the Account Bank, for the deposit of Liquidity Facility Stand-by Drawings (if any);

Liquidity Facility Stand-by Drawings means a drawing made under clause 4.4 (*Liquidity Facility Stand-by Drawings*) of the Liquidity Facility Agreement;

Liquidity Subordinated Amounts has the meaning given to it in Condition 3(c) (*Status, Priority, Security – Issuer Pre-Acceleration Priority of Payments*);

LoanCo means Spirit Managed Funding Limited, a private company with limited liability incorporated in England and Wales (registered number 5266806) whose registered office is Sunrise House, Ninth Avenue, Burton-on-Trent, Staffordshire DE14 3JZ;

LoanCo/Borrower Subordinated Loan Agreement means a loan agreement dated the Original Closing Date between, *inter alios*, BankCo and the Managed Borrower, pursuant to which BankCo lent £550,000,000 of subordinated debt to the Managed Borrower which was novated on 22 May 2006 so as to be between, *inter alios*, LoanCo and the Managed Borrower and which was amended and restated pursuant to an agreement dated 7 July 2006 so as to be between, *inter alios*, LoanCo, the Managed Borrower and the Leased Borrower;

LoanCo/Issuer Subordinated Loan means £50,000,000 of subordinated debt lent by LoanCo to the Issuer pursuant to the LoanCo/Issuer Subordinated Loan Agreement (or, as the context requires, the outstanding amounts of such debt);

LoanCo/Issuer Subordinated Loan Agreement means a loan agreement dated the Original Closing Date between LoanCo, the Issuer and the Issuer Security Trustee, pursuant to which LoanCo lent £50,000,000 of subordinated debt to the Issuer;

Luxembourg Paying Agent means, as at the Second Issue Date, Banque Internationale à Luxembourg (formerly known as Dexia Banque Internationale à Luxembourg), acting through its office at 69 route d'Esch, L-2953 Luxembourg;

Managed Borrower means Spirit Pub Company (Managed) Limited (formerly known as Punch Pub Company (Pubs) Limited and, prior to that, Spirit Managed Pubs Limited), a private company with limited liability incorporated in England and Wales (registered number 5269240) whose registered office is at Sunrise House, Ninth Avenue, Burton-on-Trent, Staffordshire DE14 3JZ;

Managers means the Lead Managers and the Co-Lead Manager;

Master Definitions and Construction Schedule means the master definitions and construction schedule signed by Freshfields Bruckhaus Deringer and Slaughter and May for the purposes of identification on the Original Closing Date, as amended and restated pursuant to an agreement dated 7 July 2006, amended pursuant to an agreement dated 23 February 2012 and amended and restated on the Second Issue Date;

Meeting means a meeting of the Class A1 Debenture Bondholders and/or the Class A2 Debenture Bondholders and/or the Class A3 Debenture Bondholders and/or the Class A4 Debenture Bondholders and/or the Class A5 Debenture Bondholders and/or the Class A6 Debenture Bondholders and/or the Class A7 Debenture Bondholders (as applicable) (whether originally convened or resumed following an adjournment);

Moody's means Moody's Investors Service Limited and includes any successor to its rating business;

New Basel Capital Accord means the new capital adequacy framework set out in the "International Convergence of Capital Measurement and Capital Standards: a Revised Framework", published by the Basel Committee on Banking Supervision on 26 June 2004;

New Debenture Bonds means any new bonds issued pursuant to Condition 17(b) (*Further Issues – New Debenture Bonds*) or, where the context so requires, any of them;

New ParentCo means Spirit Pubs Parent Limited, a private company with limited liability incorporated under the laws of England and Wales (registered number 5267589) whose registered office is at Sunrise House, Ninth Avenue, Burton-on-Trent, Staffordshire DE14 3JZ;

Nominee has the meaning given to it in Condition 19(a) (*Assignment of Rights to Ambac*);

Obligors means the Borrowers, the Borrower Group Parent and New ParentCo;

Original Closing Date means 25 November 2004;

Original Debenture Bond has the meaning given to it in the recitals to these Conditions;

Original Debenture Bondholder has the meaning given to it in the recitals to these Conditions;

Original Subscription Agreement means the subscription agreement dated 24 November 2004 between, *inter alios*, the Issuer, Ambac and the Managers;

outstanding means, in relation to the Debenture Bonds, all the Debenture Bonds other than:

- (i) those which have been redeemed in full in accordance with these Conditions;
- (ii) those in respect of which the date for redemption in accordance with the provisions of these Conditions has occurred and for which the redemption moneys (including all interest and other amounts (if any) accrued thereon to such date for redemption) have been duly paid to the Principal Paying Agent or the Debenture Bond Trustee in the manner provided for in the Agency Agreement or the Trust Deed (as applicable) (and, where appropriate, notice to that effect has been given to the Debenture Bondholders in accordance with Condition 16 (*Notices to Debenture Bondholders*)) and remain available for payment in accordance with these Conditions;
- (iii) those which have become void under Condition 9 (*Prescription*);
- (iv) those mutilated or defaced Debenture Bonds which have been surrendered or cancelled and in respect of which replacement Debenture Bonds have been issued pursuant to Condition 15 (*Replacement of Definitive Debenture Bonds and Coupons*);
- (v) the Temporary Global Debenture Bond of any Class, to the extent that it shall have been exchanged for the Permanent Global Debenture Bond of such Class, or the Permanent Global Debenture Bond of any Class, to the extent that it shall have been exchanged for Definitive Debenture Bonds of such Class; and
- (vi) (for the purpose only of ascertaining the Principal Amount Outstanding of the Debenture Bonds and without prejudice to the status for any other purpose of the relevant Debenture Bonds) those Debenture Bonds which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 15 (*Replacement of Definitive Debenture Bonds and Coupons*),

provided that for each of the following purposes:

- (A) the right to attend and vote at any Meeting of Debenture Bondholders or for the purpose of any Written Resolution;
- (B) the determination of how many and which Debenture Bonds are for the time being outstanding for the purposes of clauses 6.2 (*Debenture Bond Trustee's right to give a Debenture Bond Acceleration Notice*), 6.3 (*Debenture Bond Trustee's right to direct Issuer Security Trustee to give an Issuer Enforcement Notice*), 6.5 (*Limit on Debenture Bondholder Action*) and 12 (*Waiver of Breach and Determination*) of the Trust Deed and Conditions 10 (*Issuer Events of Default*), 11 (*Enforcement*) and 12 (*Meetings of Debenture Bondholders*) and schedule 4 (*Provisions for Meetings of Debenture Bondholders*) to the Trust Deed; and
- (C) the exercise by the Debenture Bond Trustee of any trusts, powers, authorities, duties, discretions and obligations, whether contained in the Trust Deed or provided by law in, or by reference to, the interests of the Debenture Bondholders or any of them,

those Debenture Bonds (if any) which are for the time being held by, or for the benefit of, the Issuer, either Borrower or any other member of the Spirit Group shall (unless and until ceasing to be so held) be deemed not to remain outstanding. For the purpose of determining (i) the right of Ambac to give directions to the Debenture Bond Trustee, (ii) whether the consent of Ambac is required to the giving of a Debenture Bond Acceleration Notice or an Issuer Enforcement Notice or (iii) the right of Ambac to be treated as the holder of all of the Guaranteed Debenture Bonds,

where Ambac has made any payment of principal in respect of the Guaranteed Debenture Bonds, the Guaranteed Debenture Bonds shall be deemed to remain outstanding at their respective Principal Amounts Outstanding as if no such payment had been made by Ambac;

Participating Member State means a Member State of the European Union which adopts the euro as its lawful currency in accordance with the Treaty;

Paying Agents means the Principal Paying Agent together with the Luxembourg Paying Agent and any successor or additional paying agents appointed from time to time in connection with the Debenture Bonds under the Agency Agreement and **Paying Agent** means any one of them;

Permanent Global Debenture Bonds means, in respect of each Class of Debenture Bonds, the bearer permanent global bond for that Class of Debenture Bond in or substantially in the form set out in part B (*Forms of Debenture Bonds*) of schedule 1 to the Trust Deed;

Potential Issuer Event of Default means the occurrence of any event which, with the giving of notice, any relevant certificate, lapse of time, determination of materiality (provided that the test of materiality upon which any such determination is made must already be satisfied or be reasonably likely to be satisfied) or fulfilment of any other condition (or any combination of the foregoing) might reasonably be expected to become an Issuer Event of Default;

Principal Amount Outstanding means:

- (i) on any date in relation to an Original Debenture Bond, the principal amount outstanding of that Original Debenture Bond as at the Original Closing Date less the aggregate of (a) all repayments, prepayments or redemptions of principal that have been made by the Issuer in respect of that Original Debenture Bond and (b) the principal amount of that Original Debenture Bond which has been surrendered to the Issuer for cancellation or otherwise discharged on or prior to that date; and
- (ii) on any date in relation to a Second Issue Debenture Bond, the principal amount outstanding of that Second Issue Debenture Bond as at the Second Closing Date less the aggregate of (a) all repayments, prepayments or redemptions of principal that have been made by the Issuer in respect of that Second Issue Debenture Bond and (b) the principal amount of that Second Issue Debenture Bond which has been surrendered to the Issuer for cancellation or otherwise discharged on or prior to that date (and during the period from (and including) the Second Issue Date to (but excluding) the Second Closing Date, the Principal Amount Outstanding of the Second Issue Debenture Bonds shall be zero);

Principal Paying Agent means, as at the Second Issue Date, Deutsche Bank AG, acting through its London Branch at Winchester House, 1 Great Winchester Street, London EC2N 2DB or such other person and is from time to time appointed as the principal paying agent, subject to and in accordance with the terms of the Agency Agreement;

Priorities of Payments means the Issuer Pre-Acceleration Priority of Payments and the Issuer Post-Acceleration Priority of Payments;

Provisions for Meetings of Debenture Bondholders means the provisions contained in schedule 4 (*Provisions for Meetings of Debenture Bondholders*) to the Trust Deed;

Quarterly Report has the meaning given to it in Condition 6(i) (*Redemption, Purchase and Cancellation – Other Information*);

Rate of Interest has the meaning given to it in Condition 5(c) (*Interest – Rates of Interest*);

Rating Agencies means Fitch, Moody's and S&P or, where the context so requires, any of them. If at any time Fitch, Moody's or S&P is replaced as a Rating Agency, then references to the rating categories of the relevant entity in these terms and conditions shall be deemed instead to be references to the equivalent categories of the entity which replaces it as a Rating Agency;

Receiver means any person (being a licensed insolvency practitioner) who is appointed by the Issuer Security Trustee to be a receiver or an administrative receiver (as the case may be) of

the Issuer Charged Property or any part thereof to act jointly, or jointly and severally, as the Issuer Security Trustee shall determine;

Redemption Amount has the meaning given to it in Condition 6(b)(B)(ii)(C) and 6(b)(B)(ii)(D) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption – Mandatory redemption*);

Redemption Premium Amount means, in respect of the Class A3 Debenture Bonds, the Class A4 Debenture Bonds, the Class A5 Debenture Bonds and/or the Class A7 Debenture Bonds, as the case may be, the relevant Redemption Amount less the relevant par amount in respect of the relevant Class;

Redenomination Date has the meaning given to it in Condition 18 (*European Economic and Monetary Union*);

Reference Banks means the principal London office of each of Barclays Bank PLC, Lloyds Bank plc and HSBC Bank plc;

Reference Date means the date which is two Business Days prior to the date specified for redemption in the notice given by the Issuer;

Reference Gilt means, in respect of any Class of Debenture Bonds, that Sterling obligation of the United Kingdom Government listed on the Official List maintained by the UK Listing Authority and traded on the London Stock Exchange whose duration and liquidity most closely matches that of the Step-Up Date of the relevant Class of Debenture Bonds or (in the case of the Class A7 Debenture Bonds) the Interest Payment Date falling in September 2016 on the Reference Date as the Debenture Bond Trustee, with the advice of the Expert, may determine to be most appropriate;

Relevant Date means, in respect of any payment in relation to the Debenture Bonds, whichever is the later of:

- (i) the date on which the payment in question first becomes due; and
- (ii) if the full amount payable has not been received by the Principal Paying Agent or the Debenture Bond Trustee on or prior to such date, the date on which (the full amount having been so received) notice to that effect has been given to the Debenture Bondholders in accordance with Condition 16 (*Notices to Debenture Bondholders*);

Relevant Financial Indebtedness means, in relation to either Borrower at any time, any outstanding Financial Indebtedness of such Borrower from time to time (excluding indebtedness incurred under the Issuer/Borrower Subordinated Loan or any Intra-Group Subordinated Loans);

relevant Rate of Interest has the meaning ascribed to it in Condition 5(c)(i) (*Interest – Rates of Interest*);

Replacement Hedge Provider means any replacement hedge provider to which the rights and obligations of the Initial Hedge Provider (or, as the case may be, any previous Replacement Hedge Provider) under the Hedging Agreement are transferred;

RP Amount means, in respect of the Class A3 Debenture Bonds, the Class A4 Debenture Bonds and the Class A5 Debenture Bonds, the aggregate Principal Amount Outstanding of the relevant Class on the Reference Date multiplied by the lesser of (x) 105 per cent. and (y) the Issue Price in respect of the Class A3 Debenture Bonds, the Class A4 Debenture Bonds or the Class A5 Debenture Bonds, as applicable;

S&P means Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business and includes any successor to its rating business;

Scheduled Interest means interest payable in respect of the Guaranteed Debenture Bonds, as specified in Condition 5 (*Interest*) but excluding any Class A1 Step-Up Amounts, any Class A3 Step-Up Amounts or any Class A5 Step-Up Amounts (as the case may be), any Default Interest and interest in respect of any Redemption Premium Amount and less any amount that the Issuer would be obliged to deduct which is payable pursuant to Condition 8 (*Taxation*);

Second Closing Date means the date on which the subscription amounts in respect of the Second Issue Debenture Bonds are received by the Issuer or to its order;

Second Issue Date means the date on which the Second Issue Debenture Bonds are issued by the Issuer;

Second Issue Debenture Bond has the meaning given to it in the recitals to these Conditions;

Second Issue Debenture Bondholder has the meaning given to it in the recitals to these Conditions;

Second Issue Prospectus means the prospectus dated on or about the Second Closing Date relating to the listing of the Second Issue Debenture Bonds;

Second Issue Subscription Agreement means the subscription agreement in respect of the Second Issue Debenture Bonds dated on or about the Second Issue Date between, *inter alios*, the Issuer and Goldman Sachs International as lead manager;

Security Interest means any mortgage, sub-mortgage, security assignment, standard security, charge, sub-charge, pledge, lien, right of set-off or other encumbrance or security interest of any kind, however created or arising:

- (i) to the Issuer Security Trustee and/or any Receiver under the Issuer Deed of Charge or any other documents evidencing or securing any such liabilities;
- (ii) to, or to the order of, the Debenture Bond Trustee under the Trust Deed;
- (iii) to the Debenture Bondholders and the Couponholders under or in respect of the Debenture Bonds and Coupons; and
- (iv) to each of the other Issuer Secured Creditors in accordance with each of the other Transaction Documents to which it is a party;

Security Powers of Attorney means the security powers of attorney in the form set out in the Borrower Group Deed of Charge and the Issuer Deed of Charge;

Servicer means, as at the Second Issue Date, AdminCo;

Servicing Agreement means the servicing and cash management agreement dated the Original Closing Date between the Issuer and the Servicer;

SGL means Spirit (SGL) Limited (formerly known as Spirit Group Limited), a private company with limited liability incorporated under the laws of England and Wales (registered number 3982443) whose registered office is at Sunrise House, Ninth Avenue, Burton-on-Trent, Staffordshire DE14 3JZ;

SNR Group Companies means BidCo and its subsidiaries;

specified office means with respect to the Paying Agents the offices listed in the Second Issue Prospectus or such other offices as may from time to time be duly notified pursuant to Condition 16 (*Notices to Debenture Bondholders*);

Spirit Group means Spirit Pub Company plc, a public limited company incorporated in England and Wales (registered number 07662835) and each of its subsidiary undertakings, as such term is defined in section 1162 of the Companies Act 2006 (and a company shall be treated, for the purposes only of the membership requirement contained in sub-sections 1162(2)(b) and (d) respectively, as a member of another company even if its shares in that other company are registered in the name of (a) another person (or its nominee), whether by way of security or in connection with the taking of security, or (b) its nominee);

SPL means Spirit Parent Limited, a private company with limited liability incorporated under the laws of England and Wales (registered number 04271748) whose registered office is at Sunrise House, Ninth Avenue, Burton-on-Trent, Staffordshire DE14 3JZ;

Step-Up Amounts means any or all (as the context may require) of the Class A1 Step-Up Amounts, Class A2 Step-Up Amounts, Class A3 Step-Up Amounts, Class A4 Step-Up Amounts, Class A5 Step-Up Amounts, Class A6 Step-Up Amounts and Class A7 Step-Up Amounts;

Step-Up Dates means the Class A1 Step-Up Date, the Class A2 Step-Up Date, the Class A3 Step-Up Date, the Class A4 Step-Up Date, the Class A5 Step-Up Date, the Class A6 Step-Up Date and the Class A7 Step-Up Date;

Sterling means the lawful currency of the United Kingdom;

Stock Exchange means the Luxembourg Stock Exchange, the Main Securities Market of the Irish Stock Exchange and/or any other stock exchange on which any of the Debenture Bonds may be listed and/or admitted to trading from time to time;

Supplemental Issuer Deed of Charge means a supplemental Issuer Deed of Charge in the form set out in schedule 3 (*Form of Supplemental Issuer Deed of Charge*) to the Issuer Deed of Charge;

Talonholders means the holders from time to time of the Talons;

Talons means the bearer talons in or substantially in the form set out in part E (*Form of Talon*) of schedule 1 to the Trust Deed and exchangeable in accordance with the Conditions for further Coupons and/or talons or, where the context so requires, a specific number of them;

TARGET system means the Trans-European Automated Real-time Gross Settlement Express Transfer system;

tax means any present or future tax, levy, impost, duty, charge, fee, deduction or withholding of any nature whatsoever (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) imposed or levied by or on behalf of the United Kingdom or any sub-division of it or by any authority in it having power to tax, and **taxes, taxation** and comparable expressions shall be construed accordingly;

Tax Deed of Covenant means the tax deed of covenant entered into by, *inter alios*, most of the members of the Spirit Group, the Issuer and Issuer Parent on the Original Closing Date, as amended and restated pursuant to an agreement dated 7 July 2006, as further amended and restated on 5 July 2007 and as further amended and restated on the Second Issue Date;

Temporary Global Debenture Bond means, in respect of each Class of Debenture Bonds, the bearer temporary global bond for that Class of Debenture Bond in or substantially in the form set out in part A (*Form of Temporary Debenture Bonds*) of schedule 1 to the Trust Deed;

Term A6 Cash Sweep Repayment means a repayment of the Term Advance representing the issue proceeds of the Class A6 Debenture Bonds pursuant to clause 8.2 (*Term A6/A7 cash sweep mandatory prepayment*) of the Issuer/Borrower Facility Agreement;

Term A7 Cash Sweep Repayment means a repayment of the Term Advance representing the issue proceeds of the Class A7 Debenture Bonds pursuant to clause 8.2 (*Term A6/A7 cash sweep mandatory prepayment*) of the Issuer/Borrower Facility Agreement;

Term Advances means the term advances made available to the Borrowers pursuant to the Issuer/Borrower Facility Agreement;

Transaction Documents means the Trust Deed, the Debenture Bonds, the Agency Agreement, the Servicing Agreement, the Issuer Deed of Charge, any Supplemental Issuer Deed of Charge, the Security Powers of Attorney, the Original Subscription Agreement, the Second Issue Subscription Agreement, the Master Definitions and Construction Schedule, the Liquidity Facility Agreement, the Hedging Agreement, the Bank Agreement, the Issuer/Borrower Facility Agreement, the Borrower Group Deed of Charge, the Borrower Group Standard Securities, the Tax Deed of Covenant, the Ambac Financial Guarantee, the Ambac Guarantee and Reimbursement Agreement, the Issuer/Borrower Hedging Agreement, the Corporate Services Agreement, the LoanCo/Borrower Subordinated Loan Agreement, the LoanCo/Issuer Subordinated Loan Agreement, Issuer/Borrower Subordinated Loan Agreement and the other documents falling within the definition of "Transaction Documents" in the Master Definitions and Construction Schedule;

Treaty means the Treaty on the Functioning of the European Union;

Trust Deed has the meaning given to it in the recitals to these Conditions;

Ultimate Principal means the Principal Amount Outstanding of the Guaranteed Debenture Bonds payable, in accordance with Condition 6(a) (*Redemption, Purchase and Cancellation – Final redemption*) or, as the case may be, Condition 6(c)(iv) (*Redemption, Purchase and Cancellation – Redemption at the option of the Issuer*) on the Final Maturity Date, together with the amount of any Redemption Premium Amount remaining unpaid as at the Final Maturity Date, where such Redemption Premium Amount has become payable under Conditions 6(b)(B)(ii) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption – Mandatory redemption*), 6(c)(iv) or 10(c) (*Issuer Events of Default – Acceleration*) and, for the avoidance of doubt, excludes principal or other sums payable in respect of (i) any redemption pursuant to Condition 6(b)(B)(ii); (ii) any optional redemption pursuant to Condition 6(c) (*Redemption, Purchase and Cancellation – Redemption at the option of the Issuer*) (other than pursuant to Condition 6(c)(iv)); and (iii) any redemption for tax or other reasons pursuant to Condition 6(d) (*Redemption, Purchase and Cancellation – Substitution/redemption for taxation or other reasons*);

Underlying Rating means the ratings of the Class A1 Debenture Bonds, the Class A3 Debenture Bonds and the Class A5 Debenture Bonds disregarding the benefit of the Ambac Financial Guarantee;

VAT shall be construed as a reference to value added tax or any other tax of a similar fiscal nature imposed by the laws of any jurisdiction; and

Written Resolution means a resolution in writing signed by or on behalf of all holders of Debenture Bonds or any class thereof who for the time being are entitled to receive notice of a Meeting in accordance with the Provisions for Meetings of Debenture Bondholders, whether contained in one document or several documents in the same form, each signed by or on behalf of one or more such holders of the Debenture Bonds.

2. Form, Denomination and Title

(a) Form and denomination of Temporary Global Debenture Bonds

- (i) Each Class of Debenture Bonds will be issued in bearer form and will initially be represented by a Temporary Global Debenture Bond, without Coupons or Talons attached. The aggregate principal amount on issue of the Original Debenture Bonds will be £150,000,000 for the Class A1 Debenture Bonds, £200,000,000 for the Class A2 Debenture Bonds, £250,000,000 for the Class A3 Debenture Bonds, £350,000,000 for the Class A4 Debenture Bonds, £300,000,000 for the Class A5 Debenture Bonds. The aggregate principal amount on issue of the Second Issue Debenture Bonds will be zero and on the Second Closing Date will be, in the case of the Class A6 Debenture Bonds, an amount equal to the subscription amount for the Class A6 Debenture Bonds and, in the case of the Class A7 Debenture Bonds, an amount equal to the subscription amount in respect of the Class A7 Debenture Bonds.
- (ii) Each Class of Original Debenture Bonds will be issued in denominations of £1,000, £10,000 and £100,000.
- (iii) Each Class of Second Issue Debenture Bonds will be issued in denominations of no less than £100,000 and in integral multiples of £1,000 thereafter up to £199,000.

(b) Exchange for Permanent Global Debenture Bonds

Interests in each Temporary Global Debenture Bond are exchangeable on and after the Exchange Date, upon receipt of certification by the Issuer of non-US beneficial ownership from Euroclear or Clearstream, Luxembourg, for interests in a Permanent Global Debenture Bond, without Coupons or Talons attached, representing the same Class of Debenture Bonds.

(c) Title to Global Debenture Bonds

Title to the Global Debenture Bonds will pass by delivery. Interests in Debenture Bonds represented by a Global Debenture Bond and held by a common depository for Euroclear or Clearstream, Luxembourg will be transferable only in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as appropriate. The holder of any Global Debenture Bond may (except as ordered by a court of competent jurisdiction or otherwise required by law) be treated at all times by the Issuer, the Debenture Bond Trustee, the Issuer Security Trustee and the Paying Agents as the absolute owner of that Global Debenture Bond for the purposes of making payments thereon (regardless of any notice of ownership, trust or other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and none of the Issuer, the Debenture Bond Trustee, the Issuer Security Trustee and the Paying Agents shall be liable for so treating such holder.

(d) Issue of Definitive Debenture Bonds

If, while any of the Debenture Bonds is represented by a Permanent Global Debenture Bond, an Exchange Event occurs, the Issuer will deliver Definitive Debenture Bonds with, where applicable, Coupons and Talons attached on issue.

(e) Form and denomination of Definitive Debenture Bonds

- (i) Definitive Debenture Bonds in respect of the Original Debenture Bonds, if issued, will be in the denominations of £1,000, £10,000 and £100,000, each serially numbered and in bearer form with, at the date of issue, Coupons falling due after the date of issue and Talons for further Coupons in each case attached.
- (ii) Definitive Debenture Bonds in respect of the Second Issue Debenture Bonds, if issued, will be in denominations of no less than £100,000 and in integral multiples of £1,000 thereafter up to £199,000, each serially numbered and in bearer form with, at the date of issue, Coupons falling due after the date of issue and Talons for further Coupons in each case attached.
- (iii) The Definitive Debenture Bonds, Coupons and Talons will be security printed in accordance with applicable legal and stock exchange requirements and shall be endorsed with these Conditions.

(f) Title to Definitive Debenture Bonds

Title to the Definitive Debenture Bonds, Coupons and Talons will pass by delivery. The holder of any Definitive Debenture Bond, Coupon or Talon may (except as ordered by a court of competent jurisdiction or otherwise required by law) be treated at all times, by all persons and for all purposes, including the making of any payments in respect of the Debenture Bonds, as the absolute owner of that Definitive Debenture Bond, Coupon or Talon (regardless of any notice of ownership, trust or other interest therein, any writing thereon or any notice of any previous loss or theft thereof and no person shall be liable for so treating such holder). Each Couponholder and Talonholder (whether or not the Coupon or Talon is attached to the relevant Definitive Debenture Bond) in his capacity as such shall be subject to and bound by all the provisions contained in the relevant Definitive Debenture Bond.

3. Status, Priority and Security**(a) Status and relationship between the Debenture Bonds**

- (i) The Debenture Bonds and Coupons constitute direct and, upon issue, unconditional and unsubordinated (except in relation to Step-Up Amounts) obligations of the Issuer and are secured over substantially all of the assets of the Issuer pursuant to and as described in the Issuer Deed of Charge. The Debenture Bonds rank *pari passu* without preference or priority among themselves.

The Class A1 Debenture Bonds, the Class A3 Debenture Bonds and the Class A5 Debenture Bonds have the benefit of the Ambac Financial Guarantee, which has been issued pursuant to the Ambac Guarantee and Reimbursement Agreement under which Ambac has unconditionally and irrevocably agreed to pay to the Class A1 Debenture Bondholders, the Class A3 Debenture Bondholders and the Class A5 Debenture Bondholders, subject to the next paragraph, all sums due and payable but unpaid by the Issuer in respect of Scheduled Interest and Ultimate Principal of the Class A1 Debenture Bonds, the Class A3 Debenture Bonds and the Class A5 Debenture Bonds, all as more particularly described in the Ambac Financial Guarantee.

Under the terms of the Ambac Financial Guarantee, Ambac does not guarantee any amount in respect of Class A1 Step-Up Amounts, Class A3 Step-Up Amounts and Class A5 Step-Up Amounts. Ambac does not guarantee any amount payable by the Issuer upon an early redemption of the Class A1 Debenture Bonds, the Class A3 Debenture Bonds or the Class A5 Debenture Bonds pursuant to Condition 6(b) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption*), Condition 6(c) (*Redemption, Purchase and Cancellation – Redemption at the option of the Issuer*) (other than pursuant to Condition 6(c)(iv)) or Condition 6(d) (*Redemption, Purchase and Cancellation – Substitution/redemption for taxation or other reasons*). Upon any such early redemption, if such amount is not paid, Ambac's obligations will continue to be to pay the Guaranteed Amount as it falls Due for Payment on each Interest Payment Date. Ambac will not be obliged under any circumstances to accelerate payment under the Ambac Financial Guarantee. However, if it does so, it may do so in whole or in part and the amount payable will be determined in accordance with Condition 6(c)(iv) (*Redemption, Purchase and Cancellation – Redemption at the option of the Issuer*) (and any amount due in excess thereof will not be guaranteed by Ambac under the Ambac Financial Guarantee).

The Ambac Financial Guarantee in respect of the Class A1 Debenture Bonds, the Class A3 Debenture Bonds and the Class A5 Debenture Bonds constitutes a direct, unsecured obligation of Ambac which will rank at least *pari passu* with all other unsecured obligations of Ambac.

- (ii) The rights of the holders of each Class of Debenture Bonds in respect of payments of interest and principal are set out in Conditions 5 (*Interest*) and 6 (*Redemption, Purchase and Cancellation*).
- (iii) All Step-Up Amounts are subordinated both prior to and on enforcement of the Issuer Security to repayments of principal and payments of interest (other than Step-Up Amounts) in respect of the Debenture Bonds as well as payments to the Liquidity Facility Provider, the Hedge Provider, Ambac and others as described above.
- (iv) The Trust Deed contains provisions requiring the Debenture Bond Trustee (except where expressly provided otherwise) to have regard to the interests of the Debenture Bondholders as a whole as regards the performance of all powers, trusts, authorities, duties and discretions of the Debenture Bond Trustee.
- (v) The Issuer Deed of Charge contains provisions requiring the Issuer Security Trustee to act only in accordance with the directions of the Debenture Bond Trustee prior to the redemption in full of all of the Debenture Bonds.

Following the redemption in full of all of the Debenture Bonds and provided that no amounts are owed by the Issuer to Ambac under the Ambac Guarantee and Reimbursement Agreement the Issuer Security Trustee shall have regard to the

interests of the person appearing highest in the order of priority of payments to whom any amount is owed under the Issuer Deed of Charge with respect to all trusts, powers, authorities, duties and discretions of the Issuer Security Trustee.

The Trust Deed provides for the Debenture Bond Trustee:

- (A) whether or not there is any conflict of interest between two or more Classes of Debenture Bondholders and/or any other Issuer Secured Creditors, to act only at the direction of Ambac if the aggregate Principal Amount Outstanding of Guaranteed Debenture Bonds is more than 50 per cent. of the aggregate Principal Amount Outstanding of all of the Debenture Bonds and if no Ambac Termination Event has occurred; or
- (B) if the aggregate Principal Amount Outstanding of Guaranteed Debenture Bonds is less than or equal to 50 per cent. of the aggregate Principal Amount Outstanding of all of the Debenture Bonds and/or an Ambac Termination Event has occurred:
 - (I) to act in such manner as it thinks fit, but subject to obtaining the consent of Ambac (provided that no Ambac Termination Event has occurred) where such action would, in the opinion of the Debenture Bond Trustee, affect the interests of the holders of the Guaranteed Debenture Bonds; and
 - (II) to act at the direction of (1) where expressly permitted, the holders of at least 25 per cent. in Principal Amount Outstanding of all of the Debenture Bonds then outstanding or (2) an Extraordinary Resolution of the Debenture Bondholders (subject to provisions for determining whether any such Extraordinary Resolution must be passed at a single Meeting of all Debenture Bondholders or the affected Class (as the case may be) or at separate Meetings of each Class of Debenture Bondholders); but subject, in either case, to obtaining the consent of Ambac, (provided that no Ambac Termination Event has occurred) if the aggregate Principal Amount Outstanding of the Guaranteed Debenture Bonds is more than 25 per cent., but not more than 50 per cent., of the aggregate Principal Amount Outstanding of all of the Debenture Bonds, in the case of a direction to accelerate the Debenture Bonds or to enforce the Issuer Security,

subject, in all cases, to provisions for indemnification of the Debenture Bond Trustee as provided in the Trust Deed.

For the purposes of (B)(II) above, Ambac shall be treated as the holder of all the Guaranteed Debenture Bonds (except if an Ambac Termination Event has occurred).

The foregoing provisions requiring the Debenture Bond Trustee to act at the direction of Ambac or only subject to obtaining its consent or providing for Ambac to be treated as the holder of all the Guaranteed Debenture Bonds do not apply in relation to Debenture Bondholder Reserved Matters.

In the event that the Debenture Bond Trustee receives conflicting directions under (B)(II) above or otherwise considers there may be a conflict between the interests of two or more Classes of Debenture Bondholders in respect of any action which the Debenture Bond Trustee proposes to take under (B)(I) above, the Debenture Bond Trustee shall not be required to follow such directions or take such action unless such conflict is resolved by each of the relevant Classes of Debenture Bondholders approving such direction or action at separate meetings of each relevant Class, provided that where (a) one of the

conflicting directions under paragraph (B)(II)(1) above is from Ambac and (b) no Ambac Termination Event has occurred, the Debenture Bond Trustee shall act in accordance with such direction to the exclusion of any conflicting direction.

The Trust Deed provides for Ambac to indemnify the Debenture Bond Trustee against any losses, claims, damages, costs, expenses or liabilities whatsoever suffered or incurred by the Debenture Bond Trustee as a result of acting in accordance with the directions of Ambac (whether in its own right under (I) above or by virtue of it being treated as the holder of the Guaranteed Debenture Bonds under (B)(II) above).

Modifications of, waivers and authorisations of breaches or proposed breaches of, and consents under, any of the Transaction Documents may be sanctioned or given by the Debenture Bond Trustee (including by means of a direction to the Issuer Security Trustee and, through the Issuer Security Trustee, to the Borrower Group Security Trustee) if they are not, in the opinion of the Debenture Bond Trustee, materially prejudicial to the interests of:

- (aa) the holders of the Debenture Bonds, other than the Guaranteed Debenture Bonds; and
- (bb) if an Ambac Termination Event has occurred or if the modification, waiver, authorisation or consent constitutes a Debenture Bondholder Reserved Matter, the holders of the Guaranteed Debenture Bonds; and

(where the interests of the holders of the Guaranteed Debenture Bonds would, in the opinion of the Debenture Bond Trustee, be affected) Ambac has consented to such modification, waiver, authorisation or consent (except if an Ambac Termination Event has occurred or the modification, waiver, authorisation or consent constitutes a Debenture Bondholder Reserved Matter).

Where the Debenture Bond Trustee and/or the Issuer Security Trustee (as the case may be) is required to have regard to the interests of any Issuer Secured Creditor (other than the Debenture Bondholders, not being holders of the Guaranteed Debenture Bonds), the Debenture Bond Trustee and/or the Issuer Security Trustee (as the case may be) may consult with such Issuer Secured Creditor and may rely on the opinion of such Issuer Secured Creditor as to whether any act, matter or thing is or is not in the interests of, or materially prejudicial to the interests of, such Issuer Secured Creditor. For this purpose, the Debenture Bond Trustee and/or the Issuer Security Trustee (as the case may be) shall be entitled, in the absence of an Ambac Termination Event, to consult with and rely on the opinion of Ambac in relation to the interests of the holders of the Guaranteed Debenture Bonds.

Neither the Debenture Bond Trustee nor the Issuer Security Trustee shall have any liability for relying on an Issuer Secured Creditor's opinion in accordance with the above. No Issuer Secured Creditor shall have any claim against the Debenture Bond Trustee or the Issuer Security Trustee as a result of the application of the conflict provisions set out in the Trust Deed.

- (vi) In exercising its powers, trusts, authorities, duties and discretions in accordance with Condition 3(a)(iv) or Condition 3(a)(v) above, the Debenture Bond Trustee and the Issuer Security Trustee (as the case may be) shall disregard any Step-Up Amounts for the purposes of determining whether there is any particular class of Debenture Bonds outstanding.
- (vii) All classes of Debenture Bonds are subject to the provisions of the Transaction Documents.
- (viii) The Debenture Bondholders will share in the benefit of the security created by the Issuer Deed of Charge upon and subject to the terms thereof.

(b) Security

Pursuant to the Issuer Deed of Charge, the Issuer will grant the following security in favour of the Issuer Security Trustee who will hold such security on trust for the benefit of the Debenture Bondholders and the other Issuer Secured Creditors:

- (i) an assignment by way of a first fixed security of its right, title, interest and benefit, present and future, in, to and under the Transaction Documents to which it is a party including the security trusts created under the Borrower Group Deed of Charge;
- (ii) a charge by way of a first fixed security over the amounts from time to time standing to the credit of the Issuer Transaction Account and the Liquidity Facility Reserve Account (which Security Interests may take effect as a floating charge and thus rank behind the claims of certain preferential and other creditors);
- (iii) a first fixed charge over all investments in Eligible Investments permitted to be made pursuant to the Servicing Agreement (which Security Interests may take effect as a floating charge and thus rank behind the claims of certain preferential and other creditors); and
- (iv) a first floating charge (ranking behind the claims of certain preferential and other creditors) over all of the property, assets and undertakings of the Issuer not already subject to fixed security (but extending over all of its assets situated in or governed by the law of Scotland),

all as more particularly set out in the Issuer Deed of Charge.

In addition, the Issuer Parent will grant an equitable mortgage over the shares in the Issuer in favour of the Issuer Security Trustee to be held for the benefit of the Debenture Bondholders and the other Issuer Secured Creditors.

The Issuer Security will also stand as security for the obligations of the Issuer to the Issuer Security Trustee, the Debenture Bond Trustee, Ambac, LoanCo, the Liquidity Facility Provider, the Hedge Provider, the Servicer, the Borrowers (under the Issuer/Borrower Hedging Agreement) and the Account Bank.

(c) Issuer Pre-Acceleration Priority of Payments

Prior to the delivery of a Debenture Bond Acceleration Notice by the Debenture Bond Trustee, the Servicer (as agent for the Issuer Security) shall instruct the Account Bank to apply amounts standing to the credit of the Issuer Transaction Account (**Issuer Available Amounts**) in the following order of priority (the **Issuer Pre-Acceleration Priority of Payments**) (including in each case any amount in respect of VAT payable thereon):

- (A) *first, pro rata* according to the respective amounts thereof, to pay or provide for payment of amounts then due or to be provided for, the fees or other remuneration and indemnity payments (if any) payable to:
 - (i) the Issuer Security Trustee and any costs, charges, liabilities and expenses incurred by it under the provisions of the Issuer Deed of Charge and any of the other Transaction Documents, together with interest thereon as provided for therein;
 - (ii) the Debenture Bond Trustee and any costs, charges, liabilities and expenses incurred by it under the provisions of the Trust Deed and any of the other Transaction Documents, together with interest thereon as provided for therein; and
 - (iii) the Paying Agents and the Agent Bank and any costs, charges, liabilities and expenses incurred under the provisions of the Agency

Agreement and any of the other Transaction Documents, together with interest thereon as provided for therein;

- (B) *second*, to pay or provide for payment (after application of all amounts standing to the credit of the Liquidity Facility Reserve Account (if any)) of all amounts of principal, interest, commitment fees and all other amounts due or accrued due but unpaid to the Liquidity Facility Agent and the Liquidity Facility Provider(s) under the terms of the Liquidity Facility Agreement, other than the amounts in respect of any increase in the commitment fee payable to the Liquidity Facility Provider(s) as a result of the imposition of increased costs arising from the implementation by the Liquidity Facility Provider(s) of the New Basel Capital Accord (as defined in the Master Definitions and Construction Schedule) in excess of 0.325 per cent. per annum of the maximum aggregate amount available to be drawn under the Liquidity Facility Agreement (**Liquidity Subordinated Amounts**);
- (C) *third, pro rata* according to the respective amounts thereof, to pay or provide for all amounts due and payable (if any) to:
- (i) the Hedge Provider pursuant to the Hedging Agreement (other than:
 - (1) any Class A6/A7 Swap Cash Sweep Amount; or
 - (2) any payment to be paid to the Hedge Provider upon termination of transactions under the Issuer/Borrower Hedging Agreement as a result of either (a) an insolvency event with respect to the Hedge Provider or (b) a failure by the Hedge Provider to take the required remedial action in accordance with the terms of the Hedging Agreement following a ratings downgrade of the Hedge Provider below the Hedge Provider Requisite Rating (**Hedging Agreement Subordinated Amounts**)); and
 - (ii) the Borrowers pursuant to the Issuer/Borrower Hedging Agreement (other than:
 - (1) any A6/A7 IB Swap Cash Sweep Amount; or
 - (2) any payment to be paid to the Borrowers upon termination of transactions under the Issuer/Borrower Hedging Agreement as a result of an insolvency event with respect to either Borrower (**Borrower IB Hedging Subordinated Amounts**));
- (D) *fourth*, to pay or provide for amounts in respect of guarantee fees (including, for the avoidance of doubt, fees which become due solely as a result of the early redemption or cancellation of any of the Guaranteed Debenture Bonds or any commutation of the Ambac Financial Guarantee (**Cancellation Fees**) and all other amounts then due to Ambac pursuant to the terms of the Ambac Guarantee and Reimbursement Agreement (other than (i) amounts provided for in paragraphs (G)(i), (G)(iii), (G)(v), (H)(i), (H)(iii) and (H)(v) below and (ii) amounts payable to Ambac by way of increased fees (excluding, for the avoidance of doubt, Cancellation Fees) under the Guarantee and Reimbursement Agreement (**Ambac Subordinated Fees**));
- (E) *fifth, pro rata* according to the respective amounts thereof, to pay or provide for remuneration then payable to:
- (i) the Servicer together with all other costs, charges, liabilities, expenses, indemnity amounts and losses incurred under the provisions of the Servicing Agreement;
 - (ii) the Account Bank incurred under the provisions of the Bank Agreement; and

- (iii) the Corporate Services Provider together with all other costs, charges, liabilities, expenses, indemnity amounts and losses incurred under the provisions of the Corporate Services Agreement;
- (F) *sixth*, to pay or provide for payment of the amounts then due or to be provided for in respect of the Issuer's liability or possible liability to third parties under obligations incurred in the course of the Issuer's business (including any amounts due to the Rating Agencies, any Stock Exchange and any listing agent, and any amounts of corporation tax on profits due to H.M. Revenue & Customs or any successor tax authority), other than amounts paid under paragraphs (A), (B), (C), (D) or (E) above;
- (G) *seventh, pro rata* according to the respective amounts thereof, to pay or provide for payment of:
- (i) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of amounts of Scheduled Interest paid by Ambac to the Class A1 Debenture Bondholders together with any interest on such amounts and (B) all amounts of interest due but unpaid in respect of the Class A1 Debenture Bonds (other than that proportion of the interest referable to the Class A1 Step-Up Margin on the Class A1 Debenture Bonds and any interest accrued thereon (***Class A1 Step-Up Amounts***)), such amounts to be applied in the following order of priority:
 - (1) first, to pay to Ambac the amounts described at (A) above; and
 - (2) second, to pay to the Class A1 Debenture Bondholders the amounts described at (B) above;
 - (ii) all amounts of interest due but unpaid in respect of the Class A2 Debenture Bonds (other than that proportion of the interest referable to the Class A2 Step-Up Margin on the Class A2 Debenture Bonds and any interest accrued thereon (***Class A2 Step-Up Amounts***));
 - (iii) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of amounts of Scheduled Interest paid by Ambac to the Class A3 Debenture Bondholders together with any interest on such amounts and (B) all amounts of interest due but unpaid in respect of the Class A3 Debenture Bonds (other than that proportion of the interest referable to the Class A3 Step-Up Margin on the Class A3 Debenture Bonds and any interest accrued thereon (***Class A3 Step-Up Amounts***)), such amounts to be applied in the following order of priority:
 - (1) first, to pay to Ambac the amounts described at (A) above; and
 - (2) second, to pay to the Class A3 Debenture Bondholders the amounts described at (B) above;
 - (iv) all amounts of interest due but unpaid in respect of the Class A4 Debenture Bonds (other than that proportion of the interest referable to the Class A4 Step-Up Margin on the Class A4 Debenture Bonds and any interest accrued thereon (***Class A4 Step-Up Amounts***));
 - (v) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of amounts of Scheduled Interest paid by Ambac to the Class A5 Debenture Bondholders together with any interest on such amounts and (B) all amounts of interest due but unpaid in respect of the Class A5 Debenture Bonds (other than that proportion of the interest referable to the Class A5 Step-Up Margin on the Class A5 Debenture Bonds and any interest accrued thereon (***Class A5 Step-Up***

Amounts)), such amounts to be applied in the following order of priority:

- (1) first, to pay to Ambac the amounts described at (A) above; and
 - (2) second, to pay to the Class A5 Debenture Bondholders the amounts described at (B) above;
- (vi) all amounts of interest due but unpaid in respect of the Class A6 Debenture Bonds (other than that proportion of the interest referable to the Class A6 Step-Up Margin on the Class A6 Debenture Bonds and any interest accrued thereon (**Class A6 Step-Up Amounts**)); and
- (vii) all amounts of interest due but unpaid in respect of the Class A7 Debenture Bonds (other than that proportion of the interest referable to the Class A7 Step-Up Margin on the Class A7 Debenture Bonds and any interest accrued thereon (**Class A7 Step-Up Amounts**));
- (H) *eighth, pro rata* according to the respective amounts thereof, to pay or provide for payment of:
- (i) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of Ultimate Principal paid by Ambac to the Class A1 Debenture Bondholders together with any interest on such amounts and (B) all amounts of principal payable in respect of the Class A1 Debenture Bonds in accordance with Condition 6(b)(A)(ii) (*Class A1 Debenture Bonds*), such amounts to be applied in the following order of priority:
 - (1) first, to pay to Ambac the amounts described at (A) above; and
 - (2) second, to pay to the Class A1 Debenture Bondholders the amounts described at (B) above;
 - (ii) all amounts of principal payable in respect of the Class A2 Debenture Bonds in accordance with Condition 6(b)(A)(iii) (*Class A2 Debenture Bonds*);
 - (iii) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of Ultimate Principal paid by Ambac to the Class A3 Debenture Bondholders together with any interest on such amounts and (B) all amounts of principal payable (other than any Redemption Premium Amount) in respect of the Class A3 Debenture Bonds in accordance with Condition 6(b)(A)(iv) (*Class A3 Debenture Bonds*), such amounts to be applied in the following order of priority:
 - (1) first, to pay to Ambac the amounts described at (A) above; and
 - (2) second, to pay to the Class A3 Debenture Bondholders the amounts described at (B) above;
 - (iv) all amounts of principal payable (other than any Redemption Premium Amount) in respect of the Class A4 Debenture Bonds in accordance with Condition 6(b)(A)(v) (*Class A4 Debenture Bonds*);
 - (v) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of Ultimate Principal paid by Ambac to the Class A5 Debenture Bondholders together with any interest on such amounts and (B) all amounts of principal payable (other than any Redemption Premium Amount) in respect of the Class A5 Debenture Bonds in accordance with Condition 6(b)(A)(vi) (*Class A5 Debenture Bonds*), such amounts to be applied in the following order of priority:
 - (1) first, to pay to Ambac the amounts described at (A) above; and

- (2) second, to pay to the Class A5 Debenture Bondholders the amounts described at (B) above;
- (vi) all amounts of principal payable in respect of the Class A6 Debenture Bonds in accordance with Condition 6(b)(A)(vii) (*Class A6 Debenture Bonds*); and
- (vii) all amounts of principal payable (other than any Redemption Premium Amount) in respect of the Class A7 Debenture Bonds in accordance with Condition 6(b)(A)(viii) (*Class A7 Debenture Bonds*);
- (I) *ninth*, in or towards satisfaction of any other amounts (including the Liquidity Subordinated Amounts, but excluding any sums referred to in paragraph (B) above) due under the Liquidity Facility Agreement to the Liquidity Facility Agent and the Liquidity Facility Provider(s);
- (J) *tenth, pro rata* according to the respective amounts thereof, to pay or provide for amounts then due and payable by way of:
 - (i) Redemption Premium Amount (if any) in respect of the Class A3 Debenture Bonds (including any accrued but unpaid interest thereon);
 - (ii) Redemption Premium Amount (if any) in respect of the Class A4 Debenture Bonds (including any accrued but unpaid interest thereon);
 - (iii) Redemption Premium Amount (if any) in respect of the Class A5 Debenture Bonds (including any accrued but unpaid interest thereon); and
 - (iv) Redemption Premium Amount (if any) in respect of the Class A7 Debenture Bonds (including any accrued but unpaid interest thereon);
- (K) *eleventh, pro rata* according to the respective amounts thereof, to pay or provide for payment of:
 - (i) Hedging Agreement Subordinated Amounts due and payable under the Hedging Agreement to the Hedge Provider; and
 - (ii) Borrower IB Hedging Subordinated Amounts due and payable to the Borrowers under the Issuer/Borrower Hedging Agreement;
- (L) *twelfth*, in or towards satisfaction of any other amounts (but excluding any sums referred to in paragraph (F) above) due to any tax authority;
- (M) *thirteenth, pro rata* according to the respective amounts thereof, to pay or provide for payment of:
 - (i) Ambac Subordinated Fees;
 - (ii) Class A1 Step-Up Amounts;
 - (iii) Class A2 Step-Up Amounts;
 - (iv) Class A3 Step-Up Amounts;
 - (v) Class A4 Step-Up Amounts;
 - (vi) Class A5 Step-Up Amounts;
 - (vii) Class A6 Step-Up Amounts; and
 - (viii) Class A7 Step-Up Amounts,
 then due and payable;
- (N) *fourteenth, pro rata* according to the respective amounts thereof, to pay or provide for payment of:
 - (i) any Class A6 Cash Sweep Amount;

- (ii) any Class A7 Cash Sweep Amount;
 - (iii) any Class A6 Swap Cash Sweep Amount;
 - (iv) any Class A7 Swap Cash Sweep Amount;
 - (v) any A6 IB Swap Cash Sweep Amount; and
 - (vi) any A7 IB Swap Cash Sweep Amount,
- then due and payable;
- (O) *fifteenth*, to pay or provide for payment of the amounts then due and payable in respect of the Issuer's obligations to pay interest on the LoanCo/Issuer Subordinated Loan;
 - (P) *sixteenth*, to pay or provide for the amounts then due and payable in respect of the Issuer's obligations to repay principal of the LoanCo/Issuer Subordinated Loan; and
 - (Q) *seventeenth*, the surplus (if any) to the Issuer.

Payments may not be made from the Issuer Transaction Account on any day other than on an Interest Payment Date other than to satisfy liabilities set out in paragraph (F) above.

In addition to the payments described above, on any Interest Payment Date after the Original Closing Date but prior to the service of a Debenture Bond Acceleration Notice, the Issuer will be entitled to pay a dividend to Issuer Parent until such time as it has paid dividends in an aggregate amount of £15,000 to Issuer Parent, which amount, together with the provision for corporation tax on the profits out of which any such amount is paid, will be provided for at paragraph (F) of the Issuer Pre-Acceleration Priority of Payments. Once the Issuer has paid dividends in an aggregate amount of £15,000 to Issuer Parent, the Issuer will not be entitled to pay any further amount by way of dividend to Issuer Parent other than out of the surplus described in paragraph (Q) above.

For the avoidance of doubt, the following amounts will not form part of the Issuer Available Amounts but will be payable directly to the Hedge Provider as set out below:

- (a) if the Hedging Agreement is terminated in circumstances where the Issuer enters into a replacement hedging arrangement with a replacement hedge provider:
 - (i) any payment received from such Replacement Hedge Provider by the Issuer as part of doing so will be paid directly to the Hedge Provider being replaced until any termination payment to such Hedge Provider is made in full; and
 - (ii) any payment payable by the existing Hedge Provider to such replacement Hedge Provider will be paid directly to the Replacement Hedge Provider until any termination payment payable by such existing Hedge Provider has been made in full; and
- (b) any Hedging Agreement Excluded Amounts payable by the Issuer will be payable directly by the Issuer to the Hedge Provider in accordance with the terms of the existing Hedging Agreement.

Hedging Agreement Excluded Amounts means (i) an amount equal to the value of the collateral (or part thereof) transferred by the Hedge Provider to the Issuer under the Hedging Agreement which (a) is in excess of the termination amount that would, but for the transfer of such collateral, be payable by such Hedge Provider under such Hedging Agreement or (b) the Hedge Provider is entitled to have returned to it under such Hedging Agreement and (ii) an amount equal to the Cash Benefit of any Tax Credit.

Cash Benefit and **Tax Credit** have the meanings given in the Master Definitions and Construction Schedule.

To the extent that the Issuer's funds on the relevant Interest Payment Date are insufficient to make payments under paragraphs (A) to (F) (inclusive) and (G)(i)(2), (G)(ii), (G)(iii)(2), (G)(iv), (G)(v)(2), (G)(vi) and (G)(vii) above, the Issuer may make a drawing under the Liquidity Facility Agreement or, to the extent credited thereto, the Liquidity Facility Reserve Account.

(d) Issuer Post-Acceleration Priority of Payments

All moneys received or recovered by the Issuer Security Trustee or the Receiver in respect of the Issuer Secured Obligations following the service of a Debenture Bond Acceleration Notice by the Debenture Bond Trustee shall be applied in or towards the satisfaction of the following amounts in the following order of priority (the **Issuer Post-Acceleration Priority of Payments**) (and in each case only and to the extent that payments or provisions of a higher priority have been made in full) (unless otherwise required by law) (including in each case any VAT payable thereon) provided that no such payment shall be made unless and until (if in the sole discretion of the Issuer Security Trustee and/or the Debenture Bond Trustee it is expedient to do so) a reserve fund is first established in the amount of £750,000 (or such lesser or greater amount as the Issuer Security Trustee and/or the Debenture Bond Trustee may reasonably determine) on account of any contingent costs, charges, liabilities and expenses which in the opinion of the Issuer Security Trustee and/or the Debenture Bond Trustee (as the case may be) may be incurred by the Issuer Security Trustee and/or the Debenture Bond Trustee under the Transaction Documents:

- (A) *first, pro rata* according to the respective amounts thereof to pay or provide for payment of amounts then due or to be provided for, the fees or other remuneration and indemnity payments (if any) payable to:
 - (i) the Issuer Security Trustee and any Receiver appointed by the Issuer Security Trustee and any costs, charges, liabilities and expenses incurred by the Issuer Security Trustee and any Receiver under the provisions of the Issuer Deed of Charge and any of the other Transaction Documents, together with interest thereon as provided for therein;
 - (ii) the Debenture Bond Trustee and any costs, charges, liabilities and expenses incurred by it under the provisions of the Trust Deed and any of the other Transaction Documents, together with interest thereon as provided for therein; and
 - (iii) the Paying Agents and the Agent Bank and any costs, charges, liabilities and expenses incurred under the provisions of the Agency Agreement and any of the other Transaction Documents, together with interest thereon as provided therein;
- (B) *second*, to pay or provide for (after application of all amounts standing to the credit of the Liquidity Facility Reserve Account (if any)) all amounts of principal, interest, commitment fees and all other amounts due or accrued due but unpaid to the Liquidity Facility Agent and the Liquidity Facility Provider(s) under the terms of the Liquidity Facility Agreement (but excluding any Liquidity Subordinated Amounts);
- (C) *third, pro rata* according to the respective amounts thereof, to pay or provide for payment of all amounts due and payable (if any) to:
 - (i) the Hedge Provider pursuant to the Hedging Agreement (other than any Hedging Agreement Subordinated Amounts); and
 - (ii) the Borrowers pursuant to the Issuer/Borrower Hedging Agreement (other than any Borrower IB Hedging Subordinated Amounts);

- (D) *fourth*, to pay or provide for the amounts in respect of guarantee fees and all other amounts then due to Ambac pursuant to the terms of the Ambac Guarantee and Reimbursement Agreement (other than amounts (i) provided for in paragraphs (F)(i), (F)(iii), (F)(v), (G)(i), (G)(iii) and (G)(v) below) and (ii) Ambac Subordinated Fees);
- (E) *fifth, pro rata*, according to the respective amounts thereof, to pay or provide for:
- (i) any amounts then due or to be provided for, remuneration then payable to the Account Bank, together with all other costs, charges, liabilities, expenses, indemnity amounts and losses incurred under the provisions of the Bank Agreement; and
 - (ii) any amounts then due or to be provided for, remuneration then payable to the Corporate Services Provider, together with all other costs, charges, liabilities, expenses, indemnity amounts and losses incurred under the provisions of the Corporate Services Agreement;
- (F) *sixth, pro rata* according to the respective amounts thereof, to pay or provide for payment of:
- (i) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of amounts of Scheduled Interest paid by Ambac to the Class A1 Debenture Bondholders together with any interest on such amounts and (B) all amounts of interest due but unpaid in respect of the Class A1 Debenture Bonds (other than Class A1 Step-Up Amounts), such amounts to be applied in the following order of priority:
 - (1) first, to pay to Ambac the amounts described at (A) above; and
 - (2) second, to pay to the Class A1 Debenture Bondholders the amounts described at (B) above;
 - (ii) all amounts of interest due but unpaid in respect of the Class A2 Debenture Bonds (other than Class A2 Step-Up Amounts);
 - (iii) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of amounts of Scheduled Interest paid by Ambac to the Class A3 Debenture Bondholders together with any interest on such amounts and (B) all amounts of interest due but unpaid in respect of the Class A3 Debenture Bonds (other than Class A3 Step-Up Amounts), such amounts to be applied in the following order of priority:
 - (1) first, to pay to Ambac the amounts described at (A) above; and
 - (2) second, to pay to the Class A3 Debenture Bondholders the amounts described at (B) above;
 - (iv) all amounts of interest due but unpaid in respect of the Class A4 Debenture Bonds (other than Class A4 Step-Up Amounts);
 - (v) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of amounts of Scheduled Interest paid by Ambac to the Class A5 Debenture Bondholders, together with any interest on such amounts and (B) all amounts of interest due but unpaid in respect of the Class A5 Debenture Bonds (other than Class A5 Step-Up Amounts), such amounts to be applied in the following order of priority:
 - (1) first, to pay to Ambac the amounts described at (A) above; and
 - (2) second, to pay to the Class A5 Debenture Bondholders the amounts described at (B) above;

- (vi) all amounts of interest due but unpaid in respect of the Class A6 Debenture Bonds (other than Class A6 Step-Up Amounts); and
 - (vii) all amounts of interest due but unpaid in respect of the Class A7 Debenture Bonds (other than Class A7 Step-Up Amounts);
- (G) *seventh, pro rata* according to the respective amounts thereof, to pay or provide for payment of:
- (i) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of Ultimate Principal paid by Ambac to the Class A1 Debenture Bondholders together with any interest on such amounts and (B) all amounts of principal payable in respect of the Class A1 Debenture Bonds, until redemption in full, such amounts to be applied in the following order of priority:
 - (1) first, to pay to Ambac the amounts described at (A) above; and
 - (2) second, to pay to the Class A1 Debenture Bondholders the amounts described at (B) above;
 - (ii) all amounts of principal payable in respect of the Class A2 Debenture Bonds, until redemption in full;
 - (iii) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of Ultimate Principal paid by Ambac to the Class A3 Debenture Bondholders together with any interest on such amounts and (B) all amounts of principal payable (other than any Redemption Premium Amount) in respect of the Class A3 Debenture Bonds, until redemption in full, such amounts to be applied in the following order of priority:
 - (1) first, to pay to Ambac the amounts described at (A) above; and
 - (2) second, to pay to the Class A3 Debenture Bondholders the amounts described at (B) above;
 - (iv) all amounts of principal payable (other than any Redemption Premium Amount) in respect of the Class A4 Debenture Bonds, until redemption in full;
 - (v) (A) all amounts due under the Ambac Guarantee and Reimbursement Agreement in respect of Ultimate Principal paid by Ambac to the Class A5 Debenture Bondholders together with any interest on such amounts and (B) all amounts of principal payable (other than any Redemption Premium Amount) in respect of the Class A5 Debenture Bonds, until redemption in full, such amounts to be applied in the following order of priority:
 - (1) first, to pay to Ambac the amounts described at (A) above; and
 - (2) second, to pay to the Class A5 Debenture Bondholders the amounts described at (B) above;
 - (vi) all amounts of principal payable in respect of the Class A6 Debenture Bonds, until redemption in full; and
 - (vii) all amounts of principal payable (other than any Redemption Premium Amount) in respect of the Class A7 Debenture Bonds, until redemption in full;
- (H) *eighth*, to pay for or provide for payment of any other amount (including the Liquidity Subordinated Amounts but excluding any sums referred to in paragraph (B) above) due under the Liquidity Facility Agreement to the Liquidity Facility Agent and the Liquidity Facility Provider(s);

- (I) *ninth, pro rata* according to the respective amounts thereof, to pay or provide for amounts then due and payable by way of:
 - (i) Redemption Premium Amount (if any) in respect of the Class A3 Debenture Bonds (including any accrued but unpaid interest thereon);
 - (ii) Redemption Premium Amount (if any) in respect of the Class A4 Debenture Bonds (including any accrued but unpaid interest thereon);
 - (iii) Redemption Premium Amount (if any) in respect of the Class A5 Debenture Bonds (including any accrued but unpaid interest thereon); and
 - (iv) Redemption Premium Amount (if any) in respect of the Class A7 Debenture Bonds (including any accrued but unpaid interest thereon);
- (J) *tenth, pro rata* according to the respective amounts thereof, to pay or provide for payment of:
 - (i) Hedging Agreement Subordinated Amounts due and payable under the Hedging Agreement to the Hedge Provider; and
 - (ii) Borrower IB Hedging Subordinated Amounts due and payable to the Borrowers under the Issuer/Borrower Hedging Agreement;
- (K) *eleventh, pro rata* according to the respective amounts thereof, to pay or provide for payment of:
 - (i) Ambac Subordinated Fees;
 - (ii) Class A1 Step-Up Amounts;
 - (iii) Class A2 Step-Up Amounts;
 - (iv) Class A3 Step-Up Amounts;
 - (v) Class A4 Step-Up Amounts;
 - (vi) Class A5 Step-Up Amounts;
 - (vii) Class A6 Step-Up Amounts; and
 - (viii) Class A7 Step-Up Amounts,
 then due and payable;
- (L) *twelfth*, to pay or provide for the amounts then due and payable in respect of the Issuer's obligations to pay interest on the LoanCo/Issuer Subordinated Loan;
- (M) *thirteenth*, to pay or provide for the amounts then due and payable in respect of the Issuer's obligations to repay principal of the LoanCo/Issuer Subordinated Loan;
- (N) *fourteenth*, to pay or provide for remuneration then payable to the Servicer together with all other costs, charges, liabilities and expenses incurred under the provisions of the Servicing Agreement; and
- (O) *fifteenth*, the surplus (if any) to the Issuer.

4. Covenants

Save with the prior written consent of the Debenture Bond Trustee and the Issuer Security Trustee or as provided in or envisaged by any of the Transaction Documents and these Conditions, the Issuer shall not, so long as any Debenture Bond remains outstanding:

(a) Negative pledge

create or permit to subsist any Security Interest (unless arising by operation of law) whatsoever over any of its assets or use, invest, sell or otherwise dispose of any part of its assets (including any uncalled capital) or its undertaking, present or future, or the Issuer Charged Property;

(b) Restrictions on activities

- (i) engage in any activity whatsoever which is not incidental to or necessary in connection with any of the activities which the Transaction Documents provide or envisage that the Issuer will engage in; or
- (ii) have any subsidiaries, any subsidiary undertaking (as defined in section 1162 Companies Act 2006) or any employees or premises;

(c) Disposal of assets

transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertakings or any interest, estate, right, title or benefit therein;

(d) Dividends or distributions

pay any dividend or make any other distribution to its shareholders or issue any further shares which are redeemable, other than in accordance with the Issuer Deed of Charge;

(e) Borrowings

incur any indebtedness in respect of borrowed money whatsoever or give any guarantee in respect of indebtedness or of any obligation of any person except as contemplated by the Transaction Documents;

(f) Merger

consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;

(g) No variation or waiver

permit the validity or effectiveness of any of the Transaction Documents to which it is a party, or the priority of the Security Interests created thereby, to be amended, terminated or discharged, or consent to any variation of, or exercise any powers of consent or waiver pursuant to the terms of, the Trust Deed, these Conditions, the Issuer Deed of Charge or any of the other Transaction Documents to which it is a party, or permit any part of any of the Transaction Documents to which it is a party, or the relevant Issuer Charged Property or any other person whose obligations form part of the relevant Issuer Charged Property, to be released from such obligations, or dispose of the relevant Issuer Charged Property, save as envisaged in the Transaction Documents to which it is a party;

(h) VAT

apply to become part of any group with any other company or group of companies for the purposes of Section 43 of the Value Added Tax Act 1994 or any such act, regulation, order, statutory instrument or directive which may from time to time re-enact, replace, amend, vary, codify, consolidate or repeal the Value Added Tax Act 1994;

(i) Bank accounts

have an interest in any bank account other than the Issuer Transaction Account and the Liquidity Facility Reserve Account and any other account where it has an interest pursuant to the Issuer Deed of Charge, unless such account or interest therein is charged to the Issuer Security Trustee on terms acceptable to it;

(j) Surrender of group relief

offer to surrender or surrender to any company any amounts which are available for surrender by way of group relief within Part V of the Corporation Tax Act 2010; and

(k) Separate books, accounts, etc.

permit or consent to any of the following occurring:

- (A) its books and records being maintained with or co-mingled with those of any other person or entity;
- (B) its bank accounts and the debts represented thereby being co-mingled with those of any other person or entity;
- (C) its assets or revenues being co-mingled with those of any other person or entity; or
- (D) its business being conducted other than in its own name,

and, in addition and without limitation to the above, the Issuer shall or shall procure that, with respect to itself:

- (I) separate financial statements in relation to its financial affairs are maintained;
- (II) all corporate formalities with respect to its affairs are observed;
- (III) separate stationery, invoices and cheques are used; and
- (IV) any known misunderstandings regarding its separate identity are corrected as soon as possible.

5. Interest**(a) Accrual of interest***(i) Accrual of interest*

Interest will accrue from (and including):

- (A) the Original Closing Date, in respect of the Original Debenture Bonds; and
- (B) the Second Closing Date, in respect of the Second Issue Debenture Bonds,

on the Principal Amount Outstanding for the time being of each Class of Debenture Bonds. Each Debenture Bond (or in the case of the redemption of part only of a Debenture Bond, that part only of that Debenture Bond) shall cease to bear interest from and including its due date for redemption, unless, upon due presentation of the Debenture Bond, payment of the relevant amount of principal or any part of it is improperly withheld or refused. In such event, interest will continue to accrue on that unpaid amount (before and after the date of any judgment) at the rate from time to time applicable to that Debenture Bond up to (but excluding) the date on which, on further presentation of that Debenture Bond, payment of the relevant amount of principal is made in full or (if earlier) the seventh day after notice is duly given by the Principal Paying Agent to the relevant Debenture Bondholder in accordance with Condition 16 (*Notice to Debenture Bondholders*) that, upon presentation thereof being duly made, such payment will be made (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions). The first Interest Payment Date will be:

- (i) in respect of the Original Debenture Bonds, 28 March 2005 in respect of the period from (and including) the Original Closing Date to (but excluding) 28 March 2005; and
- (ii) in respect of the Second Issue Debenture Bonds, the Interest Payment Date falling in December 2013 in respect of the period from (and including) the Second Closing Date to (but excluding) the Interest Payment Date falling in December 2013.

(ii) *Class A6 Debenture Bonds*

For the avoidance of doubt, no interest shall accrue on the Class A6 Debenture Bonds prior to the Second Closing Date.

(iii) *Class A7 Debenture Bonds*

For the avoidance of doubt, no interest shall accrue on the Class A7 Debenture Bonds prior to the Second Closing Date.

(b) Interest Payment Dates; Interest Periods; Day Count Fractions

Interest on each Debenture Bond is payable quarterly in arrear on the Interest Payment Date in respect of the Interest Period ending on (but excluding) that Interest Payment Date.

Whenever it is necessary to compute an amount of interest in respect of any Debenture Bond for any period (including any Interest Period), such interest shall be calculated using the following day count fractions (each a **Day Count Fraction**):

- (i) in respect of the Class A1 Debenture Bonds and the Class A2 Debenture Bonds, the Class A3 Debenture Bonds after the Class A3 Step-Up Date, the Class A4 Debenture Bonds after the Class A4 Step-Up Date, the Class A5 Debenture Bonds after the Class A5 Step-Up Date, the Class A6 Debenture Bonds and the Class A7 Debenture Bonds after the Interest Payment Date falling in December 2014, on the basis of the actual days elapsed and a year of 365 days;
- (ii) in respect of the Class A3 Debenture Bonds, up to (and excluding) the Interest Payment Date falling in December 2014, on the basis of the actual number of days elapsed and a 365 day year, or a 366 day year if the last day of such period falls in a leap year;
- (iii) in respect of the Class A4 Debenture Bonds, up to (and excluding) the Interest Payment Date falling in December 2018, on the basis of the actual number of days elapsed and a 365 day year, or a 366 day year if the last day of such period falls in a leap year;
- (iv) in respect of the Class A5 Debenture Bonds, up to (and excluding) the Interest Payment Date falling in December 2028, on the basis of the actual number of days elapsed and a 365 day year, or a 366 day year if the last day of such period falls in a leap year; and
- (v) in respect of the Class A7 Debenture Bonds, up to (and excluding) the Interest Payment Date falling in December 2014, on the basis of the actual number of days elapsed and a 365 day year, or a 366 day year if the last day of such period falls in a leap year.

(c) Rates of Interest

(i) *General*

The rates of interest (each a **Rate of Interest** and references to the **relevant Rate of Interest** being construed accordingly) payable from time to time in respect of:

- (A) the Class A1 Debenture Bonds (both prior to and following the Class A1 Step-Up Date);
- (B) the Class A2 Debenture Bonds (both prior to and following the Class A2 Step-Up Date);
- (C) the Class A3 Debenture Bonds (following the Class A3 Step-Up Date);
- (D) the Class A4 Debenture Bonds (following the Class A4 Step-Up Date);
- (E) the Class A5 Debenture Bonds (following the Class A5 Step-Up Date);

- (F) the Class A6 Debenture Bonds (both prior to and following the Class A6 Step-Up Date); and
- (G) the Class A7 Debenture Bonds (following the Interest Payment Date falling in December 2014),

will be determined by the Agent Bank on each Interest Payment Date in respect of the Interest Period commencing on that date (save in respect of the first Interest Period commencing on:

- (i) in the case of the Original Debenture Bonds, the Original Closing Date; and
- (ii) in the case of the Second Issue Debenture Bonds, the Second Closing Date,

where the Rate of Interest will be determined by the Agent Bank on the day preceding the Original Closing Date or the Second Closing Date, as the case may be) (each an **Interest Determination Date**).

(ii) *Class A1 Debenture Bonds*

The Rate of Interest in respect of the Class A1 Debenture Bonds for each Interest Period (the **Class A1 Rate of Interest**) shall be the aggregate of:

- (A) LIBOR; and
- (B) (i) a margin of 0.22 per cent. per annum up to (but excluding) the Interest Payment Date falling in December 2011 (the **Class A1 Margin**) and (ii) thereafter until the date on which the Class A1 Debenture Bonds have been redeemed in full, the Class A1 Margin plus an additional margin of 0.33 per cent. per annum (the **Class A1 Step-Up Margin**).

(iii) *Class A2 Debenture Bonds*

The Rate of Interest in respect of the Class A2 Debenture Bonds for each Interest Period (the **Class A2 Rate of Interest**) shall be the aggregate of:

- (A) LIBOR; and
- (B) (i) a margin of 1.08 per cent. per annum up to (but excluding) the Interest Payment Date falling in December 2011 (the **Class A2 Margin**) and (ii) thereafter until the date on which the Class A2 Debenture Bonds have been redeemed in full, the Class A2 Margin plus an additional margin of 1.62 per cent. per annum (the **Class A2 Step-Up Margin**).

(iv) *Class A3 Debenture Bonds*

The Rate of Interest in respect of the Class A3 Debenture Bonds for each Interest Period (the **Class A3 Rate of Interest**) shall be:

- (A) 5.860 per cent. per annum up to (but excluding) the Interest Payment Date falling in December 2014;
and thereafter until the date on which the Class A3 Debenture Bonds have been redeemed in full,
- (B) LIBOR; and
- (C) a margin of 0.22 per cent. per annum (the **Class A3 Margin**) and a further margin of 0.33 per cent. per annum (the **Class A3 Step-Up Margin**).

(v) *Class A4 Debenture Bonds*

The Rate of Interest in respect of the Class A4 Debenture Bonds for each Interest Period (the **Class A4 Rate of Interest**) shall be:

- (A) 6.582 per cent. per annum up to (but excluding) the Interest Payment Date falling in December 2018;

and thereafter until the date on which the Class A4 Debenture Bonds have been redeemed in full,

- (B) LIBOR; and
- (C) a margin of 1.11 per cent. per annum (the **Class A4 Margin**) and a further margin of 1.665 per cent. per annum (the **Class A4 Step-Up Margin**).

(vi) *Class A5 Debenture Bonds*

The Rate of Interest in respect of the Class A5 Debenture Bonds for each Interest Period (the **Class A5 Rate of Interest**) shall be:

- (A) 5.472 per cent. per annum up to (but excluding) the Interest Payment Date falling in December 2028;
and thereafter until the date on which the Class A5 Debenture Bonds have been redeemed in full,
- (B) LIBOR; and
- (C) a margin of 0.30 per cent. per annum (the **Class A5 Margin**) and a further margin of 0.45 per cent. per annum (the **Class A5 Step-Up Margin**).

(vii) *Class A6 Debenture Bonds*

The Rate of Interest in respect of the Class A6 Debenture Bonds for each Interest Period (the **Class A6 Rate of Interest**) shall be the aggregate of:

- (A) LIBOR; and
- (B) (i) a margin of 1.80 per cent. per annum up to (but excluding) the Interest Payment Date falling in September 2018 (the **Class A6 Margin**) and (ii) thereafter until the date on which the Class A6 Debenture Bonds have been redeemed in full, the Class A6 Margin plus an additional margin of 1.50 per cent. per annum (the **Class A6 Step-Up Margin**).

(viii) *Class A7 Debenture Bonds*

The Rate of Interest in respect of the Class A7 Debenture Bonds for each Interest Period (the **Class A7 Rate of Interest**) shall be:

- (A) 5.86 per cent. per annum up to (but excluding) the Interest Payment Date falling in December 2014;
and thereafter,
- (B) LIBOR; and
- (C) (i) a margin of 3.95 per cent. per annum up to (but excluding) the Interest Payment Date falling in September 2018 (the **Class A7 Margin**) and (ii) thereafter until the date on which the Class A7 Debenture Bonds have been redeemed in full, the Class A7 Margin plus an additional margin of 1.50 per cent. per annum (the **Class A7 Step-Up Margin**).

(d) **Determination of Rates of Interest and calculation of Interest Amounts**

The Agent Bank shall, on each Interest Determination Date, in respect of each Class of Debenture Bonds, on or as soon as practicable after 11.00 a.m. (London time), determine and notify the Issuer, the Debenture Bond Trustee and the Paying Agents (i) of the relevant Rates of Interest and (ii) of the Sterling amount payable in respect of such Interest Period in respect of the Principal Amount Outstanding of each such Debenture Bond (each an **Interest Amount**).

The Interest Amount in respect of the Class A1 Debenture Bonds, the Class A2 Debenture Bonds, the Class A6 Debenture Bonds and, after the respective Step-Up Dates, the Class A3 Debenture Bonds, the Class A4 Debenture Bonds and the Class A5 Debenture Bonds and, after the Interest Payment Date falling in December 2014,

the Class A7 Debenture Bonds, shall be calculated by applying the relevant Rate of Interest to the then Principal Amount Outstanding of each Debenture Bond of the relevant Class on the relevant Interest Payment Date and multiplying the sum thereof by the relevant Day Count Fraction.

Prior to the respective Step-Up Dates or, in the case of the Class A7 Debenture Bonds, the Interest Payment Date falling in December 2014, the Interest Amount in respect of the Class A3 Debenture Bonds, the Class A4 Debenture Bonds, the Class A5 Debenture Bonds and the Class A7 Debenture Bonds shall be calculated by applying the relevant Rate of Interest to the then Principal Amount Outstanding of each Debenture Bond of the relevant Class on the relevant Interest Payment Date and (except in relation to the Interest Amount which is payable on the first Interest Payment Date following:

- (A) in respect of the Class A3 Debenture Bonds, the Class A4 Debenture Bonds and the Class A5 Debenture Bonds, the Original Closing Date; and
- (B) in respect of the Class A7 Debenture Bonds, the Second Closing Date

or any subsequent Interest Amount which falls to be paid in relation to any period which is longer or shorter than an Interest Period) dividing the resultant figure by four or (in relation to the first Interest Amount or any subsequent Interest Amount which falls to be paid in relation to a period that is longer or shorter than an Interest Period) multiplying the resultant figure by the fraction, the numerator of which is the number of days in the relevant Interest Period and the denominator of which is 365 (or, if the last day of such period falls in a leap year, 366).

(e) Publication of Rates of Interest, Interest Amounts and Interest Payment Dates

Forthwith upon the making of the determination pursuant to Condition 5(d) (*Interest – Determination of Rates of Interest and calculation of Interest Amounts*) above, the Agent Bank (or the Principal Paying Agent on its behalf) will cause the Rate of Interest, the Interest Payment Date and the Interest Amount applicable to each Class of Debenture Bonds for the relevant Interest Period and the immediately succeeding Interest Payment Date to be notified to the relevant Stock Exchange not later than the first day of the Interest Period (for so long as such Debenture Bonds are listed on the relevant Stock Exchange) and will cause notice thereof to be given to the relevant Debenture Bondholders in accordance with Condition 16 (*Notice to Debenture Bondholders*). The Interest Amounts and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) by the Agent Bank without prior notice in the event of any extension or shortening of the relevant Interest Period. Any such amendment will be promptly notified to the relevant Stock Exchange (for so long as the Debenture Bonds affected are listed on that Stock Exchange) and to the Debenture Bondholders in accordance with Condition 16 (*Notice to Debenture Bondholders*).

(f) Calculation by the Debenture Bond Trustee

If the Agent Bank or the Issuer, as the case may be, does not at any time for any reason determine the Rates of Interest and/or calculate the Interest Amount for the Debenture Bonds in accordance with these Conditions, the Debenture Bond Trustee shall determine the Rates of Interest and/or (as the case may be) calculate the Interest Amount in respect of each Class of Debenture Bonds in the manner specified in Condition 5(d) (*Determination of Rates of Interest and calculation of Interest Amounts*) and any such calculation shall be deemed to have been made by the Agent Bank, but without liability on the part of the Debenture Bond Trustee in respect of such calculation.

(g) Notifications to be final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 5, whether by the Reference Banks (or any of them) or the Agent Bank or the Issuer or the

Debenture Bond Trustee shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Reference Banks, the Agent Bank, the Debenture Bond Trustee and all of the relevant Debenture Bondholders and (in such absence as aforesaid) no liability to the Debenture Bondholders shall attach to the Issuer, the Reference Banks, the Agent Bank or the Debenture Bond Trustee in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions hereunder.

(h) Reference Banks and Agent Bank

The Issuer shall ensure that, so long as any of the Debenture Bonds remain outstanding, there shall at all times be three Reference Banks and an Agent Bank. The initial Reference Banks shall be the principal London office of each of Barclays Bank PLC, Lloyds Bank plc and HSBC Bank plc. In the event of the principal London office of any such bank being unable or unwilling to continue to act as a Reference Bank, the Issuer shall appoint such other bank as may have been previously approved in writing by the Debenture Bond Trustee to act as such in its place. The Agent Bank may not resign until a successor so approved by the Debenture Bond Trustee has been appointed.

(i) Default Interest

Amounts of principal in respect of each Debenture Bond will cease to bear interest from and including the Interest Payment Date for the payment of such principal amount unless, upon due presentation of the Debenture Bond, payment of such principal amount is improperly withheld or refused, in which case the unpaid amount will bear default interest (**Default Interest**) at the relevant Rate of Interest (after as well as before judgment) until whichever is the earlier of:

- (i) the day on which all principal sums due in respect of that Debenture Bond up to that day are received by or on behalf of the relevant Debenture Bondholder; and
- (ii) the day which is seven days after the Principal Paying Agent has notified the Debenture Bondholders that it has received all principal sums due in respect of the Debenture Bonds up to such seventh day (except to the extent that there is any subsequent default in payment).

The payment of Default Interest is not guaranteed by Ambac under the Ambac Financial Guarantee.

The amount of Default Interest payable in respect of each Debenture Bond for any period shall be calculated on the same day count basis as the relevant Rate of Interest.

Default Interest does not accrue on Default Interest.

6. Redemption, Purchase and Cancellation

(a) Final redemption

Unless previously redeemed in full and cancelled, the Issuer will redeem each Class of Debenture Bonds at their respective Principal Amount Outstanding on the following dates:

- (i) for the Class A1 Debenture Bonds, the Class A1 Final Maturity Date;
- (ii) for the Class A2 Debenture Bonds, the Class A2 Final Maturity Date;
- (iii) for the Class A3 Debenture Bonds, the Class A3 Final Maturity Date;
- (iv) for the Class A4 Debenture Bonds, the Class A4 Final Maturity Date;
- (v) for the Class A5 Debenture Bonds, the Class A5 Final Maturity Date;
- (vi) for the Class A6 Debenture Bonds, the Class A6 Final Maturity Date; and
- (vii) for the Class A7 Debenture Bonds, the Class A7 Final Maturity Date.

(b) Scheduled and mandatory redemption

Unless previously redeemed in full and cancelled, the Issuer will redeem each Class of Debenture Bonds as set out below.

(A) Scheduled redemption

(i) The Class A1 Debenture Bonds, the Class A2 Debenture Bonds, the Class A3 Debenture Bonds, the Class A4 Debenture Bonds, the Class A5 Debenture Bonds, the Class A6 Debenture Bonds and the Class A7 Debenture Bonds will be redeemed in the aggregate principal amount (respectively a **Class A1 Expected Amortisation Amount**, a **Class A2 Expected Amortisation Amount**, a **Class A3 Expected Amortisation Amount**, a **Class A4 Expected Amortisation Amount**, a **Class A5 Expected Amortisation Amount**, a **Class A6 Expected Amortisation Amount** and a **Class A7 Expected Amortisation Amount**) set out opposite the month of each Interest Payment Date below on the Interest Payment Date falling in such month. The figures set out below show the Class A1 Expected Amortisation Amount, the Class A2 Expected Amortisation Amount, the Class A3 Expected Amortisation Amount, the Class A4 Expected Amortisation Amount, the Class A5 Expected Amortisation Amount, the Class A6 Expected Amortisation Amount and the Class A7 Expected Amortisation Amount per £100,000 of each Debenture Bond:

(ii) Class A1 Debenture Bonds

| Interest Payment Date | Class A1 Expected Amortisation Amounts per £100,000 |
|-----------------------|--|
| March 2014 | 8,000.00 |
| June 2014 | 8,000.00 |
| September 2014 | 8,000.00 |
| December 2014 | 8,000.00 |
| March 2025 | 5,000.00 |
| June 2025 | 11,666.67 |
| September 2025 | 11,666.67 |
| December 2025 | 11,666.66 |
| March 2026 | 12,000.00 |
| June 2026 | 12,000.00 |
| September 2026 | 4,000.00 |

(iii) Class A2 Debenture Bonds

| Interest Payment Date | Class A2 Expected Amortisation Amounts |
|-----------------------|---|
|-----------------------|---|

| | per £100,000 |
|-------------------------------|--|
| September 2026 | 6,000.00 |
| December 2026 | 9,000.00 |
| March 2027 | 9,250.00 |
| June 2027 | 9,250.00 |
| September 2027 | 9,250.00 |
| December 2027 | 9,250.00 |
| March 2028 | 9,500.00 |
| June 2028 | 9,500.00 |
| September 2028 | 9,500.00 |
| December 2028 | 9,500.00 |
| March 2029 | 9,750.00 |
| June 2029 | 250.00 |
| (iv) Class A3 Debenture Bonds | |
| | Class A3 Expected Amortisation Amounts per £100,000 |
| Interest Payment Date | |
| March 2015 | 5,000.00 |
| June 2015 | 5,000.00 |
| September 2015 | 5,000.00 |
| December 2015 | 5,000.00 |
| March 2016 | 5,200.00 |
| June 2016 | 5,200.00 |
| September 2016 | 5,200.00 |
| December 2016 | 5,200.00 |
| March 2017 | 5,400.00 |
| June 2017 | 5,400.00 |

| | | |
|-----|--------------------------|--|
| | September 2017 | 5,400.00 |
| | December 2017 | 5,400.00 |
| | March 2018 | 5,600.00 |
| | June 2018 | 5,600.00 |
| | September 2018 | 5,600.00 |
| | December 2018 | 5,600.00 |
| | March 2019 | 5,800.00 |
| | June 2019 | 5,800.00 |
| | September 2019 | 3,600.00 |
| (v) | Class A4 Debenture Bonds | |
| | | Class A4 Expected Amortisation Amounts per £100,000 |
| | Interest Payment Date | |
| | September 2019 | 1,571.43 |
| | December 2019 | 4,142.86 |
| | March 2020 | 4,285.71 |
| | June 2020 | 4,285.71 |
| | September 2020 | 4,285.71 |
| | December 2020 | 4,285.71 |
| | March 2021 | 4,428.57 |
| | June 2021 | 4,428.57 |
| | September 2021 | 4,428.57 |
| | December 2021 | 4,428.57 |
| | March 2022 | 4,571.43 |
| | June 2022 | 4,571.43 |
| | September 2022 | 4,571.43 |
| | December 2022 | 4,571.43 |

| | | |
|------|--------------------------|--|
| | March 2023 | 4,714.29 |
| | June 2023 | 4,714.29 |
| | September 2023 | 4,714.29 |
| | December 2023 | 4,714.29 |
| | March 2024 | 4,857.14 |
| | June 2024 | 4,857.14 |
| | September 2024 | 4,857.14 |
| | December 2024 | 4,857.14 |
| | March 2025 | 2,857.15 |
| (vi) | Class A5 Debenture Bonds | |
| | | Class A5 Expected Amortisation Amounts per £100,000 |
| | Interest Payment Date | |
| | <hr/> | <hr/> |
| | June 2029 | 6,333.33 |
| | September 2029 | 6,500.00 |
| | December 2029 | 6,500.00 |
| | March 2030 | 6,666.67 |
| | June 2030 | 6,666.67 |
| | September 2030 | 6,666.67 |
| | December 2030 | 6,666.67 |
| | March 2031 | 6,833.33 |
| | June 2031 | 6,833.33 |
| | September 2031 | 6,833.33 |
| | December 2031 | 6,833.33 |
| | March 2032 | 7,000.00 |
| | June 2032 | 7,000.00 |
| | September 2032 | 7,000.00 |

| | | |
|--------|--------------------------|--|
| | December 2032 | 5,666.67 |
| (vii) | Class A6 Debenture Bonds | |
| | Interest Payment Date | Class A6 Expected Amortisation Amounts per £100,000 |
| | <hr/> | <hr/> |
| | March 2033 | 6,250.00 |
| | June 2033 | 6,250.00 |
| | September 2033 | 6,250.00 |
| | December 2033 | 6,250.00 |
| | March 2034 | 6,250.00 |
| | June 2034 | 6,250.00 |
| | September 2034 | 6,250.00 |
| | December 2034 | 6,250.00 |
| | March 2035 | 6,250.00 |
| | June 2035 | 6,250.00 |
| | September 2035 | 6,250.00 |
| | December 2035 | 6,250.00 |
| | March 2036 | 6,250.00 |
| | June 2036 | 6,250.00 |
| | September 2036 | 6,250.00 |
| | December 2036 | 6,250.00 |
| (viii) | Class A7 Debenture Bonds | |
| | Interest Payment Date | Class A7 Expected Amortisation Amounts per £100,000 |
| | <hr/> | <hr/> |
| | March 2033 | 6,250.00 |
| | June 2033 | 6,250.00 |
| | September 2033 | 6,250.00 |

| | |
|----------------|----------|
| December 2033 | 6,250.00 |
| March 2034 | 6,250.00 |
| June 2034 | 6,250.00 |
| September 2034 | 6,250.00 |
| December 2034 | 6,250.00 |
| March 2035 | 6,250.00 |
| June 2035 | 6,250.00 |
| September 2035 | 6,250.00 |
| December 2035 | 6,250.00 |
| March 2036 | 6,250.00 |
| June 2036 | 6,250.00 |
| September 2036 | 6,250.00 |
| December 2036 | 6,250.00 |

(B) *Mandatory redemption*

- (i) If the Term Advances have become immediately due and repayable following a Borrower Group Event of Default, but the Debenture Bonds have not become immediately due and repayable pursuant to Condition 10 (*Issuer Event of Default*) and any amount of principal in respect of any Term Advance in excess of the amount of principal which would, but for any such Term Advance having become immediately due and repayable, otherwise have been scheduled to be paid in respect of such Term Advance is paid to the Issuer (such amount being an **Excess Amount**), the Issuer shall be obliged to apply such Excess Amount *pro rata* to the aggregate Principal Amount Outstanding in respect of each Class of Debenture Bonds in the partial redemption of the Debenture Bonds as described in Condition 6(b)(B)(ii) on the Interest Payment Date next following receipt of such Excess Amount but subject to giving to the relevant Debenture Bondholders not fewer than five Business Days' notice of such redemption (such notice to expire on such Interest Payment Date).
- (ii) At any time when there is an Excess Amount, the Issuer will be required to redeem the Debenture Bonds *pro rata* on the Interest Payment Date next following the giving of the notice required by Condition 6(b)(B)(i) at a price equal to:
- (A) in respect of the Class A1 Debenture Bonds, the Class A2 Debenture Bonds and the Class A6 Debenture Bonds, par together with accrued but unpaid interest on the aggregate Principal Amount Outstanding of the Class A1 Debenture Bonds, the Class A2 Debenture Bonds and the Class A6 Debenture Bonds to be redeemed up to (but excluding) the date of redemption;
- (B) in respect of the Class A3 Debenture Bonds, the Class A4 Debenture Bonds and the Class A5 Debenture Bonds from (and including) the

- relevant Step-Up Date, par together with accrued but unpaid interest on the aggregate Principal Amount Outstanding on the relevant Debenture Bonds to be redeemed up to (but excluding) the date of redemption;
- (C) in respect of the Class A3 Debenture Bonds, the Class A4 Debenture Bonds and the Class A5 Debenture Bonds up to (but excluding) the relevant Step-Up Date, an amount (the **Redemption Amount**) equal to the lesser of (x) the ER Amount (as defined in Condition 6(c)(iii)(C) below) together with the amounts referred to in Condition 6(c)(iii)(C)(1) and (2) and (y) the RP Amount plus the amounts referred to in Condition 6(c)(iii)(C)(1) and (2);
 - (D) in respect of the Class A7 Debenture Bonds up to (but excluding) the Interest Payment Date falling in September 2016, an amount (the **Redemption Amount**) equal to the ER Amount (as defined in Condition 6(c)(iii)(E) below) together with the amounts referred to in Condition 6(c)(iii)(E)(1) and (2);
 - (E) in respect of the Class A7 Debenture Bonds from (and including) the Interest Payment Date falling in September 2016 to (but excluding) the Interest Payment Date falling in September 2017, 103 per cent. of par together with accrued but unpaid interest on the aggregate Principal Amount Outstanding of the Class A7 Debenture Bonds to be redeemed up to (but excluding) the date of redemption; and
 - (F) in respect of the Class A7 Debenture Bonds from (and including) the Interest Payment Date falling in September 2017 onwards, par together with accrued but unpaid interest on the aggregate Principal Amount Outstanding of the Class A7 Debenture Bonds to be redeemed up to (but excluding) the date of redemption.
- (iii) On each Interest Payment Date falling in or after September 2018, the Issuer will be required:
- (A) to apply an amount equal to any Term A6 Cash Sweep Repayment received by the Issuer on that Interest Payment Date in redeeming, at par value, an equivalent Principal Amount Outstanding of the Class A6 Debenture Bonds (the amount of any such redemption being a **Class A6 Cash Sweep Amount**);
 - (B) to apply an amount equal to any Term A7 Cash Sweep Repayment received by the Issuer on that Interest Payment Date in redeeming, at par value, an equivalent Principal Amount Outstanding of the Class A7 Debenture Bonds (the amount of any such redemption being a **Class A7 Cash Sweep Amount**);
 - (C) to apply an amount equal to any early termination amount received by the Issuer on that Interest Payment Date as a result of the termination (in whole or in part) of the A1/A6 Issuer/Borrower Swap due to the making of a Term A6 Cash Sweep Repayment in making any early termination payment due under the Hedging Agreement which arises as a result of the termination (in whole or in part) of the Class A1/A6 Swap due to a redemption of the Class A6 Debenture Bonds in accordance with paragraph (A) above (the amount of any such payment being a **Class A6 Swap Cash Sweep Amount**);
 - (D) to apply an amount equal to any early termination amount received by the Issuer on that Interest Payment Date as a result of the termination (in whole or in part) of the A3/A7 Issuer/Borrower Swap due to the making of a Term A7 Cash Sweep Repayment in making any early termination payment due under the Hedging Agreement which arises as a result of the termination (in whole or in part) of the Class A3/A7

Swap due to a redemption of the Class A7 Debenture Bonds in accordance with paragraph (B) above (the amount of any such payment being a **Class A7 Swap Cash Sweep Amount**);

- (E) to apply an amount equal to any early termination amount received by the Issuer on that Interest Payment Date as a result of the termination (in whole or in part) of the Class A1/A6 Swap due to a redemption of the Class A6 Debenture Bonds in accordance with paragraph (A) above in making any early termination payment due under the Issuer/Borrower Hedging Agreement which arises as a result of the termination (in whole or in part) of the A1/A6 Issuer/Borrower Swap (the amount of any such payment being an **A6 IB Swap Cash Sweep Amount**); and
- (F) to apply an amount equal to any early termination amount received by the Issuer on that Interest Payment Date as a result of the termination (in whole or in part) of the Class A3/A7 Swap due to a redemption of the Class A7 Debenture Bonds in accordance with paragraph (B) above in making any early termination payment due under the Issuer/Borrower Hedging Agreement which arises as a result of the termination (in whole or in part) of the A3/A7 Issuer/Borrower Swap (the amount of any such payment being an **A7 IB Swap Cash Sweep Amount**).

The Principal Amount Outstanding of any Debenture Bond redeemed pursuant to paragraph (A) or (B) above shall be applied to reduce the remaining Expected Amortisation Amounts in respect of such Debenture Bond on a pro rata basis; and the reduced Expected Amortisation Amounts shall, if necessary, be rounded upwards or downwards to the nearest penny at the discretion of the Issuer, but so that the sum of the reduced Expected Amortisation Amounts, as so rounded, is equal to the Principal Amount Outstanding of the relevant Debenture Bond following its redemption pursuant to paragraph (A) or (B) above.

(c) Redemption at the option of the Issuer

- (i) The Issuer may, on any Interest Payment Date, having given not fewer than 5 Business Days' notice of redemption to the holders of the relevant Class of Debenture Bonds in accordance with Condition 16 (*Notice to Debenture Bondholders*) (which notice shall be irrevocable) and to the Debenture Bond Trustee, the Hedge Provider and Ambac and provided that (A) on the Interest Payment Date on which such notice expires, no Debenture Bond Acceleration Notice has been served and (B) the Issuer has, prior to giving such notice, certified to the Debenture Bond Trustee and Ambac (for so long as the Ambac Financial Guarantee is outstanding in respect of the relevant Class or Classes of Debenture Bonds) that no Ambac Termination Event has occurred if the optional redemption is of any Class of Guaranteed Debenture Bonds and (C) the Issuer delivers to the Debenture Bond Trustee and Ambac a certificate signed by two directors of the Issuer to the effect that it will have the necessary funds for the purpose and to discharge any other amounts required under the Issuer Deed of Charge to be paid on that date, redeem the Debenture Bonds of any Class or Classes, in whole or in part (provided that the minimum amount of any such redemption will be £1,000,000 in principal amount of a Class of Debenture Bonds and thereafter in multiples of £100,000 in principal amount) on any Interest Payment Date in accordance with and subject to the provisions of Conditions 6(c)(ii) and (iii).

The aggregate payment to be made in respect of the Debenture Bonds (as set forth in paragraphs (iii)(A), (B), (C), (D), (E) or, as the case may be, (F) below) to be redeemed is hereafter referred to as the **Early Redemption Price**.

- (ii) The Issuer shall, on exercise of its option to redeem pursuant to Condition 6(c)(i), redeem Debenture Bonds of the relevant Class *pro rata* on the date specified for redemption in the related notice of redemption.
- (iii) Any Debenture Bonds redeemed pursuant to Condition 6(c)(i) will be redeemed:
 - (A) (1) in respect of the Class A1 Debenture Bonds (x) if redemption occurs prior to the Interest Payment Date falling in December 2005, in an amount equal to 101 per cent. of their aggregate Principal Amount Outstanding on the relevant Interest Payment Date or (y) if redemption occurs on or after the Interest Payment Date falling in December 2005, at par, in each case, together with accrued but unpaid interest on the Principal Amount Outstanding of the Class A1 Debenture Bonds to be redeemed up to (but excluding) the date of redemption; and
 - (2) in respect of the Class A2 Debenture Bonds (x) if redemption occurs prior to the Interest Payment Date falling in December 2005, in an amount equal to 102 per cent. of their aggregate Principal Amount Outstanding on the relevant Interest Payment Date or (y) if redemption occurs on or after the Interest Payment Date falling in December 2005 and prior to the Interest Payment Date falling in December 2006, in an amount equal to 101 per cent. of their aggregate Principal Amount Outstanding on the relevant Interest Payment Date or (z) if redemption occurs on or after the Interest Payment Date falling in December 2006, at par, in each case, together with accrued but unpaid interest on the Principal Amount Outstanding of the Class A2 Debenture Bonds to be redeemed up to (but excluding) the date of redemption;
 - (B) in respect of the Class A3 Debenture Bonds, the Class A4 Debenture Bonds and the Class A5 Debenture Bonds (from (and including) the relevant Step-Up Date), at par together with accrued but unpaid interest on the Principal Amount Outstanding of the relevant Class of Debenture Bonds to be redeemed up to (but excluding) the date of redemption;
 - (C) in respect of the Class A3 Debenture Bonds, the Class A4 Debenture Bonds and the Class A5 Debenture Bonds (up to (but excluding) the relevant Step-Up Date) in an amount (the **ER Amount**) equal to the greater of (x) par and (y) their Principal Amount Outstanding or part thereof (less any amount of outstanding principal which has fallen due for payment prior to such date but remains unpaid) multiplied by the price expressed as a percentage and rounded to five decimal places (0.000005 being rounded upward) determined by the Expert as being the price which results in the Gross Redemption Yield on the relevant Class of Debenture Bonds (if the relevant Class of Debenture Bonds were to remain outstanding to their respective Step-Up Date) on the Reference Date being equal to the Gross Redemption Yield at 3.00 p.m. (London time) on that date of the Reference Gilt, together with in each case:
 - (1) any payment of principal and interest due but unpaid on or prior to the Redemption Date (other than the Early Redemption Price itself); and
 - (2) any interest (other than under (1)) accrued up to and including the date of redemption;

- (D) in respect of the Class A6 Debenture Bonds, at par together with accrued but unpaid interest on the Principal Amount Outstanding of the Class A6 Debenture Bonds to be redeemed up to (but excluding) the date of redemption;
 - (E) in respect of the Class A7 Debenture Bonds (up to (but excluding) the Interest Payment Date falling in September 2016), in an amount (the **ER Amount**) equal to the greater of (x) par and (y) their Principal Amount Outstanding or part thereof (less any amount of outstanding principal which has fallen due for payment prior to such date but remains unpaid) multiplied by the price expressed as a percentage and rounded to five decimal places (0.000005 being rounded upward) determined by the Expert as being the price which results in the Gross Redemption Yield on the relevant Class of Debenture Bonds (if the relevant Class of Debenture Bonds were to remain outstanding to the Interest Payment Date falling in September 2016 and then be redeemed at 103 per cent. of their Principal Amount Outstanding on such date, and assuming that LIBOR for that period were equal to the prevailing rate for the Interest Period in which the redemption notice was given) on the Reference Date being equal to the aggregate of (i) the Gross Redemption Yield at 3.00 p.m. (London time) on that date of the Reference Gilt and (ii) 0.50 per cent. per annum, together with in each case:
 - (1) any payment of principal and interest due but unpaid on or prior to the Redemption Date (other than the Early Redemption Price itself); and
 - (2) any interest (other than under (1)) accrued up to and including the date of redemption;
 - (F) in respect of the Class A7 Debenture Bonds (from (and including) the Interest Payment Date falling in September 2016 to (but excluding) the Interest Payment Date falling in September 2017), at 103 per cent. of par together with accrued but unpaid interest on the Principal Amount Outstanding of the Class A7 Debenture Bonds to be redeemed up to (but excluding) the date of redemption; and
 - (G) in respect of the Class A7 Debenture Bonds (from (and including) the Interest Payment Date falling in September 2017 onwards), at par together with accrued but unpaid interest on the Principal Amount Outstanding of the Class A7 Debenture Bonds to be redeemed up to (but excluding) the date of redemption.
- (iv) In circumstances where payments on the Class A1 Debenture Bonds and/or the Class A3 Debenture Bonds and/or the Class A5 Debenture Bonds are being made by Ambac under the Ambac Financial Guarantee, Ambac will have the right to require the Issuer, on any Interest Payment Date, subject to Ambac certifying to the Debenture Bond Trustee and the Issuer that the Issuer will be put into sufficient funds (other than funds received from the Borrowers under the Issuer/Borrower Facility Agreement) for the purpose of and to discharge the amounts set out in paragraphs (A), (B) and (C) below and having given not fewer than 2 Business Days' notice of redemption to the holders of the relevant Class(es), to redeem all of the Debenture Bonds of the relevant Class on the Interest Payment Date next following the giving of the aforesaid notice at a price equal to:
- (A) in respect of the Class A1 Debenture Bonds, par together with accrued but unpaid interest on the aggregate Principal Amount Outstanding of the Class A1 Debenture Bonds to be redeemed up to (but excluding) the date of redemption;

- (B) in respect of the Class A3 Debenture Bonds and the Class A5 Debenture Bonds (from (and including) the relevant Step-Up-Date), par together with accrued but unpaid interest on the aggregate Principal Amount Outstanding of the relevant Debenture Bonds to be redeemed up to (but excluding) the date of redemption; and
- (C) in respect of the Class A3 Debenture Bonds and the Class A5 Debenture Bonds (up to (but excluding) the relevant Step-Up-Date), an amount equal to the greater of par and the Redemption Amount in respect of the relevant Class(es) of Debenture Bonds to be redeemed.

The Principal Amount Outstanding of any Debenture Bond redeemed pursuant to Condition 6(c)(i) (excluding the Expected Amortisation Amount (if any) due to be applied by way of redemption in respect of such Debenture Bond on the date of redemption pursuant to Condition 6(c)(i)) shall be applied to reduce the remaining Expected Amortisation Amounts in respect of such Debenture Bond on a pro rata basis; and the reduced Expected Amortisation Amounts shall, if necessary, be rounded upwards or downwards to the nearest penny at the discretion of the Issuer, but so that the sum of the reduced Expected Amortisation Amounts, as so rounded, is equal to the Principal Amount Outstanding of the relevant Debenture Bond following its redemption pursuant to Condition 6(c)(i).

(d) Substitution/redemption for taxation or other reasons

If the Issuer at any time satisfies the Debenture Bond Trustee (and, prior to the occurrence of an Ambac Termination Event, Ambac), immediately prior to the giving of the notice referred to below, that:

- (i) by reason of a change in tax law (or the application or official interpretation thereof) taking effect on or before the next Interest Payment Date, the Issuer would be required to deduct or withhold from any payment of principal or interest on any Class of Debenture Bonds (other than where the relevant holder has some connection with the United Kingdom other than the holding of the relevant Class of Debenture Bonds) any amount for or on account of any present or future Taxes; or
- (ii) due to a change in law it has become or will become unlawful for the Issuer to make, fund or allow to remain outstanding all or any advances made or to be made by it under the Issuer/Borrower Facility Agreement; or
- (iii) by reason of a change in tax law (or the application or official interpretation thereof) taking effect on or before the next Interest Payment Date, under the Issuer/Borrower Facility Agreement, the Borrowers would be required to deduct or withhold from any payment of principal, interest or other sum due and payable thereunder any amount for or on account of any present or future taxes,

then the Issuer may, in order to avoid the relevant event described in paragraphs (i), (ii) or (iii) above, arrange the substitution of a company incorporated in another jurisdiction as principal debtor under the Debenture Bonds and as lender under the Issuer/Borrower Facility Agreement, provided that such substitution is approved by the Debenture Bond Trustee (and, prior to the occurrence of an Ambac Termination Event, Ambac) and provided further that the Debenture Bond Trustee is satisfied that such substitution will not be materially prejudicial to the interests of the Debenture Bondholders (other than, prior to the occurrence of an Ambac Termination Event, the holders of the Guaranteed Debenture Bonds) and that the position of the other Issuer Secured Creditors will not thereby be adversely affected.

If the Issuer is unable to arrange a substitution as described above and, as a result, one or more of the events described in paragraphs (i), (ii) or (iii) above (as the case may be) is continuing, then the Issuer may, on any date and having given not fewer than 5

Business Days' written notice (or, in the case of an event described in (ii) above, such shorter period expiring on or before the latest date permitted by relevant law) to the Debenture Bond Trustee, the Hedge Provider and the Debenture Bondholders in accordance with Condition 16 (*Notice to Debenture Bondholders*) and having provided to the Debenture Bond Trustee and, prior to the occurrence of an Ambac Termination Event, Ambac a certificate signed by two directors of the Issuer to the effect that it will have funds, not subject to the interest of any other persons, available for the purpose (including the payment of any associated hedging unwind costs), issue Debenture Bonds in registered form in accordance with Condition 15 (*Replacement of Definitive Debenture Bonds and Coupons*) or redeem all but not some only of the relevant Class of Debenture Bonds. Such redemption in respect of any Debenture Bond shall be in an amount equal to the greater of its Principal Amount Outstanding and the Redemption Amount (if any) in respect of the relevant Class up to (and including) the date of repayment, provided that any Debenture Bond which is redeemed in accordance with this Condition 6(d) (*Redemption, Purchase and Cancellation – Substitution/redemption for taxation or other reasons*) otherwise than on an Interest Payment Date shall be redeemed in an amount determined in accordance with Condition 6(c) (*Redemption, Purchase and Cancellation – Redemption at the option of the Issuer*).

Without limitation to the prior provisions of this Condition 6(d) (*Redemption, Purchase and Cancellation – Substitution/redemption for taxation or other reasons*), if one or more of the events described in paragraphs (i), (ii) or (iii) above has occurred and is continuing, the Issuer may take such other action as is appropriate in the circumstances subject to obtaining the approval of the Debenture Bond Trustee and, prior to the occurrence of an Ambac Termination Event, Ambac in order to mitigate the effect of the relevant occurrence.

(e) Debenture Bond Principal Payments, Principal Amount Outstanding and Redemption Amount

- (i) The Principal Amount Outstanding to be redeemed in respect of each Debenture Bond (the **Debenture Bond Principal Payment**) on any Interest Payment Date under Condition 6(b)(B) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption*) or Condition 6(c) (*Redemption, Purchase and Cancellation – Redemption at the option of the Issuer*), in relation to the Debenture Bonds of a particular Class, shall be a *pro rata* share of the aggregate amount required to be applied in redemption of Debenture Bonds of a particular Class on such Interest Payment Date, as the case may be (rounded down to the nearest penny), provided always that no such Debenture Bond Principal Payment may exceed the Principal Amount Outstanding of the relevant Debenture Bond.
- (ii) On the Calculation Date, the Issuer shall determine or shall cause to be determined:
 - (A) if there is to be a redemption of the Debenture Bonds pursuant to Condition 6(b)(B) (*Redemption, Purchase and Cancellation – Scheduled and mandatory redemption*) or Condition 6(c) (*Redemption, Purchase and Cancellation – Redemption at the option of the Issuer*), the amount of any Debenture Bond Principal Payment due on the next following Interest Payment Date; and
 - (B) the Principal Amount Outstanding on each Debenture Bond on the next following Interest Payment Date (after deducting any Debenture Bond Principal Payment due to be made on that Interest Payment Date).

Each determination by or on behalf of the Issuer of any Debenture Bond Principal Payment and the Principal Amount Outstanding of a Debenture Bond shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

The Issuer will, on each Calculation Date, cause each determination of a Debenture Bond Principal Payment (if any) and Principal Amount Outstanding to be notified forthwith to the Debenture Bond Trustee which will then forthwith notify the Paying Agents and (for so long as the Debenture Bonds are listed on a Stock Exchange) the relevant Stock Exchange thereof and will cause notice of each determination of a Debenture Bond Principal Payment and Principal Amount Outstanding to be given in accordance with Condition 16 (*Notice to Debenture Bondholders*).

If the Issuer does not at any time for any reason determine a Debenture Bond Principal Payment or the Principal Amount Outstanding in accordance with the preceding provisions of this paragraph, such Debenture Bond Principal Payment and Principal Amount Outstanding may be determined by the Debenture Bond Trustee in accordance with this paragraph and each such determination or calculation shall be deemed to have been made by the Issuer, provided that the Debenture Bond Trustee shall have no liability in respect of such determination or calculation.

(f) Notice of redemption

Any notice of redemption referred to in Condition 6(c) (*Redemption, Purchase and Cancellation – Redemption at the option of the Issuer*) and Condition 6(d) (*Redemption, Purchase and Cancellation – Substitution/redemption for taxation or other reasons*) shall be irrevocable and, upon the expiry of such notice, the Issuer shall be bound to redeem the relevant Debenture Bonds on the expiry of the relevant notice.

(g) Purchase of Debenture Bonds

The Issuer will not be permitted to purchase any of the Debenture Bonds. The Borrowers or any member of the Borrower Group may at any time purchase Debenture Bonds, subject to the provisions of the Issuer/Borrower Facility Agreement.

(h) Cancellation

All Debenture Bonds redeemed in full or surrendered under Condition 17 (*Further Issues*) will be cancelled upon redemption or surrender, together with any unmatured Coupons and any Talons relating to them which are attached to them or surrendered with them, and may not be resold or re-issued.

(i) Other information

Until such time as the issued share capital of any member of Spirit Group, or any parent thereof, is listed on a recognised stock exchange, the Principal Paying Agent and (for so long as any of the Debenture Bonds are listed on the Luxembourg Stock Exchange) the Luxembourg Paying Agent will be provided by the Issuer with:

- (i) the audited consolidated annual financial statements and related auditor's report of the Borrower Group within 180 days after the end of the first Financial Year after the Original Closing Date and within 120 days after the end of each of its subsequent Financial Years; and
- (ii) the audited annual financial statements and related auditor's report of each of the Issuer and the Borrowers within 180 days after the end of the first Financial Year after the Original Closing Date and within 120 days after the end of each of its subsequent Financial Years.

The financial statements provided to the Luxembourg Paying Agent will be available to the Debenture Bondholders at the office of the Luxembourg Paying Agent. Further information in respect of the Borrowers and the Borrower Group Estate will be made available to Debenture Bondholders in the form of a quarterly report prepared by or on behalf of the Borrowers (the **Quarterly Report**).

Upon the listing of the issued share capital of any member of Spirit Group on a recognised stock exchange, the Principal Paying Agent and the Luxembourg Paying

Agent will be provided by the Issuer with such information as is required to be made publicly available by the relevant stock exchange or in accordance with general law at the same time as such information is required to be made publicly available. Such information will be available, free of charge, at the office of the Principal Paying Agent and (for so long as any of the Debenture Bonds are listed on the Luxembourg Stock Exchange) the Luxembourg office of the Luxembourg Paying Agent and, in respect of the information set out in paragraphs (i) and (ii) above, on Bloomberg.

The Issuer will consider updating the form and content of the Quarterly Report provided to Debenture Bondholders from time to time in the light of requests from Debenture Bondholders and changes to market practice, subject to the complexity and cost of providing additional information and the potential risk to its operations from providing competitor-sensitive information.

(j) Rights in respect of Second Issue Debenture Bonds

Notwithstanding any other provision of the Transaction Documents, Class A6 Debenture Bondholders and Class A7 Debenture Bondholders will have no rights in respect of payments of interest, principal or any other amounts relating to Class A6 Debenture Bonds and/or Class A7 Debenture Bonds prior to the Second Closing Date.

Up to and including the Second Closing Date, to the extent that any Second Issue Debenture Bondholder has not paid up in full the subscription price in respect of its Second Issue Debenture Bonds, the Issuer may (without payment), by notice to the Debenture Bond Trustee and such Second Issue Debenture Bondholder, cancel any Second Issue Debenture Bond held by any Second Issue Debenture Bondholder and, from such cancellation, any reference to "Second Issue Debenture Bond" shall be deemed to be to Second Issue Debenture Bonds not so cancelled.

7. Payments

(a) Payments in respect of Global Debenture Bonds

Payments of principal and interest in respect of the Global Debenture Bonds will be made against presentation, and (in the case of any payment which will result in a Global Debenture Bond being redeemed in full) surrender, of the relevant Global Debenture Bond at the specified office of any Paying Agent, provided that no Paying Agent shall make payments on the Global Debenture Bonds from within the United States or its possessions.

(b) Payments in respect of Definitive Debenture Bonds

Payments of principal in respect of the Definitive Debenture Bonds (if issued) will be made against presentation of the relevant Definitive Debenture Bond (except where, after such payment, the unpaid principal amount of a Debenture Bond would be reduced to zero in which case that payment of principal will be made against presentation and surrender of such Debenture Bond and all unmatured Coupons and Talons) at the specified office of any Paying Agent. Payments of interest in respect of the Definitive Debenture Bonds will be made only against presentation and surrender of the relevant Coupons at the specified office of any Paying Agent. No Paying Agent shall make payments on the Definitive Debenture Bonds from within the United States or its possessions.

(c) Currency of payment

Payments in respect of the Debenture Bonds will, subject to Condition 7(j) (*Payments – Change in currency*), be made in Sterling at the specified office of any Paying Agent by pounds Sterling cheque drawn on, or, at the option of the holder, by transfer to a Sterling account maintained by the payee with, a bank in London.

(d) Payments subject to all fiscal laws

Payments of principal and interest in respect of the Debenture Bonds are subject in all cases to any fiscal or other laws and regulations applicable to those payments.

(e) Unmatured Coupons and Talons void

On the date upon which any definitive Debenture Bond becomes due and payable in full, unmatured Coupons and Talons (if any) relating to that Debenture Bond (whether or not attached to it) shall become void and no payment shall be made in respect of them. If the due date for redemption of any definitive Debenture Bond is not an Interest Payment Date, accrued interest will be paid only against presentation and surrender of the relevant Debenture Bond.

(f) Payment of interest on withheld amounts

If any amount of principal due is improperly withheld or refused on or in respect of any Debenture Bond or part of a Debenture Bond, the interest which continues to accrue in respect of that Debenture Bond will be calculated at the rate and in the manner contemplated in Condition 5(h) (*Interest – Default Interest*) and will be paid against presentation of that Debenture Bond at the specified office of any Paying Agent.

(g) Paying Agents

The initial Principal Paying Agent is Deutsche Bank AG, London Branch and its initial specified office is Winchester House, 1 Great Winchester Street, London EC2N 2DB. The Issuer reserves the right, subject to the prior written approval of the Debenture Bond Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that, so long as any of the Debenture Bonds remain outstanding, there will at all times be a Principal Paying Agent. So long as the Debenture Bonds are listed on a Stock Exchange and that stock exchange so requires, the Issuer will at all times maintain a Paying Agent with a specified office in Luxembourg. The Issuer will arrange for notice of any change in or addition to the Paying Agents or their specified offices to be given to Debenture Bondholders within 14 days of the relevant event in accordance with Condition 16 (*Notice to Debenture Bondholders*). For so long as any Debenture Bond is outstanding, the Issuer undertakes that there will at all times be a Paying Agent located in an EU Member State that is not obliged to withhold or deduct tax pursuant to Directive 2003/48/EC or any law (whether of a Member State of the European Union or a non-Member State) implementing or complying with, or introduced in order to conform to, such Directive.

(h) Payments on Business Days

If any payment under a Coupon or a Debenture Bond is due and payable and the Coupon or the Debenture Bond is presented for payment on a day which is not a Business Day in the place of presentation (and, in the case of any payment by transfer to a Sterling account, in London), payment will be made on the next following Business Day in such place or places and no additional amounts by way of interest, principal or otherwise shall be due in respect of such Coupon or, as the case may be, of such Debenture Bond in respect of any delay.

(i) Exchange of Talons

On or after the relevant Interest Payment Date on which the final Coupon forming part of a Coupon sheet is surrendered, the Talon forming part of that Coupon sheet may be surrendered at the specified office of any Paying Agent for a further Coupon sheet (including a further Talon). Upon the due date for redemption in full of any Definitive Debenture Bond, any unmatured Talon relating to it shall become void and no Coupons will be delivered in respect of such Talon.

(j) Change in currency

(i) If at any time there is a change in the currency of the United Kingdom such that the Bank of England recognises a different currency or currency unit or more than one currency or currency unit as the lawful currency of the United Kingdom, then references in, and obligations arising under, the Debenture Bonds outstanding at the time of any such change and which are expressed in

Sterling shall be translated into, and/or any amount becoming payable under the Debenture Bonds thereafter as specified in these Conditions shall be paid in, the currency or currency unit of the United Kingdom and in the manner designated by the Principal Paying Agent. Any such translation shall be made at the official rate of exchange recognised for that purpose by the Bank of England.

- (ii) Where such a change in currency occurs, the Global Debenture Bonds (if any) in respect of the Debenture Bonds then outstanding and the Conditions relating to such Debenture Bonds shall be amended in the manner agreed by the Issuer and the Debenture Bond Trustee so as to reflect that change and, so far as practicable, to place the Issuer, the Debenture Bond Trustee and the Debenture Bondholders in the same position each would have been in had no change in currency occurred (such amendments to include, without limitation, changes required to reflect any modification to business day or other conventions arising in connection with such change in currency). All amendments made pursuant to this Condition 7(j) (*Payments – Change in currency*) will be binding upon holders of such Debenture Bonds.
- (iii) Notification of the amendments made to Debenture Bonds pursuant to this Condition 7(j) (*Payments – Change in currency*) will be made in accordance with Condition 16 (*Notice to Debenture Bondholders*) and will state, *inter alia*, the date on which such amendments are to take or took effect, as the case may be.

(k) Fractions

Each amount of principal and interest payable on any date in respect of a Debenture Bond shall be rounded down to the nearest penny per £100 denomination of that Debenture Bond.

8. Taxation

All payments in respect of the Debenture Bonds will be made without withholding or deduction for, or on account of, any present or future taxes of whatsoever nature unless the Issuer or any Paying Agent through whom the Issuer makes payments is required by applicable law to make any payment in respect of the Debenture Bonds subject to any such withholding or deduction. In that event, the Issuer, or such Paying Agent (as the case may be), shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. None of the Issuer, any Paying Agent and Ambac or any other person will be obliged to make any additional payment to holders of Debenture Bonds in respect of amounts so withheld or deducted.

9. Prescription

Debenture Bonds shall become void unless presented for payment within a period of 10 years from the Relevant Date in respect thereof. Coupons shall become void unless presented for payment within a period of 5 years from the Relevant Date in respect thereof. After the date on which a Debenture Bond or a Coupon becomes void in its entirety, no claim may be made in respect thereof.

10. Issuer Events of Default

(a) Determination of an Issuer Event of Default

The Debenture Bond Trustee:

- (i) shall, whether or not there is any conflict between two or more Classes of Debenture Bondholders and/or any other Issuer Secured Creditor, prior to the occurrence of an Ambac Termination Event, if the aggregate Principal Amount Outstanding of the Guaranteed Debenture Bonds is more than 50 per cent. of the aggregate Principal Amount Outstanding of all of the Debenture Bonds, only

if it has been directed to do so in writing by Ambac and not otherwise (and subject to being indemnified and/or secured to its satisfaction in accordance with the Trust Deed); or

- (ii) if the aggregate Principal Amount Outstanding of Guaranteed Debenture Bonds is less than or equal to 50 per cent. of the aggregate Principal Amount Outstanding of all of the Debenture Bonds and/or an Ambac Termination Event has occurred:
 - (A) may, in its absolute discretion, but subject to obtaining the consent of Ambac (except if an Ambac Termination Event has occurred); and
 - (B) shall, if it has been directed to do so in writing by the holders of at least 25 per cent. of the aggregate Principal Amount Outstanding of the Debenture Bonds then outstanding or if so directed by an Extraordinary Resolution or Extraordinary Resolutions, as the case may be, of the Debenture Bondholders (and subject to being indemnified and/or secured to its satisfaction in accordance with the Trust Deed) (but subject, in either case, to obtaining the consent of Ambac (except if an Ambac Termination Event has occurred), if the aggregate Principal Amount Outstanding of the Guaranteed Debenture Bonds is more than 25 per cent. but not more than 50 per cent. of the aggregate Principal Amount Outstanding of all of the Debenture Bonds),

give a notice (a **Debenture Bond Acceleration Notice**) to the Issuer declaring the Debenture Bonds to be due and repayable at any time after the occurrence of any of the events specified in Condition 10(b) (*Issuer Events of Default – Events*).

(b) Events

The occurrence of any of the following events shall constitute an **Issuer Event of Default**:

- (i) default is made in the payment of interest or repayment of principal (other than in respect of Step-Up Amounts or any Redemption Premium Amount) with respect to any Debenture Bond when and as the same ought to be paid in accordance with these Conditions;
- (ii) default is made by the Issuer in the performance or observance of any obligation binding upon it under the Debenture Bonds, the Trust Deed or the Issuer Deed of Charge or any other Transaction Document and, in any such case (except where the Debenture Bond Trustee (or, in the case of the Issuer Deed of Charge, the Issuer Security Trustee) certifies that, in its opinion, such default is incapable of remedy when no notice will be required) such default continues for a period of 14 days following the service by the Debenture Bond Trustee (or, in the case of the Issuer Deed of Charge, the Issuer Security Trustee) on the Issuer of notice requiring the same to be remedied;
- (iii) the Issuer, otherwise than for the purposes of such amalgamation or reconstruction as is referred to in Condition 10(b)(v) below, ceases or, through an authorised action of the board of directors of the Issuer, threatens to cease to carry on business or a substantial part of its business or any of the following occurs in respect of the Issuer: (a) it is, or is deemed for the purposes of any law to be, unable to pay its debts as and when they fall due or insolvent (for the avoidance of doubt taking into account the availability of the Liquidity Facility under the Liquidity Facility Agreement); (b) it admits its inability to pay its debts as they fall due; (c) the value of its assets is less than its liabilities (taking into account contingent and prospective liabilities); (d) it suspends making payments on any of its debts or announces an intention to do so; (e) by reason of actual or anticipated financial difficulties, it commences negotiations with one or more of its creditors with a view to rescheduling any of its indebtedness; or (f) a moratorium is declared in respect of any of its indebtedness;

- (iv) an order is made or an effective resolution is passed for the winding-up, dissolution, administration (whether out of court or otherwise) or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) of the Issuer except a winding-up or reorganisation for the purposes of or pursuant to an amalgamation or reconstruction the terms of which have previously been approved by the Issuer Security Trustee and the Debenture Bond Trustee in writing;
- (v) (A) any steps being taken (whether out of court or otherwise) against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, application for an administration order) and such proceedings not, in the opinion of the Debenture Bond Trustee, being disputed in good faith with a reasonable prospect of success, or (B) an administration order being granted or an administrative receiver or other receiver, administrator, liquidator or other similar official being appointed (in each case, whether out of court or otherwise) in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer, or (C) an encumbrancer taking possession of the whole or any substantial part of the undertaking or assets of the Issuer, or (D) a distress, execution, diligence or other process being levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and such possession or process (as the case may be) not being discharged or not otherwise ceasing to apply within 14 days, or (E) the Issuer initiating or consenting to judicial proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws or making a conveyance or assignment for the benefit of its creditors, generally;
- (vi) any event occurs which under any applicable laws has an analogous effect to any of the events referred to in paragraphs (iii), (iv) and (v) above; or
- (vii) the Issuer Security (or any part thereof) is terminated or is or becomes void, illegal, invalid or unenforceable or any person is entitled to terminate, rescind or avoid all of or any material provision of any Transaction Document and alternative arrangements approved by an Extraordinary Resolution of the holders of each Class of Debenture Bonds are not made within 60 days of the date of the Debenture Bond Trustee requiring alternative arrangements to be made or of such an event or of a person becoming so entitled.

(c) Acceleration

- (i) Upon delivery of a Debenture Bond Acceleration Notice, the Debenture Bonds shall immediately become due and repayable:
 - (A) at their Principal Amount Outstanding, in the case of the Class A1 Debenture Bonds, the Class A2 Debenture Bonds, the Class A6 Debenture Bonds and, where the Debenture Bond Acceleration Notice is delivered from (and including) the relevant Step-Up Date, the Class A3 Debenture Bonds, the Class A4 Debenture Bonds and the Class A5 Debenture Bonds and, where the Debenture Bond Acceleration Notice is delivered from (and including) the Interest Payment Date falling in September 2017, the Class A7 Debenture Bonds;
 - (B) at the greater of par and the relevant Redemption Amount, where the Debenture Bond Acceleration Notice is delivered up to (but excluding) the relevant Step-Up Date, in the case of the Class A3 Debenture Bonds, the Class A4 Debenture Bonds and the Class A5 Debenture Bonds and, where the Debenture Bond Acceleration Notice is delivered up to (but excluding) the Interest Payment Date falling in September 2016, the Class A7 Debenture Bonds; and

- (C) at 103 per cent. of their Principal Amount Outstanding, in the case of the Class A7 Debenture Bonds, where the Debenture Bond Acceleration Notice is delivered from (and including) the Interest Payment Date falling in September 2016 up to (but excluding) the Interest Payment Date falling in September 2017,

together with accrued interest up to (but excluding) the earlier of (i) the date on which all principal, interest and other amounts (if any) are paid in full and (ii) the seventh day after notice has been given to the Debenture Bondholders in accordance with Condition 16 (*Notice to Debenture Bondholders*) that the full amount has been received by the Principal Paying Agent or the Debenture Bond Trustee.

- (ii) No Couponholder or Talonholder shall be entitled to take any proceedings or other action directly against the Issuer, provided that, if the Debenture Bond Trustee, having become bound to give a Debenture Bond Acceleration Notice, fails to do so within a reasonable time and that failure is continuing, the holders of not less than 25 per cent. in aggregate of the Principal Amount Outstanding of the Debenture Bonds then outstanding may (subject to obtaining the consent of Ambac (except if an Ambac Termination Event has occurred), if the aggregate Principal Amount Outstanding of the Guaranteed Debenture Bonds is more than 25 per cent. of the aggregate Principal Amount Outstanding of all of the Debenture Bonds) sign and give a Debenture Bond Acceleration Notice in accordance with Condition 10 (*Issuer Events of Default*) and direct the Debenture Bond Trustee to instruct the Issuer Security Trustee to give an Issuer Enforcement Notice in accordance with Condition 11 (*Enforcement*).

The Issuer will be required to notify the Debenture Bond Trustee immediately upon becoming aware of the occurrence of an Issuer Event of Default and provide further information to the Debenture Bond Trustee in accordance with the provisions of the Trust Deed. The Debenture Bond Trustee shall be entitled to serve a Debenture Bond Acceleration Notice in reliance upon, and shall have no duty or responsibility to make any investigation in relation to, such notification by the Issuer.

11. Enforcement

At any time after a Debenture Bond Acceleration Notice has been delivered, the Debenture Bond Trustee:

- (a) shall, whether or not there is any conflict between two or more Classes of Debenture Bondholders and/or any other Issuer Secured Creditor, prior to the occurrence of an Ambac Termination Event, if the aggregate Principal Amount Outstanding of the Guaranteed Debenture Bonds is more than 50 per cent. of the aggregate Principal Amount Outstanding of all of the Debenture Bonds, only if it has been directed to do so in writing by Ambac and not otherwise (and subject to being indemnified and/or secured to its satisfaction in accordance with the Trust Deed); or
- (b) if the aggregate Principal Amount Outstanding of Guaranteed Debenture Bonds is less than 50 per cent. of the aggregate Principal Amount Outstanding of all of the Debenture Bonds and/or an Ambac Termination Event has occurred:
- (i) may, in its absolute discretion, but subject to obtaining the consent of Ambac (except if an Ambac Termination Event has occurred); and
- (ii) shall, if it has been directed to do so in writing by the holders of at least 25 per cent. of the aggregate Principal Amount Outstanding of the Debenture Bonds then outstanding or if so directed by an Extraordinary Resolution or Extraordinary Resolutions, as the case may be, of the Debenture Bondholders (and subject to being indemnified and/or secured to its satisfaction in accordance with the Trust Deed) (but subject, in either case, to obtaining the consent of Ambac (except if an

Ambac Termination Event has occurred), if the aggregate Principal Amount Outstanding of the Guaranteed Debenture Bonds is more than 25 per cent. but not more than 50 per cent. of the aggregate Principal Amount Outstanding of all of the Debenture Bonds),

direct the Issuer Security Trustee to give a notice (an ***Issuer Enforcement Notice***) to the Issuer declaring the whole of the Issuer Security to be enforceable and to take such steps against the Issuer to enforce the Issuer Security as it thinks fit, or as is specified in the relevant direction, in the case of paragraphs (a) or (b)(ii) above.

No Debenture Bondholder or Issuer Secured Creditor shall be entitled to proceed directly against the Issuer unless the Debenture Bond Trustee, having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing, subject to the terms of the Trust Deed.

12. Meetings of Debenture Bondholders

- (a) The Trust Deed contains provisions for convening Meetings of the Debenture Bondholders and, in the circumstances set out in the Trust Deed, separate Meetings of each Class of Debenture Bondholders to consider any matter affecting their interests, including proposals by Extraordinary Resolution of Debenture Bondholders or the relevant Class thereof, as the case may be, to modify, or to sanction the modification of, the Debenture Bonds, or the relevant Class thereof (including these Conditions), or the provisions of any of the Transaction Documents. These Conditions are subject to the detailed meetings provisions set out in the Trust Deed.
- (b) The Trust Deed provides that:
 - (i) an Extraordinary Resolution which in the opinion of the Debenture Bond Trustee affects the interest of the holders of one Class only of the Debenture Bonds shall be deemed to have been duly passed if passed at a separate Meeting of the holders of such Class of Debenture Bonds;
 - (ii) an Extraordinary Resolution which in the opinion of the Debenture Bond Trustee affects the interests of the holders of two or more Classes of Debenture Bonds but does not give rise to a conflict of interest between the holders of such Classes of Debenture Bonds shall be deemed to have been duly passed if passed at a single Meeting of the holders of such Classes of Debenture Bonds;
 - (iii) an Extraordinary Resolution which in the opinion of the Debenture Bond Trustee affects the interests of the holders of two or more Classes of Debenture Bonds and gives or may give rise to a conflict of interest between the holders of such Classes of Debenture Bonds shall be deemed to have been duly passed only if, in lieu of being passed at a single Meeting of the holders of each of such Classes of the Debenture Bonds, it shall be duly passed at separate Meetings of the holders of each of such Classes of Debenture Bonds; and
 - (iv) the Debenture Bond Trustee shall be entitled to consult with Ambac and rely upon the opinion of Ambac as to whether any conflict of interest arises between the holders of the Guaranteed Debenture Bonds (as between any Class of Guaranteed Debenture Bonds) or between the holders of one or more Classes of Guaranteed Debenture Bonds and any other Class of Debenture Bonds.
- (c) A Written Resolution shall take effect as if it were an Extraordinary Resolution.
- (d) Subject as provided below, the quorum at any Meeting of Debenture Bondholders or holders of the relevant Class of Debenture Bonds, as the case may be, for passing an Extraordinary Resolution will be one or more persons

holding or representing not less than 50 per cent. of the aggregate Principal Amount Outstanding of the Debenture Bonds or, as the case may be, relevant Class of Debenture Bonds or, at any adjourned Meeting, one or more persons being or representing Debenture Bondholders, whatever the aggregate Principal Amount Outstanding so held or represented.

- (e) The quorum at any Meeting of Debenture Bondholders or the relevant Class of Debenture Bondholders, as the case may be, for passing an Extraordinary Resolution in respect of a Basic Terms Modification shall be one or more persons holding or representing not less than 75 per cent. or, at any adjourned Meeting, one or more persons representing not less than 25 per cent. of the aggregate Principal Amount Outstanding of the Debenture Bonds or, as the case may be, the relevant Class of Debenture Bonds for the time being outstanding.
- (f) The majority required for an Extraordinary Resolution shall be a majority of not less than 75 per cent. of the votes cast on that resolution, whether by a show of hands or a poll.
- (g) Subject to paragraph (h) below, and provided that no Ambac Termination Event has occurred:
 - (i) 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.
 - (ii) 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.
 - (iii) 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.
- (h) 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 (g) above to the extent that such request, direction or, as the case may be, vote relates to any Debenture Bondholder Reserved Matter.

13. Modification and Waiver; Determination

(a) Modification

The Debenture Bond Trustee may, without the consent of the Debenture Bondholders, the Couponholders or the Talonholders but subject (where the interest of the holders of the Guaranteed Debenture Bonds would, in the opinion of the Debenture Bond Trustee, be affected) to obtaining the consent of Ambac (prior to the occurrence of an Ambac Termination Event) and except where the subject matter is a Debenture Bondholder Reserved Matter agree or cause any other party to agree to any modification (other than a Basic Terms Modification) or to any waiver or authorisation of any breach or proposed breach of the Trust Deed, the Debenture Bonds or any of the other Transaction Documents which, in the opinion of the Debenture Bond Trustee, is not materially prejudicial to the interests of the holders of the Debenture Bonds other than (except where an Ambac Termination Event has occurred or the subject matter is a Debenture Bondholder Reserved Matter) the Guaranteed Debenture Bonds or to any modification which, in the opinion of the Debenture Bond Trustee, is to correct a manifest error or is of a formal, minor or technical nature. Where the consent of Ambac is required for any modification to a Transaction Document where the modification arises by reason of (i) incurrence by the Borrowers of Relevant Financial Indebtedness and/or (ii) the issuance by the Issuer of Further Debenture Bonds or New Debenture Bonds, Ambac shall be required to give its consent where conditions to the issuance of such Relevant Financial Indebtedness or issuance of Further Debenture Bonds or New Debenture Bonds have been satisfied.

(b) Determination

The Debenture Bond Trustee may also, without the consent of the Debenture Bondholders, the Couponholders or the Talonholders but subject to obtaining the consent of Ambac (prior to the occurrence of an Ambac Termination Event and for so long as the aggregate Principal Amount Outstanding of the Guaranteed Debenture Bonds is more than 50 per cent. of the aggregate Principal Amount Outstanding of all of the Debenture Bonds) determine that an Issuer Event of Default shall not, or shall not subject to specified conditions, be treated as such.

(c) Binding nature and notice

Any such notification, waiver, authorisation or determination shall be binding on the Debenture Bond Trustee, the Issuer, Ambac, Debenture Bondholders, the Couponholders and the Talonholders and, unless the Debenture Bond Trustee agrees otherwise, any such modification shall be notified to the Debenture Bondholders as soon as practicable thereafter in accordance with Condition 16 (*Notice to Debenture Bondholders*).

14. Indemnification, Exoneration and Replacement of the Debenture Bond Trustee

(a) Indemnification and exoneration of the Debenture Bond Trustee

The Trust Deed and the Issuer Deed of Charge contain provisions governing the responsibility (and relief from responsibility) of the Debenture Bond Trustee and the Issuer Security Trustee, respectively, and providing for their indemnification in certain circumstances, including provisions relieving them from taking enforcement proceedings or, in the case of the Issuer Security Trustee, enforcing the Issuer Security unless indemnified and/or secured to its satisfaction.

The Debenture Bond Trustee and the Issuer Security Trustee and their related companies are entitled to enter into business transactions with the Issuer and any affiliate of the Issuer without accounting for any profit resulting therefrom.

The Issuer Security Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Issuer Security, or any deeds or document of title thereto, being uninsured or inadequately insured or being held by or to the order of clearing organisations or their operators or by intermediaries

such as banks, brokers or other similar persons on behalf of the Debenture Bond Trustee.

(b) Replacement of Debenture Bond Trustee

The Trust Deed contains provisions by which the Issuer has the power to appoint a new Debenture Bond Trustee, subject to the prior approval of such person in writing by an Extraordinary Resolution of the holders of each Class of Debenture Bonds. Any appointment of a new Debenture Bond Trustee or new Debenture Bond Trustees and any retirement or removal of an existing Debenture Bond Trustee under the Trust Deed shall as soon as practicable afterwards be notified by the Issuer to the Paying Agents, the Agent Bank, all Debenture Bondholders, the Issuer Security Trustee and the Rating Agencies.

15. Replacement of Definitive Debenture Bonds and Coupons

If any Debenture Bond, Coupon or Talon is mutilated, defaced, lost, stolen or destroyed, it may be replaced at the specified office of any Paying Agent. Replacement of any mutilated, defaced, lost, stolen or destroyed Debenture Bond, Coupon or Talon will only be made on payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Debenture Bonds, Coupons or Talons must be surrendered before new ones will be issued.

16. Notice to Debenture Bondholders

Any notice regarding the Debenture Bonds to Debenture Bondholders shall be deemed to have been duly given to the relevant Debenture Bondholders if published in a leading daily newspaper printed in the English language and with general circulation in London (which is expected to be the *Financial Times*) and (so long as the relevant Debenture Bonds are listed on a Stock Exchange and the rules of such exchange so require) in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if this is not practicable in the opinion of the Debenture Bond Trustee, in another appropriate newspaper having general circulation in Luxembourg previously approved in writing by the Debenture Bond Trustee. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made in the manner required in one of the newspapers referred to above.

Notices to Second Issue Debenture Bondholders will be valid, for so long as the Second Issue Debenture Bonds are admitted to trading on the Main Securities Market, when such notice is filed in the Companies Announcement Office of the Irish Stock Exchange.

A copy of each notice given in accordance with this Condition 16 (*Notice to Debenture Bondholders*) shall be provided to each of the Rating Agencies and to Ambac (prior to the occurrence of an Ambac Termination Event).

The Debenture Bond Trustee may approve some other method of giving notice to the Debenture Bondholders or any category of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of any stock exchange on which the Debenture Bonds are then listed and provided that notice of such other method is given to the Debenture Bondholders in such manner as the Debenture Bond Trustee shall require, and further provided that, so long as the relevant Debenture Bonds are listed on a Stock Exchange and the rules of that exchange so require, such notices shall always be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if this is not practicable in the opinion of the Debenture Bond Trustee, in another appropriate newspaper having general circulation in Luxembourg previously approved in writing by the Debenture Bond Trustee. The Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the relevant Class of Debenture Bondholders in accordance with this Condition 16 (*Notice to Debenture Bondholders*).

Whilst the Debenture Bonds are represented by Global Debenture Bonds, notice to Debenture Bondholders will be valid if published as described above, for so long as the rules of the relevant Stock Exchange so require and, at the option of the Issuer, if delivered to Clearstream, Luxembourg and/or Euroclear for communication by them to Debenture Bondholders. Any notice so delivered to Clearstream, Luxembourg and/or Euroclear shall be deemed to have been given on the day of such delivery.

17. Further Issues

(a) Further Debenture Bonds

The Issuer shall be at liberty, without the consent of the Debenture Bondholders, but subject always to the provisions of these Conditions and the Trust Deed, to raise further funds, from time to time, on any date by the creation and issue of further Class A1 Debenture Bonds (the **Further Class A1 Debenture Bonds**) in bearer form carrying the same terms and conditions in all respects (except in relation to the first Interest Period) as, and so that the same shall be consolidated and form a single series and rank *pari passu* with, the Class A1 Debenture Bonds and/or the creation and issue of further Class A2 Debenture Bonds (the **Further Class A2 Debenture Bonds**) in bearer form carrying the same terms and conditions in all respects (except in relation to the first Interest Period) as, and so that the same shall be consolidated and form a single series and rank *pari passu* with, the Class A2 Debenture Bonds and/or the creation and issue of further Class A3 Debenture Bonds (the **Further Class A3 Debenture Bonds**) in bearer form carrying the same terms and conditions in all respects (except in relation to the first Interest Period) as, and so that the same shall be consolidated and form a single series and rank *pari passu* with, the Class A3 Debenture Bonds and/or the creation and issue of further Class A4 Debenture Bonds (the **Further Class A4 Debenture Bonds**) in bearer form carrying the same terms and conditions in all respects (except in relation to the first Interest Period) and so that the same shall be consolidated and form a single series and rank *pari passu* with the Class A4 Debenture Bonds and/or the creation and issue of further Class A5 Debenture Bonds (the **Further Class A5 Debenture Bonds**) in bearer form carrying the same terms and conditions in all respects (except in relation to the first Interest Period) as, and so that the same shall be consolidated and form a single series and rank *pari passu* with, the Class A5 Debenture Bonds and/or the creation and issue of further Class A6 Debenture Bonds (the **Further Class A6 Debenture Bonds**) in bearer form carrying the same terms and conditions in all respects (except in relation to the first Interest Period) as, and so that the same shall be consolidated and form a single series and rank *pari passu* with, the Class A6 Debenture Bonds and/or the creation and issue of further Class A7 Debenture Bonds (the **Further Class A7 Debenture Bonds** and, together with the Further Class A1 Debenture Bonds, the Further Class A2 Debenture Bonds, the Further Class A3 Debenture Bonds, the Further Class A4 Debenture Bonds, the Further Class A5 Debenture Bonds and the Further Class A6 Debenture Bonds, the **Further Debenture Bonds**) in bearer form carrying the same terms and conditions in all respects (except in relation to the first Interest Period) as, and so that the same shall be consolidated and form a single series and rank *pari passu* with, the Class A7 Debenture Bonds provided that:

- (i) the aggregate principal amount of all Further Debenture Bonds to be issued on such date is not less than £5 million;
- (ii) no Issuer Event of Default or Potential Issuer Event of Default has occurred and is subsisting on such date or would occur as a result of the further issue;
- (iii) if the proceeds of issue of the Further Debenture Bonds are not to be used solely to refinance existing indebtedness of the Issuer or any Relevant Financial Indebtedness, the Rating Agencies confirm that the then outstanding classes of Debenture Bonds will each be assigned (A) in the case of Debenture Bonds which are not Guaranteed Debenture Bonds, a rating of at least "BBB+/" "BBB+/" "Baa2", and (B) in the case of the Guaranteed Debenture

Bonds, an Underlying Rating of at least “BBB+”/“BBB+”/“Baa2”, notwithstanding the completion of the proposed issuance of such Further Debenture Bonds;

- (iv) if the proceeds of issue of the Further Debenture Bonds are to be used solely to refinance existing indebtedness of the Issue or any Relevant Financial Indebtedness, the Rating Agencies confirm that the then outstanding Classes of Debenture Bonds will each be assigned (A) in the case of Debenture Bonds which are not Guaranteed Debenture Bonds, the same ratings as the then-current ratings of such Debenture Bonds, and (B) in the case of the Guaranteed Debenture Bonds, the same underlying ratings as the then-current Underlying Ratings of the Guaranteed Debenture Bonds, notwithstanding the completion of the proposed issuance of such Further Debenture Bonds; and
- (v) in respect of Further Debenture Bonds which are to rank *pari passu* with the existing Debenture Bonds and are to bear interest at a floating rate, the consent of Ambac (if required) is obtained where the proceeds thereof are not to be used solely for the purpose of refinancing original Classes of Debenture Bonds (or any subsequent refinancing thereof (capped at the aggregate principal amount of those original Debenture Bonds)).

(b) New Debenture Bonds

The Issuer shall be at liberty, without the consent of the Debenture Bondholders (but subject always to the provisions of the Trust Deed) to raise further funds from time to time and on any date by the creation and issue of new Debenture Bonds (the **New Debenture Bonds**) in bearer form which may rank *pari passu* with the Debenture Bonds carrying terms which differ from any Class of Debenture Bonds and which do not form a single series with any Class of Debenture Bonds or which rank junior to any Class of Debenture Bonds provided that the conditions to the issue of Further Debenture Bonds as set out in Condition 17(a) are met in respect of the issue of such New Debenture Bonds and, additionally, where the New Debenture Bonds are to rank junior to Debenture Bonds then outstanding, the then-current ratings of the existing Classes of Debenture Bonds (including, for so long as any of the Guaranteed Debenture Bonds is outstanding, the Underlying Ratings) would not be adversely affected notwithstanding the completion of the proposed issuance of New Debenture Bonds.

(c) Supplemental Trust Deeds and Security

Any such Further Debenture Bonds or New Debenture Bonds will be constituted by a further deed or deeds supplemental to the Trust Deed and have the benefit of security pursuant to a further deed or deeds supplemental to the Issuer Deed of Charge containing revised Priorities of Payment, acceleration and enforcement rights and, where appropriate, subordination and non-petition provisions acceptable to, *inter alios*, the Issuer Security Trustee and the Debenture Bond Trustee as described in Condition 3 (*Status, Priority and Security*).

18. European Economic and Monetary Union

(a) Notice of redenomination

The Issuer may, without the consent of the Debenture Bondholders, on giving at least 30 days' prior notice to the Debenture Bondholders, the Debenture Bond Trustee and the Paying Agent, designate a date (the **Redenomination Date**), being an Interest Payment Date under the Debenture Bonds falling on or after the date on which the United Kingdom becomes a Participating Member State.

(b) Redenomination

Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:

- (i) the Debenture Bonds shall be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each Debenture Bond equal to the principal amount of that Debenture Bond in pounds Sterling, converted into euro at the rate for conversion of such currency into euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Union regulations) provided, however, that, if the Issuer determines, with the agreement of the Debenture Bond Trustee, that the then market practice in respect of the redenomination into euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Debenture Bondholders, each stock exchange (if any) on which the Debenture Bonds are then listed and the Paying Agents of such deemed amendments;
- (ii) if Debenture Bonds have been issued in definitive form:
 - (A) the payment obligations contained in all Debenture Bonds denominated in pounds Sterling will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Debenture Bonds in accordance with this Condition 18 (*European Economic and Monetary Union*)) shall remain in full force and effect; and
 - (B) new Debenture Bonds denominated in euro will be issued in exchange for Debenture Bonds denominated in pounds Sterling in such manner as the Paying Agent may specify and as shall be notified to the Debenture Bondholders in the Euro Exchange Notice;
- (iii) all payments in respect of the Debenture Bonds (other than, unless the Redenomination Date is on or after such date as the pound Sterling ceases to be a sub-division of the euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in euro by cheque drawn on, or by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Participating Member State; and
- (iv) a Debenture Bond may only be presented for payment on a day which is a Business Day in the place of presentation. In this Condition 18 (*European Economic and Monetary Union*), **Business Day** means, in respect of any place of presentation, any day which is a day on which commercial banks are open for general business in such place of presentation and which is also a day on which the TARGET system is operating.

(c) Interest

Following redenomination of the Debenture Bonds pursuant to this Condition 18 (*European Economic and Monetary Union*):

- (i) where Debenture Bonds have been issued in definitive form, the amount of interest due in respect of the Debenture Bonds will be calculated by reference to the aggregate principal amount of the Debenture Bonds presented for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01; and
- (ii) the amount of interest payable in respect of each Debenture Bond for any Interest Period shall be calculated by applying the relevant Rate of Interest for such Interest Period to the principal amount of such Debenture Bond during such Interest Period, multiplying the product by the actual number of days in such Interest Period divided by 360 and rounding the resulting figure down to the nearest euro 0.01.

19. Assignment of Rights to Ambac

- (a) If Ambac makes a payment to or on behalf of holders of the Debenture Bonds pursuant to the Ambac Financial Guarantee in respect of Scheduled Interest and/or Ultimate Principal, the rights of the holders of the Class A1 Debenture Bonds and/or, as the case may be, the Class A3 Debenture Bonds and/or, as the case may be, the Class A5 Debenture Bonds to claim payment from the Issuer of amounts due in respect of which payment has been made under the Ambac Financial Guarantee will be automatically assigned to Ambac or such other person specified by Ambac to the Debenture Bond Trustee from time to time on or prior to payment by Ambac under the Ambac Financial Guarantee (the **Nominee**) upon and to the extent of receipt of such payments by the holders of the Class A1 Debenture Bonds and/or, as the case may be, the Class A3 Debenture Bonds and/or, as the case may be, the Class A5 Debenture Bonds.
- (b) If the Class A1 Debenture Bonds, the Class A3 Debenture Bonds and the Class A5 Debenture Bonds are not held by or on behalf of a clearing system at the time that a payment of Scheduled Interest and/or Ultimate Principal (as the case may be) is due, the Debenture Bond Trustee is authorised by the holders of the Class A1 Debenture Bonds and the Class A3 Debenture Bonds and the Class A5 Debenture Bonds to assign to Ambac or the Nominee on behalf of the relevant holders all rights of such holders to claim payment from the Issuer in respect of amounts due under the Class A1 Debenture Bonds and/or, as the case may be, the Class A3 Debenture Bonds and/or, as the case may be, the Class A5 Debenture Bonds and in respect of which payment has been made under the Ambac Financial Guarantee.

20. Substitution of Principal Debtor

The Trust Deed contains provisions permitting the Debenture Bond Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Debenture Bond Trustee may require and with the consent of Ambac (provided that no Ambac Termination Event has occurred) but without the consent of any Debenture Bondholder or Couponholder, to the substitution (including, without limitation, pursuant to Condition 6(d) (*Redemption, Purchase and Cancellation – Substitution/redemption for taxation or other reasons*)) of another body corporate in place of the Issuer (or of any previous substitute) as principal debtor in respect of the Trust Deed, the Debenture Bonds, the Coupons and the Talons. Any such body corporate shall be a newly formed special purpose entity and will be required to undertake to be bound by provisions corresponding to those set out in the Trust Deed, the Debenture Bonds, the Coupons and the Talons. In the case of a substitution pursuant to this Condition 20 (*Substitution of Principal Debtor*), the Debenture Bond Trustee may in its absolute discretion and without the consent of the Debenture Bondholders or the Couponholders, agree to a change of the law governing the Debenture Bonds, the Coupons, the Talons, the Trust Deed and/or any of the other Transaction Documents provided that such change, in the opinion of the Debenture Bond Trustee, would not be materially prejudicial to the interests of the Debenture Bondholders (other than, prior to the occurrence of an Ambac Termination Event, the Guaranteed Debenture Bondholders, in respect of which Ambac shall confirm whether or not such change would be materially prejudicial) and each Rating Agency has confirmed in writing to the Debenture Bond Trustee that such change will not result in the withdrawal, reduction or other adverse action with respect to the then current rating of the Debenture Bonds and for so long as any of the Guaranteed Debenture Bonds is outstanding the Underlying Rating will not be adversely affected as a result of the substitution.

Where the Rating Agencies have confirmed in writing to the Debenture Bond Trustee that an action under or in relation to the Transaction Documents or the Debenture Bonds will not result in the withdrawal, reduction or any other adverse action with respect to the then current rating of the Debenture Bonds and (for so long as there are any Guaranteed Debenture Bonds outstanding) the Underlying Rating (a **Rating Confirmation**), the Debenture Bond Trustee, in considering whether such action is materially prejudicial to the interests of the Issuer Secured Creditors or, as the case

may be, the Debenture Bondholders (the **No Material Prejudice Test**) shall be entitled to take into account such Rating Confirmation provided that the Debenture Bond Trustee shall continue to be responsible for taking into account, for the purpose of the No Material Prejudice Test, all other matters which would be relevant to such No Material Prejudice Test.

The Debenture Bond Trustee must notify each relevant Stock Exchange and the Debenture Bondholders of any substitution as soon as practicable after agreeing to that substitution in accordance with this Condition 20.

21. Determinations Conclusive

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained by the Debenture Bond Trustee shall (in the absence of breach of trust, wilful default, gross negligence or fraud) be binding on the Debenture Bond Trustee, the Issuer, Ambac, the Debenture Bondholders, the Couponholders and the Talonholders and (in the absence of breach of trust, wilful default, gross negligence or fraud) no liability to the Debenture Bondholders or Couponholders shall attach to the Debenture Bond Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions hereunder.

22. Non-Petition

Except as expressly permitted to do so by Condition 11 (*Enforcement*), the Debenture Bondholders shall not be entitled to take any steps:

- (a) to direct the Debenture Bond Trustee to instruct the Issuer Security Trustee to enforce the Issuer Security; or
- (b) to take or join any person in taking steps against the Issuer for the purpose of obtaining payment of any amount due from the Issuer to it; or
- (c) to initiate or join any person in initiating any Insolvency Proceedings in relation to the Issuer or the appointment of an Insolvency Official in relation to the Issuer or in relation to the whole or any substantial part of the undertakings or assets of the Issuer; or
- (d) to take any steps or proceedings that would result in the Priorities of Payments in the Issuer Deed of Charge not being observed.

23. Subordination

In the event that, on any Interest Payment Date, the cash standing to the credit of the Issuer Transaction Account (the **Issuer Available Amounts**), after deducting the amounts ranking in priority to the payment of any Step-Up Amounts and/or any Redemption Premium Amounts, are not sufficient to satisfy in full the aggregate amount of the Step-Up Amounts and/or any Redemption Premium Amounts due and, subject to this Condition 23, payable on the relevant Class of Debenture Bonds on such Interest Payment Date, there shall instead be payable on such Interest Payment Date, by way of payment of such Step-Up Amount and/or Redemption Premium Amount, a *pro rata* share (calculated by reference to the aggregate Principal Amount Outstanding of the relevant Class(es) of Debenture Bonds then outstanding in respect of which Step-Up Amounts and/or Redemption Premium Amounts are then payable) of the Issuer Available Amounts then remaining on such Interest Payment Date.

In such event, the Issuer shall create a provision in its accounts for the shortfall equal to the amount by which the aggregate amount of the Step-Up Amounts and/or Redemption Premium Amounts paid on each relevant Class of Debenture Bonds on any Interest Payment Date in accordance with this Condition 23 falls short of the aggregate amount of Step-Up Amounts and/or Redemption Premium Amounts and/or on such Class(es) on that date. Any such shortfall arising in respect of the relevant Class(es) of Debenture Bonds shall itself accrue interest at the same rate as that payable in respect of the relevant Class(es) of Debenture Bonds and shall be payable

together with such accrued Step-Up Amounts and/or Redemption Premium Amounts on any succeeding Interest Payment Date only if and to the extent that, on such Interest Payment Date, the Issuer Available Amounts, after deducting the amounts ranking in priority to the payment of any Step-Up Amounts and/or any Redemption Premium Amounts (as applicable) in respect of the relevant Class(es) of Debenture Bonds are sufficient to make such payment.

24. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Debenture Bonds under the Contracts (Rights of Third Parties) Act 1999.

25. Governing Law

The Trust Deed, the Issuer Deed of Charge, the Agency Agreement, the other Transaction Documents and the Debenture Bonds (and any obligations, whether contractual or non-contractual, arising out of or in connection with them) are governed by, and shall be construed in accordance with, English law (other than certain aspects of the Transaction Documents specifically relating to Borrower Scottish Properties (as defined in the Master Definitions and Construction Schedule), which are governed by, and shall be construed in accordance with, Scots law).

BOOK-ENTRY, DELIVERY AND FORM

The Second Issue Debenture Bonds are initially represented by (i) in the case of the Class A6 Debenture Bonds, a temporary global debenture bond in the principal amount, as at the Second Closing Date, of £101,293,000 (the **Class A6 Temporary Global Debenture Bond**) and (ii) in the case of the Class A7 Debenture Bonds, a temporary global debenture bond in the principal amount of £58,352,000 (the **Class A7 Temporary Global Debenture Bond** and, together with the Class A6 Temporary Global Debenture Bond, the **Second Issue Temporary Global Debenture Bonds**), in each case without Coupons or Talons attached.

Each Second Issue Temporary Global Debenture Bond was deposited on behalf of the relevant holders of each class of Second Issue Debenture Bonds with Deutsche Bank AG, London Branch, as the common depository (the **Common Depository**) for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), on the Second Issue Date. Upon deposit of each such Temporary Global Debenture Bond, Euroclear or Clearstream, Luxembourg, the Second Issue Debenture Bonds represented by such Second Issue Temporary Global Debenture Bond were credited to the Lead Manager, as the holder of such Second Issue Debenture Bonds.

Interests in the Second Issue Temporary Global Debenture Bonds will be exchangeable from and including the date which is 40 days after the Second Issue Date (the **Exchange Date**), upon receipt of certification of non-U.S. beneficial ownership by the Issuer from Euroclear or Clearstream, Luxembourg, for interests in permanent global debenture bonds of the relevant class (the **Second Issue Permanent Global Debenture Bonds** and, together with the Second Issue Temporary Global Debenture Bonds, the **Second Issue Global Debenture Bonds**).

On exchange of a Second Issue Temporary Global Debenture Bond for a Second Issue Permanent Global Debenture Bond, the Second Issue Permanent Global Debenture Bond will remain deposited with the Common Depository. Title to the Second Issue Global Debenture Bonds will pass by delivery. Interest and principal on the Second Issue Global Debenture Bonds will be payable against presentation of the Second Issue Global Debenture Bonds by the Common Depository to the Principal Paying Agent, provided that certification of non-U.S. beneficial ownership has been received by the Issuer from Euroclear or Clearstream, Luxembourg.

The Second Issue Temporary Global Bonds will be written up on the Second Closing Date to reflect the payment of the subscription amounts in respect of such Second Issue Debenture Bonds by the Lead Manager in accordance with the Second Issue Subscription Agreement and the Escrow Deed. Following the Second Closing Date, a record of each payment made on the Second Issue Global Debenture Bonds, distinguishing between any payment of principal and payment of interest, will be endorsed on the schedule to the relevant Second Issue Global Debenture Bond by the Paying Agents (or the Paying Agents shall procure that such endorsement be made) and such record shall be prima facie evidence that the payment in question has been made.

Each Global Second Issue Debenture Bond will only be exchangeable for definitive Second Issue Debenture Bonds in the limited circumstances described below.

For so long as interests in the Second Issue Debenture Bonds are held through Euroclear and Clearstream, Luxembourg, each of the persons appearing from time to time in the records of Euroclear or Clearstream, Luxembourg as the holder of a Second Issue Debenture Bond other than Clearstream, Luxembourg, in the case of Euroclear, and Euroclear, in the case of Clearstream, Luxembourg, will be entitled to receive any payment so made in respect of that Second Issue Debenture Bond in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg, as appropriate. Such persons shall have no claim directly against the Issuer in respect of payments due on a Second Issue Debenture Bond, which must be made to the holder of the relevant Second Issue Global Debenture Bond, for so long as such Second Issue Global Debenture Bond is outstanding. Each such person must give a certificate as to non-U.S. beneficial ownership as of the earlier of: (i) the date on which the Issuer is obliged to exchange the relevant Second Issue Temporary Global Debenture Bond for the relevant Second Issue Permanent Global Debenture Bond, which date shall be no earlier than the Exchange Date; or (ii) the first Interest Payment Date for the Second Issue Debenture Bonds, in order to obtain any payment due on the Second Issue Debenture Bonds.

For so long as any of the Second Issue Debenture Bonds is represented by a Second Issue Global Debenture Bond and interests in such Second Issue Debenture Bonds are held through Euroclear or Clearstream, Luxembourg:

- (a) such Second Issue Debenture Bonds will be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as appropriate;
- (b) each person who is for the time being shown in the records of Euroclear, or of Clearstream, Luxembourg, as the holder of a particular Principal Amount Outstanding of such Second Issue Debenture Bonds (other than Clearstream, Luxembourg or Euroclear) will be entitled to be treated by the Issuer and the Debenture Bond Trustee as a holder of such Principal Amount Outstanding of such Second Issue Debenture Bonds; and
- (c) notices to Second Issue Debenture Bondholders may be given by delivery of the relevant notice to the clearing systems for communication to entitled accountholders in substitution for any other method of communication required by the Conditions.

Each Second Issue Temporary Global Debenture Bond, Second Issue Permanent Global Debenture Bond and definitive Second Issue Debenture Bond, and any Coupons and Talons attached, will bear the following legend:

“Any United States Person (as defined in the Internal Revenue Code of the United States of America) who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code of the United States of America.”

Second Issue Debenture Bondholders means, in relation to any Second Issue Debenture Bond represented by a Second Issue Global Debenture Bond, each person (other than Clearstream, Luxembourg or Euroclear) who is for the time being shown in the records of Clearstream, Luxembourg or Euroclear as the holder of a particular Principal Amount Outstanding of those Second Issue Debenture Bonds, for which purpose any certificate or letter

of confirmation (or any other form of record made by any of them) as to the Principal Amount Outstanding of Second Issue Debenture Bonds standing to the account of any person shall be conclusive and binding, and such person shall be treated by the Issuer, the Debenture Bond Trustee and all other persons as the holder of such Principal Amount Outstanding of those Second Issue Debenture Bonds for all purposes, other than for the purpose of payments in respect of those Second Issue Debenture Bonds, the right to which shall be vested, as against the Issuer, solely in the bearer of the relevant Second Issue Global Debenture Bond in accordance with and subject to its terms and, for such purpose, **Second Issue Debenture Bondholders** means the bearer of the relevant Second Issue Global Debenture Bond.

If, after the Exchange Date:

- (a) the Second Issue Debenture Bonds or either class of them become due and repayable pursuant to Condition 10 (*Issuer Events of Default*);
- (b) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or in fact does so and no other clearing system acceptable to the Debenture Bond Trustee is available; or
- (c) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax, or in the interpretation by a revenue authority or a court or in the administration of such laws or regulations, which becomes effective on or after the Second Issue Date, the Issuer is or the Paying Agents are or will be required to make any deduction or withholding from any payment in respect of the Second Issue Debenture Bonds, which would not be required were the Second Issue Debenture Bonds in definitive form,

then the Issuer will (subject to the provisions of clause 3 (*Form and Issue of the Debenture Bonds and Coupons*) of the Trust Deed), at its sole cost and expense, issue Second Issue Debenture Bonds of the relevant class in definitive form in exchange for the whole outstanding interest in the Second Issue Permanent Global Debenture Bond within 30 days of the occurrence of the relevant event.

SUBSCRIPTION AND SALE

Second Issue Subscription Agreement

The Second Issue Debenture Bonds have been issued to Goldman Sachs International (the **Lead Manager**) pursuant to a subscription agreement dated 21 October 2013 between the Lead Manager, the Issuer, the Borrowers, Spirit Pub Company plc and SPL (the **Second Issue Subscription Agreement**). The Second Issue Subscription Agreement contains certain representations, warranties, covenants and indemnities given in favour of the Lead Manager. The Second Issue Subscription Agreement also contains certain representations, warranties and covenants relating to the offering and sale of the Second Issue Debenture Bonds and the distribution of this Second Issue Debenture Prospectus and any other materials relating to the Second Issue Debenture Bonds.

Selling restrictions

1. In the Second Issue Subscription Agreement, the Lead Manager has acknowledged that the Second Issue Debenture Bonds have not been and will not be registered under the Securities Act, or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold directly or indirectly within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S or pursuant to any other exemption from the registration requirements of the Securities Act. In the Second Issue Subscription Agreement, the Lead Manager represented, warranted and agreed that it has not offered or sold, and will not offer or sell, any Second Issue Debenture Bonds within the United States except in accordance with Rule 903 of Regulation S under the Securities Act. The Lead Manager has represented, warranted and agreed that it has offered and sold the Second Issue Debenture Bonds, and will offer and sell the Second Issue Debenture Bonds (i) as part of their distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering and the Second Closing Date (the **distribution compliance period**), only in accordance with Rule 903 of Regulation S under the Securities Act. The Lead Manager has also agreed that, at or prior to confirmation of sale of Second Issue Debenture Bonds, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Second Issue Debenture Bonds from it during the distribution compliance period a confirmation or notice to substantially the following effect:

“The Securities covered hereby have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**), or the securities laws of any state or other jurisdiction of the United States, and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meaning given to them by Regulation S.”

Terms used in the paragraph above have the meanings given to them by Regulation S.

2. In the Second Issue Subscription Agreement, the Lead Manager has represented and agreed that neither it, its affiliates nor any persons acting on its or their behalf have engaged, or will engage, in any directed selling efforts with respect to the Second Issue Debenture Bonds, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. (Terms used in this paragraph 2 have the meaning given to them by Regulation S.)
3. The Lead Manager has represented, warranted and agreed that, except to the extent permitted under U.S. Treas. Reg. section 1.163-5(c)(2)(i)(D) (the **D Rules**), (i) it has not offered or sold, and during the restricted period will not offer or sell, the Second Issue Debenture Bonds to a person who is within the United States or its possessions or to a United States person and (ii) it has not delivered and will not deliver within the United States or its possessions definitive Second Issue Debenture Bonds that are sold during the restricted period.
4. The Lead Manager has represented, warranted and agreed that it has and throughout the restricted period will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling the Second Issue Debenture Bonds are aware that the Second Issue Debenture Bonds may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules.
5. The Lead Manager has represented that it is acquiring Second Issue Debenture Bonds for purposes of resale in connection with their original issuance and that, if it retains any Second Issue Debenture Bonds for its own account, it will only do so in accordance with the requirements of U.S. Treas. Reg. section 1.163-5(c)(2)(i)(D)(6).
6. The Lead Manager has agreed that, with respect to each affiliate that acquires from it Second Issue Debenture Bonds for the purpose of offering or selling such Second Issue Debenture Bonds during the restricted period, it either (i) repeats and confirms the representations and agreements contained in paragraphs 3 to 5 above on its behalf or (ii) will obtain from such affiliate for the benefit of each of the Relevant Companies the representations and agreements contained in paragraphs 3 to 5 above.

Terms used in paragraphs 3 to 6 above have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder, including the D Rules.

7. The Lead Manager has represented to and agreed with the Relevant Companies that:
 - (A) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the **FSMA**) with respect to anything done by it in relation to the Second Issue Debenture Bonds in, from or otherwise involving, the United Kingdom; and
 - (B) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Second Issue

Debenture Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer.

- 8.** The Lead Manager has confirmed that no action has been taken by it, and the other parties to the Second Issue Subscription Agreement have confirmed that no action has been taken by SPL, the Issuer, the Borrowers or any other entity within the Spirit Group that would, or is intended to, permit a public offer of the Second Issue Debenture Bonds or possession or distribution of the Second Issue Prospectus (or any other offering or publicity material relating to the Second Issue Debenture Bonds) in any country or jurisdiction where any such action for that purpose is required. The Lead Manager has undertaken that it will not directly or indirectly offer or sell any of the Second Issue Debenture Bonds or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or publication in any jurisdiction except in circumstances that will, to the best of its knowledge and belief after reasonable enquiry, result in compliance with any applicable laws and regulations. The Lead Manager agrees that it will obtain any consent, approval or permission which is, to the best of its knowledge and belief, required for the offer, purchase or sale by it of any Second Issue Debenture Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such offers, purchases or sales and it will, to the best of its knowledge and belief, comply with all such laws and regulations.

TAXATION

The comments below, which are of a general nature and are based on the Issuer's understanding of current United Kingdom law and HM Revenue & Customs practice, describe only the United Kingdom withholding tax treatment of payments in respect of the Second Issue Debenture Bonds. They are not exhaustive. They do not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Second Issue Debenture Bonds. Prospective holders of Second Issue Debenture Bonds who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom are strongly advised to consult their own professional advisers.

The Second Issue Debenture Bonds will constitute "quoted Eurobonds", provided they are and continue to be listed on a recognised stock exchange, within the meaning of section 1005 of the Income Tax Act 2007. The Main Securities Market of the Irish Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the Main Securities Market of the Irish Stock Exchange if they are officially listed in Ireland in accordance with provisions corresponding to those generally applicable in EEA states and are admitted to trading on the Main Securities Market of the Irish Stock Exchange. Whilst the Second Issue Debenture Bonds are and continue to be quoted Eurobonds, payments of interest by the Issuer on the Second Issue Debenture Bonds may be made without withholding or deduction for or on account of United Kingdom income tax.

Interest on the Second Issue Debenture Bonds may also be paid without withholding or deduction for or on account of United Kingdom tax where, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Second Issue Debenture Bonds is paid reasonably believes) that the beneficial owner of the interest is within the charge to United Kingdom corporation tax as regards the payment of interest, provided HM Revenue & Customs has not given a direction that the interest should be paid under deduction of tax.

In other cases, absent any other relief or exemption (such as a direction by HM Revenue & Customs that interest may be paid without withholding or deduction for or on account of United Kingdom tax to a specified Second Issue Debenture Bondholder following an application by that Second Issue Debenture Bondholder under an applicable double tax treaty), an amount must generally be withheld on account of income tax at the basic rate (currently 20 per cent.) from payments of interest on the Second Issue Debenture Bonds.

Where Second Issue Debenture Bonds are issued on terms that a premium is or may be payable on redemption, then it is possible that any such element of premium may constitute a payment of interest and be subject to withholding on account of United Kingdom income tax as outlined in the preceding paragraphs.

HM Revenue & Customs have powers to obtain information, including in relation to interest or payments treated as interest and payments derived from securities. This may include details of the beneficial owners of the Second Issue Debenture Bonds (or the persons for whom the Second Issue Debenture Bonds are held), details of the persons to whom payments derived from the Second Issue Debenture Bonds are or may be paid and information in connection with transactions relating to the Second Issue Debenture Bonds. Information obtained by HM Revenue & Customs may be provided to tax authorities in other countries.

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Second Issue Debenture Bonds, or on a transfer of or agreement to transfer Second Issue Debenture Bonds.

Under the Savings Directive member states of the European Union are required to provide to the tax authorities of another member state details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other member state, or to certain limited types of entities established in that other member state. However, for a transitional period, Luxembourg and Austria are instead required, unless during that period they elect otherwise, to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). On 10 April 2013, the Luxembourg Ministry of Finance announced that the Luxembourg government has decided to end the transitional period provided for in the Savings Directive and to introduce, on 1 January 2015, the automatic exchange of information for all interest payments made by Luxembourg financial operators to individuals resident in another member state, or to certain limited types of entities established in that other member state. A number of non-EU countries and territories, including Switzerland, have agreed to adopt similar measures (a withholding system, in the case of Switzerland).

The European Commission has proposed certain amendments to the Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

The European Commission has published a proposal for a Directive for a common financial transaction tax (**FTT**) in certain participating Member States. The proposed FTT has very broad scope and could apply to certain dealings in financial instruments (including secondary market transactions). The FTT could apply to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in financial instruments where at least one party is a financial institution, and either (i) at least one party is established or deemed to be established in a participating Member State or (ii) the financial instruments are issued in a participating Member State. The proposed Directive remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Prospective holders of Second Issue Debenture Bonds are advised to seek their own professional advice in relation to the FTT.

GENERAL INFORMATION

1. The issue of this Second Issue Prospectus has been authorised by a resolution of the board of directors of the Issuer passed at a meeting of such board on 18 October 2013.
2. The issue of the Second Issue Debenture Bonds and each related transaction or action has been duly authorised by resolutions of the board of directors of the Issuer passed at a meeting of such board held on 18 October 2013. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of its obligations under the Second Issue Debenture Bonds.
3. None of the Issuer or any member of the Borrower Group is involved in any governmental, legal or arbitration proceedings which may have, or have had, during the previous 12 months, a significant effect on their respective financial positions nor is the Issuer aware that any such proceedings are pending or threatened.
4. Since the date of its incorporation, the Issuer has not entered into any material contracts other than the Transaction Documents and the other contracts described in this Second Issue Prospectus to which it is a party.
5. The auditors of the Issuer, the Managed Borrower, the Leased Borrower and the Borrower Group Parent are KPMG Audit plc, One Snowhill, Snow Hill Queensway, Birmingham B4 6GH. The auditors audited each of the Issuer's, the Managed Borrower's and the Leased Borrower's solus accounts and the Borrower Group Parent's consolidated accounts (which accounts cover the Borrower Group Parent and each of its subsidiaries), for the financial years ended 20 August 2011, 18 August 2012 and 17 August 2013, without qualification, in accordance with generally accepted auditing standards in the United Kingdom. The auditors are a member of the Institute of Chartered Accountants in England and Wales.
6. During the financial year ending on 20 August 2011, the Spirit Group was refunded £21.5m of VAT as a result of a judgment in the ongoing litigation between HMRC and The Rank Group plc regarding the VAT treatment of the income from certain slot machines. As highlighted in note 24 to the Borrower Group Parent's audited consolidated annual financial statements for the financial year ended 17 August 2013 and note 22 to the Managed Borrower's audited annual financial statements for the financial year ended 17 August 2013, that refund was made on the basis that, if the final outcome of The Rank Group plc litigation was in favour of HMRC, the refund would be repayable to HMRC (with interest). On 30 October 2013, the Court of Appeal issued its judgment in The Rank Group plc case in favour of HMRC. It is possible that The Rank Group plc will be granted leave to appeal the Court of Appeal's decision to the Supreme Court. If the previously refunded amount is required to be repaid, the total cost to the Borrower Group would be around £10.3m (plus interest), which it is expected the Borrower Group will be able to fund from its own resources.
7. Save as disclosed in this Second Issue Prospectus, there has been no material adverse change in the prospects and/or financial position of the Issuer or either Borrower since the date as of which its last audited annual financial statements were drawn up and

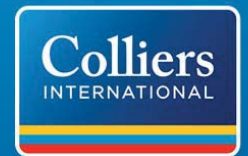
there has been no significant change in the financial or trading position of the Issuer or either Borrower since that date.

8. Save as disclosed in this Second Issue Prospectus, the Issuer has no outstanding loan capital, borrowings, indebtedness or contingent liabilities, nor has the Issuer created any mortgages or charges or given any guarantees.
9. Neither the Issuer nor any member of the Borrower Group will publish interim accounts. The financial year end in respect of each of the Issuer, the Managed Borrower and the Leased Borrower is 23 August 2014 for this year and 22 August 2015 for next year. The Issuer will produce non-consolidated audited financial statements in respect of each financial year and will not produce consolidated audited financial statements.
10. Colliers has given, and has not withdrawn, its consent to the inclusion of the Second Issue Valuation Report dated 21 October 2013 in this Second Issue Prospectus. Colliers has no material interest in the Issuer. Colliers accepts responsibility for the information contained in the Second Issue Valuation Report as set out in this Second Issue Prospectus, and confirms that, to the best of its knowledge (having taken all reasonable care to ensure that such is the case), the information contained in the Second Issue Valuation Report is in accordance with the facts and does not omit anything likely to affect the import of such information
11. The Borrowers intend to produce Quarterly Reports (see "*Summary of Principal Documents – Issuer/Borrower Facility Agreement*", above) which will be made available on the Spirit Group's website (<http://www.spiritpubcompany.com>).
12. Copies of the following documents may be inspected during usual business hours (in physical format) at the specified offices of the Principal Paying Agent (for so long as the Second Issue Debenture Bonds are listed on the Main Securities Market of the Irish Stock Exchange) from the date of this Second Issue Prospectus
 - (a) the Memorandum and Articles of Association of the Borrower Group Parent, New ParentCo, the Managed Borrower and the Leased Borrower;
 - (b) the audited annual financial statements of the Issuer, the Managed Borrower and the Leased Borrower for the financial years ended 17 August 2013, 18 August 2012 and 20 August 2011;
 - (c) the audited consolidated financial statements (which cover the Borrower Group Parent and each of its subsidiaries) of the Borrower Group Parent for the financial years ended 17 August 2013, 18 August 2012 and 20 August 2011;
 - (d) the Second Issue Valuation Report; and
 - (e) copies of the following documents (in each case, as the same may have been supplemented, amended and/or restated on or prior to at the Second Issue Date):
 - (i) the Trust Deed,

- (ii) the Debenture Bonds,
- (iii) the Agency Agreement,
- (iv) the Servicing Agreement,
- (v) the Issuer Deed of Charge,
- (vi) any Supplemental Issuer Deed of Charge,
- (vii) the Security Powers of Attorney,
- (viii) the Original Subscription Agreement,
- (ix) the Second Issue Subscription Agreement,
- (x) the Master Definitions and Construction Schedule,
- (xi) the Liquidity Facility Agreement,
- (xii) the Hedging Agreement,
- (xiii) the Bank Agreement,
- (xiv) the Issuer/Borrower Facility Agreement,
- (xv) the Borrower Group Deed of Charge,
- (xvi) the Borrower Group Standard Securities,
- (xvii) the Tax Deed of Covenant,
- (xviii) the Ambac Financial Guarantee,
- (xix) the Ambac Guarantee and Reimbursement Agreement,
- (xx) the Issuer/Borrower Hedging Agreement,
- (xxi) the Corporate Services Agreement,
- (xxii) the Administrative Services Agreement,
- (xxiii) the Leased Borrower ASA,
- (xxiv) the Back-to-Back Supply Agreement,
- (xxv) the Leased Borrower Back-to-Back Supply Agreement,
- (xxvi) the AdminCo Share Mortgage,

- (xxvii) the SupplyCo Share Mortgage,
 - (xxviii) the Framework BTA,
 - (xxiv) any business transfer agreement entered into pursuant to clause 16.22(f) (*Intra-Group Transfers*) of the Issuer/Borrower Facility Agreement,
 - (xxx) each Intra-Group Transfer Notice,
 - (xxxi) the LoanCo/Borrower Subordinated Loan Agreement,
 - (xxxii) the LoanCo/Issuer Subordinated Loan Agreement,
 - (xxxiii) the Issuer/Borrower Subordinated Loan Agreement, and
 - (xxxiv) the Borrower Acquisition Agreement.
13. Third party information referred to in the section entitled "*United Kingdom Pub Industry*", above, has been accurately reproduced and, as far as the Issuer is aware and able to ascertain from information published by the relevant third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. The Issuer has not independently verified the information included herein from third parties and such information may not be up to date. All third party information in this Second Issue Prospectus has been identified throughout, where used.
14. Any documents or websites referred to herein are not incorporated by reference into, and do not form part of, this Second Issue Prospectus, unless expressly noted otherwise.
15. The total expenses in relation to the admission of the Second Issue Debenture Bonds to trading on the Main Securities Market of the Irish Stock Exchange are anticipated to be €5,291.20.

SECOND ISSUE VALUATION REPORT



VALUATION OF 1,090 LICENSED PROPERTIES
OWNED BY SPIRIT PUB COMPANY (MANAGED) LIMITED AND
SPIRIT PUB COMPANY (LEASED) LIMITED

21 OCTOBER 2013

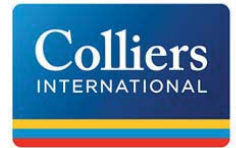


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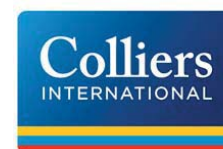
Photographs

VALUATION

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APPENDIX 1: LETTER OF ENGAGEMENT

APPENDIX 2: ASSUMPTIONS AND DEFINITIONS



EXECUTIVE SUMMARY

BACKGROUND

We have been instructed by the Directors of Spirit Pub Company (Managed) Limited and the Directors of Spirit Pub Company (Leased) Limited (together "Spirit") to undertake a re-valuation (the "Re-Valuation") of the 1,090 freehold and leasehold public houses (together the "Portfolio" and individually the "Assets") which comprise the majority of the UK-wide estate of Spirit.

We understand that the Valuations are required in connection with a proposed issuance of debenture bonds by Spirit Issuer plc, and that the Valuations will be included within a prospectus (the "**Prospectus**") to be annexed (in draft form) to a tender offer memorandum to be issued by Spirit Parent Limited (the "**Tender Offer Memorandum**") and to be published (in final form) in connection with the listing of the debenture bonds on the Irish Stock Exchange.

THE PORTFOLIO

The Portfolio comprises freehold and leasehold properties which are either operated directly by Spirit (the "Managed Assets") or let to third party operators (the "Leased Assets").

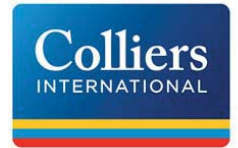
The Assets are mostly traditional public houses, distributed across England, Scotland and Wales, and the Portfolio includes town centre bars, community & suburban pubs and destination / rural pubs. The Managed Assets are generally branded and operate in recognised formats, whilst the Leased Assets are unbranded.

| | Freehold/Long Leasehold | Short Leasehold | Total |
|----------------|-------------------------|-----------------|-------|
| Managed | 437 | 202 | 639 |
| Leased | 393 | 58 | 451 |
| Total | 830 | 260 | 1,090 |

Long leasehold is defined as being an unexpired term in excess of 50 years.

Short Leaseholds include Assets which are held on the short unexpired residues of long leases.

NB – the above table represents the Portfolio as at 21 October 2013 and reflects the transfer of one Asset from Managed to Leased on 17 October 2013 (whereas we understand that the Prospectus will contain information about the Portfolio as at 12 October 2013)



VALUATIONS

In our opinion, the aggregate of the Market Values and the Indicative Values of the freehold and leasehold interests in the Assets, on the basis set out in this report, as at 21 October 2013 is:

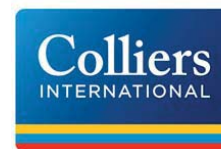
£1,324,000,000

(One Billion, Three Hundred and Twenty Four Million Pounds Sterling)



Our Ref 131021 RP JS Valuation of 1,090
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 EMAIL james.shorthouse@colliers.com



21 October 2013

Spirit Issuer plc

c/o Wilmington Trust SP Services (London) Limited
 Third Floor
 Kings Arm's Yard
 London EC2R 7AF

Spirit Parent Limited

Spirit Pubs Debenture Holdings Limited
Spirit Pub Company (Managed) Limited
Spirit Pub Company (Leased) Limited
 Sunrise House
 Ninth Avenue
 Burton-on-Trent
 Staffordshire DE14 3JZ

Goldman Sachs International

Peterborough Court
 133 Fleet Street
 London EC4A 2BB

Deutsche Trustee Company Limited

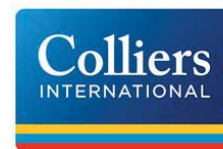
(as Debenture Bond Trustee, Issuer Security Trustee
 and Borrower Group Security Trustee)
 Winchester House
 1 Great Winchester Street
 London EC2N 2DB

Gentlemen

VALUATION OF 1,090 PUBLIC HOUSES

This report (the "Report") is addressed to, and for the sole use of, **Spirit Issuer plc**, c/o Wilmington Trust SP Services (London) Limited, Third Floor, Kings Arm's Yard, London EC2R 7AF, **Spirit Parent Limited**, **Spirit Pubs Debenture Holdings Limited**, **Spirit Pub Company (Managed) Limited**, **Spirit Pub Company (Leased) Limited**, Sunrise House, Ninth Avenue, Burton-on-Trent, Staffordshire DE14 3JZ, **Goldman Sachs International**, Peterborough Court, 133 Fleet Street, London EC4A 2BB, and **Deutsche Trustee Company Limited** (in its capacity as Debenture Bond Trustee, Issuer Security Trustee and Borrower Group Security Trustee), each an "Addressee" and together the "Addressees".





Other than for the purposes for which the Report has been commissioned, it may not be copied, reproduced, distributed, disclosed or revealed in whole or part to any person without the agreement of Colliers International.

INTRODUCTION AND SCOPE OF WORK

We have been instructed by the Directors of Spirit Pub Company (Managed) Limited and the Directors of Spirit Pub Company (Leased) Limited (together "Spirit"), to undertake a re-valuation (the "Re-Valuation") of the 1,090 freehold and leasehold public houses (the "Assets") which comprise the UK-wide estate (the "Portfolio") owned by Spirit. The Portfolio constitutes the majority of the assets of Spirit.

A copy of the Letter of Engagement is reproduced in Appendix 1

We understand that the Re-Valuation is required in connection with a proposed issuance of debenture bonds by Spirit Issuer plc, and that the Valuations will be included within a prospectus (the "**Prospectus**") to be annexed (in draft form) to a tender offer memorandum to be issued by Spirit Parent Limited (the "**Tender Offer Memorandum**") and to be published (in final form) in connection with the listing of the debenture bonds on the Irish Stock Exchange.

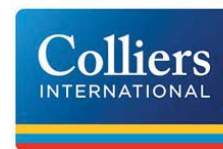
We have recently inspected a sample of 238 Assets (the "Sample Assets"), equating to 21.8% of the Portfolio, and undertaken valuations (the "Valuations") of the Sample Assets in accordance with RICS Valuation - Professional Standards (the "Red Book").

We have reviewed the financial and other information provided to us by or on behalf of Spirit.

Based on the analysis of our findings and Valuations of the Sample Assets we have undertaken a mechanical extrapolation to derive indicative valuations (the "Indicative Valuations") of the remaining Assets. Any extrapolation has limitations as it is based simply on a series of set criteria and pre-determined calculations with none of the subjective reviews and valuer judgements which have been applied in assessing the Sample Assets. The Indicative Valuations should therefore be treated with a degree of caution, and an understanding that, on an Asset by Asset basis, there are likely to be material variances to the values that would be ascribed if a full inspection and valuation had been undertaken.

The Valuations and the Indicative Valuations are on the basis of the Market Value of Spirit's freehold or leasehold interest in each Asset as a fully equipped and operational trading unit, having regard to trading potential, and subject to occupational leases or tenancies where relevant.





CONDUCT OF THE VALUATION

Colliers International has previously valued the Assets for inclusion in financial statements and also undertakes a number of disposals and advisory mandates for Spirit. Revenues earned from Spirit constitute less than 1% of the UK revenues of Colliers International and, in undertaking the Re-Valuation, Colliers International are acting as External Valuers.

The Inspections have been undertaken by a team of qualified surveyors, all of whom are suitably experienced in the valuation of similar trading properties and businesses. The Inspections were carried out between 1 and 19 July 2013

The Re-Valuation has been overseen by James Shorthouse and Ross Kirton, both of whom are Directors of Colliers International with significant experience of valuing similar trading entities.

The Re-Valuation has been undertaken as at 21 October 2013

The Valuations of the Sample Assets have been carried out in accordance with the Red Book. The Indicative Valuations have been carried out using a mechanical extrapolation technique and are not compliant with the requirements of the Red Book, nor should they be relied upon for formal or statutory purposes.

Subject to the Conditions and Assumptions contained herein, Colliers International accepts responsibility for the information contained in this Report. To the best of the knowledge and belief of Colliers International (who has taken all reasonable care to ensure that such is the case) the information contained in this Report is in accordance with the facts and does not omit anything likely to affect the import of such information.

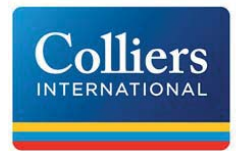
ASSUMPTIONS AND INFORMATION

The Report has been prepared using Colliers International standard Assumptions and Definitions, a copy of which are provided in Appendix 2, and is subject to the particular Exclusions and Special Assumptions, Terms & Conditions which are set out in the Report.

Spirit has provided us with MAT (where "MAT" is the rolling cumulative financial information over the 52-week period just gone) trading data for P1 2014 (where "P1 2014" is the 52 week period ended 14 September 2013) and for FY 2010, 2011, 2012 and 2013 together with tenure, title and occupational lease documentation. We have been provided with details of capex invested at each Asset, and of any unlicensed property ("ULP") associated with any Asset.

The data has not been audited or otherwise verified and we have valued on the assumption that all data supplied to us by Spirit, its advisers and any third parties is accurate.





THE ASSETS

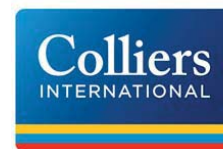
The Portfolio comprises 1,090 fully equipped and operational public houses distributed across the UK. 639 of the Assets are directly operated by Spirit as managed public houses, most of which are branded.

The remaining 451 Assets are let to individual operators who occupy them under a variety of tenancy and lease agreements (the "Occupational Agreements"), almost all of which are tied.

760 of the Assets are freehold, and 70 are Long Leasehold. The 260 Short Leaseholds include third party commercial lease, a number of Sale & Leasebacks and several where only short unexpired terms remain of leases which were originally "Long".

The Portfolio includes both Managed and Leased Assets.





Generally the Managed Assets are larger properties in prominent positions both in town/ city centres and in suburban / community locations. Spirit owns and operates a number of well-known brands covering both wet led (eg John Barras) and food led (eg Chef & Brewer, Fayre & Square) concepts.

The brand profiles are consistent with those operated by major competitors and cover the range of price points from “value” (John Barras and Fayre & Square) to “premium” (Chef & Brewer and Taylor Walker). Each brand has a specific target customer demographic and Spirit has rebranded a number of Assets as it perceives demand changing in particular locations.

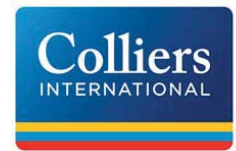
Spirit has announced that it is seeking to develop a number of further concepts to both strengthen and add to the existing brands.

The Leased Assets are generally not branded.

Significant investment has been made in the Assets over the last 4 years. Such projects ranged from the introduction of new back of house systems to comprehensive refurbishments and rebranding of Assets. In total over £200m has been invested over this period, and during our inspections the Sample Assets were seen to be in good condition.

As is normal for tenanted public houses almost all of the leases and tenancies contain a “tie” which requires the tenant to purchase beers and other drinks products through Spirit. The tie generates significant income for Spirit and in many cases also gives Spirit an entitlement to a share of the net revenues from gaming and other machines.





FINANCIAL PERFORMANCE

In undertaking the Re-Valuation we have reviewed the Asset by Asset financial data provided to us.

For the Managed Assets this included details of the various revenue streams, operating costs and Gross Profit and EBITDA margins

Aggregated Financial Performance of the Managed Assets

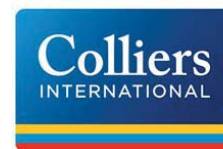
| Period | Sales (£m) | EBITDA (£m) |
|-------------|------------|-------------|
| FY 2010 | 525.3 | 105.1 |
| FY 2011 | 552.8 | 121.9 |
| FY 2012 | 580.8 | 134.8 |
| FY 2013 | 590.2 | 143.4 |
| MAT P1 2014 | 591.7 | 143.9 |

For the Leased Assets the key financial information reviewed related to revenue and EBITDA information including rent income together with the wholesale profit ("margin") which Spirit makes under the supply tie within the leases / tenancies.

Aggregated Financial Performance of the Leased Assets

| Period | Rent (£m) | Net Beer Margin (£m) | Operating Profit (pre Head Lease Rent) (£m) |
|-------------|-----------|----------------------|---|
| FY 2010 | 20.3 | 21.59 | 46.9 |
| FY 2011 | 19.7 | 21.33 | 45.9 |
| FY 2012 | 18.2 | 20.97 | 43.7 |
| FY 2013 | 17.6 | 20.14 | 42.7 |
| MAT P1 2014 | 17.5 | 20.11 | 42.6 |





VALUATION METHODOLOGY

We have undertaken full inspections of 238 Assets which equates to a 21.8% sample of the Portfolio. The sample was selected by Spirit, and Colliers International have confirmed that the Sample Assets accurately reflect the geographical distribution of the whole Portfolio (based on Economic Regions), tenure, (measured by the proportions of freeholds, long leaseholds and short leaseholds within the portfolio), and the balance between Managed and Leased Assets of the overall Portfolio.

Each Sample Asset has been inspected by a surveyor employed by Colliers International who is experienced in the appraisal and valuation of similar businesses and properties.

We have formed a view of the levels of Fair Maintainable trade and EBITDA for each Sample Asset based on the trading information supplied to us and on our knowledge of the market for such businesses.

Our principal approach to the Valuation has been to apply a year's purchase ("YP") multiplier to our assessment of the maintainable level of EBITDA. Adopting this "Income Approach" has a long pedigree and is the approach most widely used by investors and operators and, consequently, valuers.

The choice of multiplier (derived from "all risks" yield) is based on market evidence from the sale of comparable businesses and properties.

The Remaining 78.2% of the Portfolio has then been categorised using the same criteria of geographical distribution, tenure and operational format (managed or leased).

We have analysed the Valuations of the Sample Assets to derive an average YP for each Asset category.

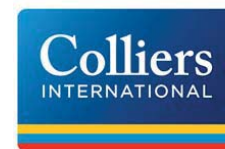
A mechanical extrapolation has been carried out by applying the appropriate YP to the MAT P1 2014 of each Remaining Asset according to its categorisation.

The Indicative Valuations produced by the extrapolation have then been reviewed having regard to a number of rules which had been agreed with Spirit, and which are designed to reduce the anomalies which the extrapolation may produce.

Indicative Valuations of between -£100,000 and +£50,000 for the Managed Assets and between -£50,000 and +£50,000 for the Leased Assets have been rounded to zero to reflect our experience of market sentiment for such Assets.

The Remaining Assets which have recently been subject to significant capital investment or a period of closure have been reviewed on an individual basis.





The Indicative Valuations are a result of a mechanical process and do not therefore have the level of subjectivity which would be applied in undertaking a valuation under the Red Book. For these reasons the Indicative Valuations are likely to show a much higher degree of volatility than the Valuations of the Sample Assets, and on an Asset by Asset basis may show a material variance to the values which would have been ascribed if a full inspection and valuation had been carried out.

The Indicative Valuations are intended as a guide to the likely value of Assets based solely on recent trading performance and should not be relied upon for decision making purposes or for lending or statutory requirements.

Managed public houses are sold as operational entities having regard to their trading potential. Purchasers, and also therefore valuers, review the historic and current trading performance of the property, and form a view as to future sustainable trading performance.

To derive a capital value a single multiplier is applied to the assessment of asset level EBITDA (Earnings Before Interest, Taxation, Depreciation and Amortisation). The multiplier is selected by reference to the quality of the asset, its tenure, location, trading performance and condition. The choice of multiplier is also influenced by evidence from the sales of comparable assets.

We are of the opinion that the likely buyers for most or all of the Managed Assets are other corporate bodies including brewers and multi-site retailers. Such purchasers will have comparable brands under which they can operate the assets along with the Head Office and support systems which are required for the continued efficient and profitable operation of the Assets.

Having regard to the foregoing we have adopted a range of multipliers between 6.0 and 11.78 x the EBITDA for the freehold Managed Assets. Multiples for leaseholds are lower, and vary according to the length of lease, the passing rent and the mechanisms for rent review.

Leased public houses are generally purchased by investors who are able to leverage the various income streams; property rent and wholesale margin. Such purchasers are usually brewers, tenanted pub companies or multiple operators. In some cases private individuals will purchase single tenanted public houses where they see medium / long term opportunities for full or partial redevelopment.

The Leased Assets have been valued by applying a single multiplier to the asset level EBITDA. The multiplier has been selected to reflect the quality of the Asset, its tenure, location, the nature of the tenancy / lease, covenant strength of the tenant and the likelihood of future growth in rent and wholesale margin.





In carrying out the Valuations of the Leased Assets we have adopted a range of multiples between 5.25 and 8.25 for the freehold Leased Assets. Multiples for leaseholds are lower, and vary according to the length of lease, the passing rent and the mechanisms for rent review.

EXCLUSIONS AND SPECIAL ASSUMPTIONS

The Valuations do not make any allowance for:

- The costs of dilapidations or repairs or maintenance at any Asset
- The costs of selling or acquiring any Asset or the effect of any the charging of VAT on the sale of any Asset
- TUPE or similar costs or liabilities
- The values of stock or consumables
- The adverse effect on value of the closure of any Asset

The Valuations are subject to the Assumptions and Definitions set out in Appendix 1 and to the following Special Assumptions:

- A purchaser of any Asset or group of Assets would be able to negotiate commercial terms with its suppliers that are similar to, or no worse than, those which Spirit enjoys
- The purchaser has a competent and effective management team and operational structure
- There would be no interruption to the business upon change of ownership
- There was no change in the trading performance of any Asset between the date of valuation and the date of a sale

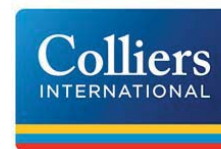
VALUATIONS

In our opinion, the aggregate of the Market Values and the Indicative Values of the Debenture Estate, on the basis set out previously, and arrived at by following the methodology described above, and, as at 21 October 2013 is:

£1,324,000,000

(One Billion, Three Hundred and Twenty Four Million Pounds Sterling)





LIABILITY AND PUBLICATION

The Report is for the sole use of the addressees thereof (being the addressees of this letter), and their professional advisers, for the specific purpose to which it refers. We do not accept responsibility to any party other than the addressees for the whole or any part of its contents.

We hereby consent to the inclusion of the Report in the Prospectus to be published in connection with the listing of the Debenture Bonds, and understand and agree that the Tender Offer Memorandum (including the draft Prospectus) and the Prospectus will be circulated to various parties and published. Subject to the foregoing (and any matters ancillary thereto), neither the whole nor any part of the Report or the Valuations, or any reference thereto, may be included in any published document, circular or statement or disclosed in any way without our previous written consent to the form and context in which it may appear.

We confirm that the extent of our liability in respect of the Valuations will be limited to a maximum sum of £50,000,000.

For convenience, the Report may be made available in electronic as well as hard copy format. As a result, multiple versions of the Report may exist in different media. In the case of any discrepancy, the final signed hard copy should be regarded as definitive.

For the avoidance of doubt, the Report and Valuations are provided by Colliers International Property Advisors UK LLP and no partner, member or employee assumes any responsibility for it nor shall owe a duty of care in respect of it.

Yours faithfully

For and On Behalf of Colliers International Property Advisors UK LLP

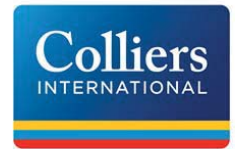
A handwritten signature in black ink, appearing to read "JA Shorthouse".

James Shorthouse
Head of Licensed and Leisure
COLLIERS INTERNATIONAL

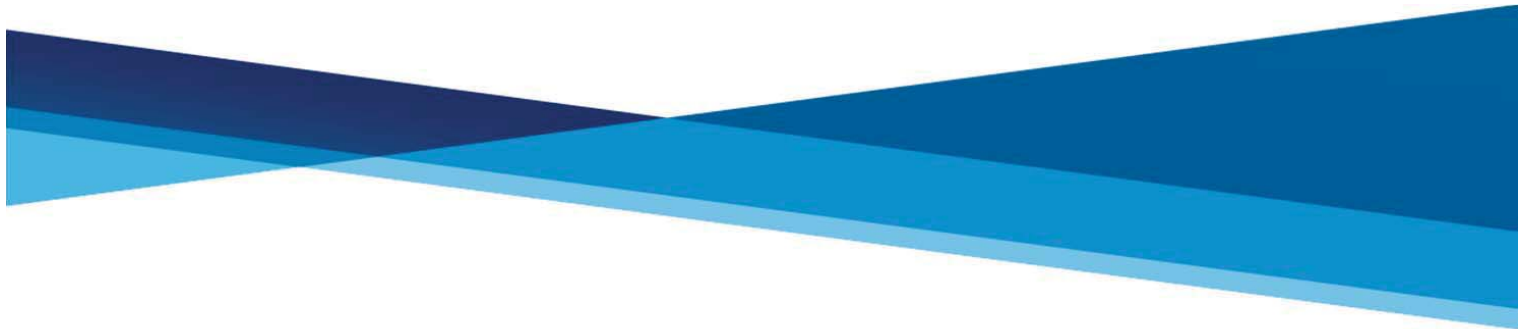
A handwritten signature in black ink, appearing to read "Ross Kirton".

Ross Kirton
Director of Licensed and Leisure
COLLIERS INTERNATIONAL





APPENDIX 1: LETTER OF ENGAGEMENT



Our Ref L JS Spirit Pub Company

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London W1U 7GA

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17 October 2013

Spirit Issuer plcc/o Wilmington Trust SP Services (London) Limited
Third Floor
Kings Arm's Yard
London EC2R 7AF**Spirit Parent Limited****Spirit Pubs Debenture Holdings Limited**
Spirit Pub Company (Managed) Limited
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Sunrise House
Ninth Avenue
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Staffordshire DE14 3JZ**Goldman Sachs International**Peterborough Court
133 Fleet Street
London EC4A 2BB**Deutsche Trustee Company Limited**(as Debenture Bond Trustee, Issuer Group Security Trustee and Borrower Group
Security Trustee)
Winchester House
1 Great Winchester Street
London EC2N 2DB

Dear Sirs,

PROPOSED ISSUANCE OF SECOND ISSUE DEBENTURE BONDS BY SPIRIT ISSUER PLC

We write to confirm your instructions, given to us on your behalf by Ian Powell, Company Secretary, for Colliers International Property Advisers UK LLP ("**Colliers International**") to undertake valuations (the "**Valuations**") of the 640 managed and 450 tenanted/leased public houses (each an "**Asset**" and together the "**Debenture Estate**") owned by, respectively, Spirit Pub Company (Managed) Limited and Spirit Pub Company (Leased) Limited (each, a "**Borrower**"), each of which is an indirect subsidiary of Spirit Pub Company plc ("**Spirit**").

We understand that the Valuations are required in connection with a proposed issuance of debenture bonds by Spirit Issuer plc, and that the Valuations will be included within a prospectus (the "**Prospectus**") to be annexed (in draft form) to a tender offer memorandum to be issued by Spirit Parent Limited (the "**Tender Offer Memorandum**") and to be published (in final form) in connection with the listing of the debenture bonds on the Irish Stock Exchange.





In accordance with your instructions, we will undertake a desktop review of the Debenture Estate and provide you with our opinion of the market value of each Asset, subject to occupational leases / tenancies where relevant.

Knowledge of the Debenture Estate

Colliers International is familiar with the Debenture Estate, having undertaken annual revaluations of the Debenture Estate for financial reporting purposes, most recently in September 2013 using data to the end of Period 10 ("P10 2013") of the Spirit financial calendar for the Spirit financial year ending 17 August 2013 (the "**most recent revaluation**").

Scope of Work

We have agreed with you that we will review the most recent revaluation and consider what amendments, if any, are necessary in order to reflect any material changes to the Debenture Estate since the date to which such report was drawn up, before issuing an updated valuation report based on data as at 14 September 2013 (being the end of Period 1 ("P1 2014") of Spirit's current financial year). To enable us to carry out the review we will request various information from you, including;

- Details of acquisitions or disposals since the most recent revaluation
- Changes since the most recent revaluation in the occupational agreements for the tenanted / leased Assets
- Rebranding of any managed Assets since the most recent revaluation
- Further capital investments since the most recent revaluation

The most recent revaluation was based on P10 2013 MAT financial data so we will request the P1 2014 MAT financial data from you and identify any Assets where there is a material difference in financial performance between the P10 2013 MAT data and the P1 2014 MAT data which you will supply to us.

We will reflect changes in market conditions and any other matters which impact on the values of the Assets and which have changed since the most recent revaluation.

Basis of valuation

The Valuations will be on the basis of the Market Value of the relevant Borrower's freehold or leasehold interest in each Asset as a fully equipped and operational trading unit, having regards to trading potential and, in the case of a leased / tenanted Asset subject to the occupational leases or tenancies.





Market Value is defined in the RICS Valuation Standards, 6th Edition, as:

“the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

We will deliver a report setting out the Valuations no later than 18th October 2013

Conduct of the most recent revaluation

For the most recent revaluation, we undertook inspections of a representative sample (the “**Sample**”) of 238 Assets and carried out detailed reviews of the financial and other information relating to those Sample Assets. The Sample was selected based on:

- Tenure
- Split between managed and tenanted/leased
- Geographical distribution (based on eight regions)

In our opinion, the Sample was representative of the Debenture Estate.

The most recent revaluation was undertaken having regards to our standard terms of business (as set out in the report dated 10 September 2013).

We prepared individual valuations of the relevant Borrower’s freehold or leasehold interest in each Sample Asset and these Valuations were analysed to develop a matrix of multipliers (yields) based on the nature of the relevant Borrower’s occupation of the Sample Assets (managed or tenanted/lease), their tenure, geography, and trading format. This matrix was then used to calculate indicative valuations (the “**Indicative Valuations**”) of the remaining Assets which were segmented using the same criteria.

The Indicative Valuations of the remaining Assets were undertaken using mechanical extrapolation techniques and were based on the trading performance of each Asset.

Once the extrapolation process had been completed, a sense check was applied to consider those Indicative Valuations which were at the extreme high and low ends of the scale, and we undertook reviews and adjustments to a number of such Indicative Valuations to properly reflect market sentiment and buyer behaviour. Similarly we reviewed a number of Assets where there were specific trading related issues which impacted on the MAT performance and where the extrapolation method would produce a distorted Indicative Valuation.

We did not inspect the remaining Assets and the Indicative Valuations are therefore not fully compliant with the requirements of the Red Book.





Confidentiality, Publication and Reliance

The report setting out the Valuations (the "**Valuation Report**") will be for the sole use of the addressees thereof (being the addressees of this letter), and their professional advisers, for the specific purpose to which it refers. We do not accept responsibility to any party other than the addressees for the whole or any part of its contents.

We hereby consent to (i) the inclusion of the Report in the draft Prospectus to be attached to the Tender Offer Memorandum, and (ii) the inclusion of the Report (together with a bring-down letter) in the final Prospectus to be published in connection with the listing of the Debenture Bonds, and understand and agree that the Tender Offer Memorandum (including the draft Prospectus) and the Prospectus will be circulated to various parties and published. Subject to the foregoing (and any matters ancillary thereto), neither the whole nor any part of the Report or the Valuations, or any reference thereto, may be included in any published document, circular or statement or disclosed in any way without our previous written consent to the form and context in which it may appear.

We confirm that the extent of our liability in respect of the Valuations will be limited to a maximum sum of £50,000,000.

For convenience, our report may be made available in electronic as well as hard copy format. As a result, multiple versions of the report may exist in different media. In the case of any discrepancy, the final signed hard copy should be regarded as definitive.

For the avoidance of doubt, the Report and Valuations will be provided by Colliers International Property Advisors UK LLP and no partner, member or employee assumes any responsibility for it nor shall owe a duty of care in respect of it.

Yours faithfully
For Colliers International

A handwritten signature in blue ink, appearing to read "James Shorthouse", with a long horizontal flourish extending to the right.

James Shorthouse
HEAD OF SPECIALIST DIVISION





STANDARD TERMS OF BUSINESS

These are the terms upon which Colliers International Property Advisers UK LLP (registered no OC385143) and/or Colliers International Property Consultants Ltd (registered no 7996509), in each case trading as Colliers International, agree to act for you. Our agreement takes effect from the date we agree to accept your instructions but these terms will apply from the date we provide you with a copy of them.

1.0 DEFINITIONS AND INTERPRETATIONS

1.1 Terms means the terms of business set out in this document and include any other terms and conditions set out or referred to in our Instruction Letter. These Terms apply to all services that you instruct us to provide and cannot be varied or amended except in writing and signed by you and us.

1.2 Client (referred to throughout as 'you') means the person, company, firm or other legal entity named in our Instruction Letter. We will not accept instructions to act for any other legal entity nor will these Terms apply unless we have agreed in writing to act for that alternative entity. We reserve the right to refuse to act for such an alternative entity until (if at all) we have undertaken due diligence to fulfil our internal credit, money laundering and risk obligations. In the event that we are instructed to act for a single purpose corporate vehicle we reserve the right to require and be provided with a parent company or other guarantee for our fees before accepting instructions to act. In the case of the sale of a Property by a corporate client in which the shares in such client are the assets transferring we will require the shareholders of such corporate client to guarantee its obligations to us.

1.3 Colliers Entity means any entity owned or controlled by Colliers International Property Advisers UK LLP or by any of its members, or owned or controlled by any other Colliers Entity.

1.4 Colliers International (referred to throughout as "Colliers" "we" or "us") is the trading name of Colliers International Property Advisers UK LLP and Colliers International Property Consultants Ltd.

1.5 Confidential Information means information that is by its nature confidential and/or is designated by us to be confidential.

1.6 Instruction Letter means the letter of instruction, proposal or tender which is sent to you with these Terms. In the event that there is any conflict between the terms set out in this document and the terms set out in the Instruction Letter the terms in the Instruction Letter shall take precedence.

1.7 The Property means the assets (including shares in a company) which are the subject of our instructions and all other assets in which an interest is acquired by a purchaser including contents fixtures and fittings and any business carried on at the Property.

1.8 Purchaser includes a tenant or licensee.

1.9 Services means the specific services set out in the Instruction Letter and any other services which we agree in writing to provide.

1.10 Sole Selling Rights – Unless specified to the contrary in the Instruction Letter by instructing us to dispose of the Property you grant us Sole Selling Rights which means that you will be liable to pay remuneration to us, in addition to any other costs or charges agreed, if:

- (a) unconditional contracts for the sale of the Property are exchanged in the period during which we have Sole Selling Rights even if the purchaser was not found by us but by another agent or by any other person, including you; and
- (b) if unconditional contracts for the sale of the Property are exchanged after the expiry of the period during which we have Sole Selling Rights but to a purchaser who was introduced to you during that period or with whom we had negotiations about the Property during that period.

2.0 FEES

2.1 Our fees are as stated in the Instruction Letter.

2.2 Where we agree to act jointly with another professional then the fee payable to us will be an agreed proportion of the total fee due. In the absence of such an agreement we shall be paid in equal proportion to the other professional(s).

2.3 Abortive Fees

(a) Unless otherwise agreed in writing if you instruct us to act for you and thereafter the transaction or instruction becomes abortive because you withdraw or you terminate our instructions we shall be entitled to 50% of the fee we would otherwise have received had the matter proceeded to completion.

(b) Whether the transaction or instruction concludes or not the disbursements and expenses referred to in Clause 3.0 below will be payable by you in any event.

(c) In the case of consultancy services an abortive fee will be calculated and payable by you according to our hourly rate at the time for all work done.

2.4 Additional Work

Where we are required to undertake additional work outside the agreed scope of the Services additional charges will be agreed.

2.5 Estimates

Any estimates of fees and disbursements are provided on the basis of the information you provide to us. Such estimates are not therefore binding upon us if the information provided is in any way incomplete, misleading or wrong.

3.0 DISBURSEMENTS AND EXPENSES

3.1 We will provide you with an estimate of disbursements and expenses prior to incurring them. Such items include but are not limited to travel, advertising and marketing (including 'for sale' and 'to let' boards), in-house mailing, printing, maps, photography, photocopying, library and data services, research, bank references, planning applications and RICS and other regulatory fees.

3.2 Disbursements and expenses may be charged to you as soon as they are ascertained or incurred, whether or not our instruction proceeds to a conclusion.

3.3 You agree to indemnify us against any liability on our part in respect of such disbursements and expenses.

3.4 In all circumstances in which your instructions involve an amount of administration on our part, such as photocopying, faxing etc, we shall be entitled to add an administration charge to our bills to cover such expense.

4.0 CHARGES DUE

4.1 We will be entitled to issue an invoice and our fees will become due for payment free from any discount, deduction set-off or counter claim:

- (i) On the date(s) specified in the Instruction Letter
- (ii) When you withdraw your instructions (in which case Clause 2.3 applies).

4.2 In all other cases charges become due on the date that we issue an invoice for the services provided and/or the disbursements and expenses incurred.

4.3 All invoices are payable by you upon delivery to you.

4.4 In the event that we are required to issue proceedings to recover any fees or disbursements and we are successful in such proceedings you agree that you will pay our legal costs of such proceedings even if the amount claimed is less than the limit for small claims cases.

5.0 TAXES

5.1 The fees disbursements and expenses referred to in these Terms and in the Instruction Letter are all subject to the addition of VAT where applicable (and any other taxes whether UK or overseas which may arise).

6.0 INTEREST

6.1 Unless otherwise agreed in writing, in default of payment by you within 21 days of delivery of an invoice, interest will be chargeable upon outstanding invoices at the rate of 6% above the Bank of England minimum lending rate from time to time from the date of our invoice until payment.

7.0 SCOPE OF SERVICES

7.1 We accept no liability for the content or interpretation of title, regulatory documents (such as Energy Performance Certificates) or tenancy documents and unless specifically instructed to report on them we do not warrant that properties on which we advise are in satisfactory structural order; that any land is free from contamination; or that any land or property is compliant with regulations, or that any land or premises has planning permission or is capable of being developed for the purposes for which it may be required.

7.2 We will perform the Services within a reasonable period of time after acceptance of your instructions on the basis that:

- (a) Any estimates of the time for performance of the Services are not to be legally binding upon us; and
- (b) We shall be entitled (but not obliged) to delegate performance of the Services (or any part of them) by instructing one or more other persons, firms or companies (whether as sub-agent or in any other capacity) upon such terms as we consider appropriate in our absolute discretion.

7.3 It may be necessary as part of our work to instruct specialist consultants on your behalf. We will not do so before obtaining your authority. Once you have authorised us to instruct such specialist consultants you will be responsible for payment of their fees and matters relating to their performance. In accepting your instructions to instruct such specialist consultants we do not warrant their competence. If we are instructed by you to supervise the work of such specialist consultants we will be entitled to charge an additional fee calculated by reference to the time incurred in doing so however we assume no liability for any advice given to you by such consultants.

7.4 Any market projections incorporated within our Services including but not limited to, income, expenditure, associated growth rates, interest rates, incentives, yields and costs are projections only and may prove to be inaccurate. Accordingly, such market projections should be interpreted as an indicative assessment of potentialities only, as opposed to certainties.

8.0 INFORMATION PROVIDED

8.1 Unless you inform us in writing to the contrary we shall not be required to check or approve the accuracy of information provided to us by you or others including Energy Performance Certificates.

8.2 Unless you inform us in writing to the contrary you hereby warrant the accuracy of all information provided to us by you or on your behalf on the basis that you expect us to rely upon it.

8.3 You undertake to indemnify us against all costs, claims, charges and expenses of whatever nature which may arise as a result of any such information proving to be inaccurate (whether wholly or in part) or incomplete.

8.4 Subject only to Clause 12 below any information which we acquire from you in the course of performing instructions may be used by us for any other purpose unless you instruct us in writing at any time prior to such use by us.

9.0 OUR REPORTS

9.1 In relation to any written report or advice prepared by us you agree that neither the whole nor any part of our report or advice or Confidential Information may be included in any published document, circular or statement or published in any way without our written approval prior to publication.

9.2 Copyright in any reports, documents or other material provided to you by us shall remain our property at all times.

10.0 PAPERS

10.1 After completing our work, we are entitled to keep all and any of your papers and documents until our fees and charges are paid in full.

10.2 Unless you instruct us to the contrary, you hereby agree that we may destroy papers or documents relating to the Services six years after the date of the final invoice that we send you for the particular matter.

11.0 E-MAIL

11.1 We shall treat receipt of an e-mail from you as a request to us to communicate with you by e-mail.

11.2 If you intend to communicate with us by e-mail, by accepting these Terms you confirm that you understand the risks of doing so and you authorise us to act upon electronic instructions which have been transmitted (or appear to have been transmitted) by you.

12.0 DATA PROTECTION

12.1 We will not disclose to any third party any personal data without your express authority to do so.

12.2 You agree that we may receive and retain documentary proof required by the Money Laundering Regulations 2003 and can disclose it to any Government authority that is legally entitled to request it. For the purposes of this clause only, you release us from our obligations under Clause 12.1 above.

12.3 We may occasionally use your contact details to inform you of property updates, client seminars, and the like. By accepting these terms you consent to our sending you such information. If you do not wish to receive such information, please advise us, by writing to the Data Protection Officer at our address.

13.0 LIMITATION OF LIABILITY

13.1 In relation to any Services provided by us to you the following limitations apply:

13.2 You agree not to bring any claim for any losses against any member, officer, director, employee or consultant of Colliers or any Colliers Entity (each a "Colliers Person"). You hereby agree that a Colliers Person does not have a personal duty of care to you and any claim for losses must be brought against Colliers. It is agreed that any Colliers Person may enforce this clause under the Contracts (Rights of Third Parties) Act 1999 but that these terms may be varied at any time without the need for them to consent.

13.3 We will not be liable in respect of any of the following:

- (a) for any services outside the scope of the Services agreed to be performed by us;
- (b) to any third party;
- (c) in respect of any consequential losses or loss of profits.
- (d) for any losses, costs, penalties or damages arising from the Energy Performance of Buildings Regulations 2011.

13.4 Where any loss is suffered by you for which we and any other person are jointly and severally liable to you the loss recoverable by you from us shall be limited so as to be in proportion to our relative contribution to the overall fault.

13.5 Our liability for loss and damage attributable to our negligence, breach of contract, misrepresentation or otherwise (but not in respect of fraud, fraudulent

misrepresentation, death or personal injury) shall not exceed £1 million per single originating cause (or if higher, such minimum level of insurance cover as the Royal Institution of Chartered Surveyors requires us to maintain from time to time. This limit applies to each and every transaction and retainer and any subsequent work we undertake for you unless expressly overridden in a subsequent Instruction Letter signed by a director of Colliers.

13.6 The exclusions and limitations in this paragraph will not exclude or limit any liability for fraud or dishonesty or for liabilities which cannot lawfully be limited or excluded.

13.7 Where the Instruction Letter is addressed to more than one client, the above limit of liability applies to the aggregate of all claims by all such clients and not separately to each client.

14.0 INDEMNITIES

14.1 You agree to indemnify us against all costs, claims, charges and expenses which we shall incur by reason of (but not limited to):

- (a) Use of any of our work for purposes other than those agreed by us.
- (b) Misrepresentation by you or with your authority to third parties of advice given by us.
- (c) Misrepresentation to third parties of the extent of our involvement in any particular project.
- (d) Any claims or proceedings concerning Energy Performance Certificates prepared by you or on your behalf.

14.2 You also agree to indemnify us against any and all damages or liability suffered by us, arising from the use by us of material provided by you to us the copyright of which is vested in a third party.

15.0 ASSIGNMENT

15.1 Neither this agreement nor any of its terms may be assigned by either you or us to any third party unless agreed in writing.

16.0 TERMINATION OF INSTRUCTIONS

16.1 We may terminate any agreement governed by these Terms immediately by notice in writing:

- (a) Where as a result of circumstances outside the control of both of us the Services become impossible of performance or;
- (b) Where you have rendered the Services impossible of performance or;
- (c) You have provided incorrect information to us contrary to Clause 8 above upon which we have relied or;
- (d) If you have not made payment by the due date of any sum payable to us or;
- (e) At any time in the event that you are in material breach of your obligations to us or;
- (f) Without assigning any reason and on the basis that you are under no obligation to pay any fees in respect of the matter and that we are under no obligation to perform any further services.

16.2 You (and if clause 16.1 does not apply we) may terminate any agreement governed by these Terms by giving not less than 28 days notice in writing. However, if the Instruction Letter states a minimum period for our instruction, notice to terminate may not be given so as to expire before the end of that period.

16.3 On termination of our instructions you will be liable to pay to us any outstanding disbursements and expenses and you will remain liable for any fees arising under Clauses 2, 3 and 5 of these Terms.

16.4 Notwithstanding termination of our agreement with you the provisions of Clauses 1 to 10, 12, 13, 14, 19 and 20 shall remain in full force and effect.

17.0 MONEY LAUNDERING COMPLIANCE

We are required by law to operate procedures pursuant to the Money Laundering Regulations 2007, which may include requesting that you provide us with documentary proof of identity, proof of address and/or proof of funding in relation to a particular transaction or instruction. You agree to comply with any such requests promptly.

18.0 COMPLAINTS

18.1 We operate a procedure for complaints handling as required by the Royal Institution of Chartered Surveyors. A copy is available on request.

19.0 LAW AND JURISDICTION

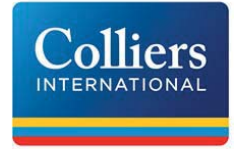
19.1 These terms of business are subject to the laws of England and Wales.

19.2 Any dispute shall be subject to the exclusive jurisdiction of the English Courts.

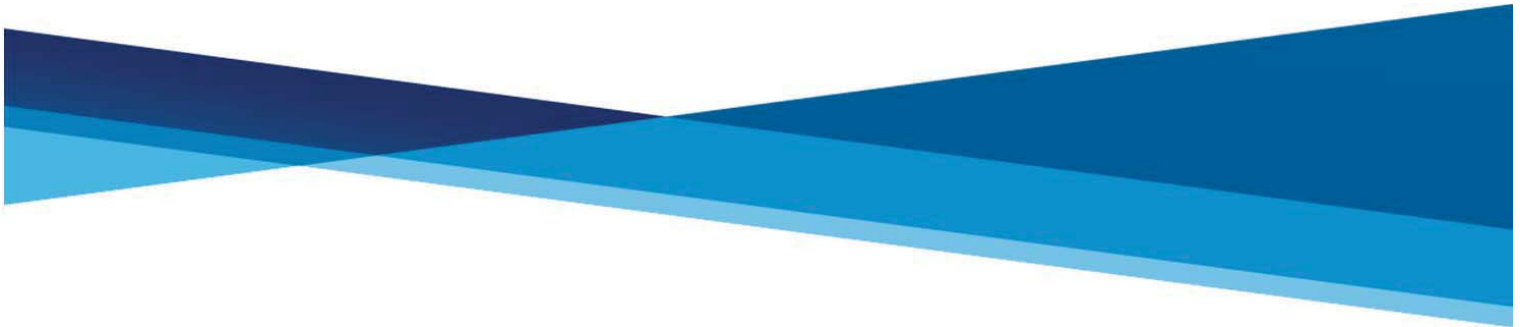
19.3 If a court rules that any provision of these Terms is invalid or unenforceable this will not affect the validity of the rest of the Terms which will remain in force.

20.0 RIGHTS OF THIRD PARTIES

Except as set out in clause 13 none of the Terms shall be enforceable under the Contracts (Rights of Third Parties) Act 1999 by a third party. No third party will be entitled to rely on any Report or advice except as agreed in writing by us.



APPENDIX 2 ASSUMPTIONS AND DEFINITIONS





GENERAL ASSUMPTIONS & DEFINITIONS

The valuations have been prepared in accordance with the RICS Valuation – Professional Standards (Incorporating the International Valuation Standards) March 2012 prepared by the Royal Institution of Chartered Surveyors.

The valuations have been prepared by a suitably qualified valuer, as defined by VS 1.5 and 1.6 of the Professional Standards, on the basis set out below unless any variations have been specifically referred to under the heading “Special Remarks”:

MARKET VALUE (MV)

Where we have been instructed to value the properties on the basis of Market Value, we have done so in accordance with VS 3.2 of the Professional Standards issued by The Royal Institution of Chartered Surveyors, which is defined as follows:

‘The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion’.

The interpretative commentary on Market Value, as published by the International Valuation Standards Council (IVSC), has been applied.

FAIR VALUE

Valuations based on Fair Value shall adopt one of the two definitions in accordance with VS 3.5 of the Professional Standards.

1. The definition adopted by International Valuation Standards (IVS)

‘The estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties’.

2. The definition adopted by the International Accounting Standards Board (IASB)

‘The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date’.

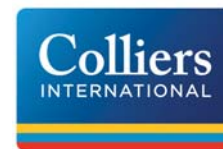
It is important to recognise that the two definitions of Fair Value are not the same. Valuations prepared for financial reporting purposes under IFRS require the adoption of the IASB definition and IFRS 13 will apply.

The guidance in IFRS 13 includes:

‘The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. A fair value measurement requires an entity to determine all the following:

- (a) the particular asset or liability that is the subject of the measurement (consistently with its unit of account)*
- (b) for a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use)*





- (c) *the valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorised.*

The references in IFRS 13 to market participants and a sale make it clear that for most practical purposes, fair value is consistent with the concept of market value.

EXISTING USE VALUE (EUV)

If we have provided an opinion of Existing Use Value this has been arrived at in accordance with UKVS 1.3 of the Professional Standards, which is defined as follows:

'The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the asset required by the business and disregarding potential alternative uses and any other characteristics of the asset that would cause its Market Value to differ from that needed to replace the remaining service potential at least cost.'

This basis ignores any element of hope value for an alternative use, any value attributable to goodwill and any possible increase in value due to special investment or financial transactions (such as sale and leaseback) which would leave the owner with a different interest from the one which is valued. However, it includes any value attributable to any possibilities of extensions or further buildings on undeveloped land or redevelopment of existing buildings (all for the existing planning use) providing such construction can be undertaken without major interruption to the continuing business.

DEPRECIATED REPLACEMENT COST (DRC)

If we have provided a valuation based on Depreciated Replacement Cost, as set out in GN 6 of the Professional Standards, this has been arrived at in accordance with the definition settled by the International Valuation Standards Committee as follows:

'The current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation'.

International Accounting Standards stipulate that DRC may be used as a basis for reporting the value of Specialised Property in Financial Statements. DRC is recognised as a basis only for this purpose. For other purposes DRC may be used as a method to support a valuation reported on another basis.





WORTH AND INVESTMENT VALUE

Where we have been instructed provide valuations based on worth, or investment value, we have done so in accordance with VS 3.4 of the Professional Standards issued by the Royal Institution of Chartered Surveyors, which is the definition settled by IVSC:

'Investment value is the value of an asset to the owner or a prospective owner for individual investment or operational objectives.'

This is an entity-specific basis of value. Although the value of an asset to the owner may be the same as the amount that could be realised from its sale to another party, this basis of value reflects the benefits received by an entity from holding the asset and, therefore, does not necessarily involve a hypothetical exchange. Investment value reflects the circumstances and financial objectives of the entity for which the valuation is being produced. It is often used for measuring investment performance. Differences between the investment value of an asset and its market value provide the motivation for buyers or sellers to enter the marketplace.

MARKET RENT (MR)

Valuations based on Market Rent (MR), as set out in VS 3.3 of the Professional Standards, adopt the definition as settled by the International Valuation Standards Committee which is as follows:

'The estimated amount for which a property would be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.'

MR will vary significantly according to the terms of the assumed lease contract. The appropriate lease terms will normally reflect current practice in the market in which the property is situated, although for certain purposes unusual terms may need to be stipulated. Matters such as the duration of the lease, the frequency of rent reviews, and the responsibilities of the parties for maintenance and outgoings, will all impact on MR. In certain States, statutory factors may either restrict the terms that may be agreed, or influence the impact of terms in the contract. These need to be taken into account where appropriate. The principal lease terms that are assumed when providing MR will be clearly stated in the report.

Rental values are provided for the purpose described in this report and are not to be relied upon by any third party for any other purpose.

RENTAL ASSESSMENT

Unless stated otherwise within the report, our valuations have been based upon the assumption that the rent is to be assessed upon the premises as existing at the date of our inspection.

REINSTATEMENT VALUATION

If we have prepared Reinstatement Values we will not have carried out a detailed cost appraisal and the figures should therefore be considered for guidance purposes only.



PURCHASE AND SALE COSTS

No allowance has been made for legal fees or any other costs or expenses which would be incurred on the sale of the property. We have, however, made deductions to reflect purchasers' acquisition costs.

These are based on 2.80% for properties with a value between £150,001 and £250,000; 4.80% for properties with a value between £250,001 and £500,000 and 5.80% for properties with a value in excess of £500,000.

In respect of residential properties the properties with a value between £125,001 and £250,000 are charged at 2.80%; £250,001 to £500,000 are charged at 4.8%; £500,001 to £1,000,000 are charged at 5.8%; £1,000,001 to £2,000,000 are charged at 6.8%; in excess of £2,000,000 will be charged at 8.8%.

Stamp duty on residential properties over £2,000,000 which are bought via a company is payable at 15% giving purchasers' acquisition costs of 16.8%.

It should be noted, however, that for properties of an unusually large lot size it is common market practice that a purchaser would not expect to pay the standard 1.80% agents and solicitors costs. Accordingly, we may consider in these instances that it is appropriate to adopt a reduced rate.

MEASUREMENTS

Measurements and floor areas have been arrived at in accordance with the current edition of the Code of Measuring Practice issued by the Royal Institution of Chartered Surveyors.

Although every reasonable care has been taken to ensure the accuracy of the surveys there may be occasions when due to tenant's fittings, or due to restricted access professional estimations may have been made.

Floor areas are provided for the purpose described in this report and are not to be relied upon by any third party for any other purpose.

SITE PLAN AND AREA

Where a site area and or site plan has been provided this is for evidence purposes only and should not be relied upon. We recommend that a solicitors Report on Title be obtained and that the site boundaries we have assumed are verified and if any questions of doubt arise the matter to be raised with us so that we may review our valuation.

CONDITION

Unless otherwise stated within the report, we have not carried out a building survey, nor have we inspected the woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are, therefore, unable to report that such parts of the properties are free from rot, beetle or other defects.



Where we have noticed items of disrepair during the course of our inspections, they have been reflected in our valuations, unless otherwise stated.

We have assumed that none of the materials commonly considered deleterious as set out in the British Property Federation and British Council of Offices' sponsored report "Good Practice in the Selection of Construction Materials", are included within the properties. These include, inter alia, the following:

- High alumina cement concrete
- Asbestos
- Calcium chloride as a drying agent
- Wood wool slabs on permanent shuttering
- Polystyrene and polyurethane used as insulation in cladding

None of the services, drainage or service installations was tested and we are, therefore, unable to report upon their condition.

ENVIRONMENTAL MATTERS

Unless otherwise stated within the report, we have not carried out soil, geological or other tests or surveys in order to ascertain the site conditions or other environmental conditions of the properties. Unless stated to the contrary within the report, our valuation assumes that there are no unusual ground conditions, contamination, pollutants or any other substances that may be environmentally harmful.

FIXTURES AND FITTINGS

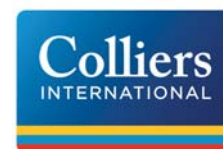
In arriving at our opinions of value we have disregarded the value of all process related plant, machinery, fixtures and fittings and those items which are in the nature of tenants' trade fittings and equipment. We have had regard to landlords' fixtures such as lifts, escalators, central heating and air conditioning forming an integral part of the buildings.

Where the properties are valued as an operational entity and includes the fixtures and fittings, it is assumed that these are not subject to any hire purchase or lease agreements or any other claim on title. No equipment or fixtures and fittings have been tested in respect of Electrical Equipment Regulations and Gas Safety Regulations and we assume that where appropriate all such equipment meets the necessary legislation. Unless otherwise specifically mentioned the valuation excludes any value attributable to plant and machinery.

TENURE, LETTINGS AND REPORTS ON TITLE AND/OR TENANCIES

Unless otherwise stated, we have not inspected the title deeds, leases and related legal documents and, unless otherwise disclosed to us, we have assumed that there are no onerous or restrictive covenants in the titles or leases which would affect the value.





Where we have not been supplied with leases, unless we have been advised to the contrary, we have assumed that all the leases are on a full repairing and insuring basis and that all rents are reviewed in an upwards direction only, at the intervals notified to us, to the full open market value.

We have assumed that no questions of doubt arise as to the interpretation of the provisions within the leases giving effect to the rent reviews.

We have disregarded any inter-company lettings and have arrived at our valuations of such accommodation on the basis of vacant possession.

If a solicitors' Report on Title and/or Tenancies has been provided to us, our valuation will have regard to the matters therein. In the event that a Report on Title and/or Tenancies is to be prepared, we recommend that a copy is provided to us in order that we may consider whether any of the matters therein have an effect upon our opinion of value.

COVENANT STATUS OF THE TENANT/TENANTS

In the case of properties that are let, our opinion of value is based on our assessment of the investment market's perception of the covenant strength of the tenant(s). This has been arrived at in our capacity as valuation surveyors on the basis of information that is publically available. We are not accountants or financial experts and we have not undertaken a detailed investigation into the financial status of the tenants. We have, however, reviewed where possible third party commentary, on the principal tenants. Our valuations reflect the type of tenants actually in occupation or responsible for meeting lease commitments, or likely to be in occupation, and the market's general perception of their creditworthiness.

If the covenant status of the tenant(s) is critical to the valuation we recommend that you make your own detailed enquiries as to the financial viability of the tenant(s) and if your conclusions differ from our own, provide us with a copy of the report in order that we may consider whether our valuation should be revised.

ARREARS

We have assumed that all rents and other payments payable by virtue of the leases have been paid to date. If there are rent or other arrears, we recommend that we should be informed in order that we may consider whether our valuation should be revised.

TAXATION

Whilst we have had regard to the general effects of taxation on market value, we have not taken into account any liability for tax which may arise on a disposal, whether actual or notional, and neither have we made any deduction for Capital Gains Tax, Valued Added Tax or any other tax.

MORTGAGES

We have disregarded the existence of any mortgages, debentures or other charges to which the properties may be subject.





OPERATIONAL ENTITIES

Where the properties are valued as an operational entity and reference has been made to the trading history or trading potential of the property, reliance has been placed on information supplied to us. Should this information subsequently prove to be inaccurate or unreliable, the valuations reported could be adversely affected.

Our valuations do not make any allowance for goodwill.

LOCAL AUTHORITIES, STATUTORY UNDERTAKERS AND LEGAL SEARCHES

We have not made any formal searches or enquiries in respect of the property and are therefore unable to accept any responsibility in this connection. We have, however, made informal enquiries of the local planning authority in whose areas the property is situated as to whether or not they are affected by planning proposals. We have not received a written reply and, accordingly, have had to rely upon information obtained verbally.

We have assumed that all consents, licences and permissions including, inter alia, fire certificates, enabling the property to be put to the uses ascertained at the date of our inspection have been obtained and that there are not outstanding works or conditions required by lessors or statutory, local or other competent authorities.

ENERGY PERFORMANCE CERTIFICATES

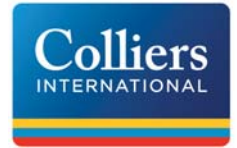
The European Energy Performance Directive requires that whenever buildings are constructed, sold or let, they are to be certified in terms of their energy performance and given an energy efficiency rating. In the UK, Energy Performance Certificates (EPC's) are now compulsory for the sale or letting of all commercial and residential properties.

In arriving at our opinion of value, unless we have been provided with an EPC or EPC's with regard to the property or properties, we have assumed that if an EPC or EPC's were to have been available, its rating would not have had a detrimental impact upon our opinion of the properties market rent and or capital value.

DEFECTIVE PREMISES ACT, HEALTH & SAFETY AT WORK ACT AND DISABILITY AT WORK ACT

Our valuations do not take account of any rights, obligations or liabilities, whether prospective or accrued, under the Defective Premises Act, 1972. Unless advised to the contrary, we have assumed that the properties comply with, and will continue to comply with, the current Health & Safety and Disability legislation.





INSURANCE

In arriving at our valuation we have assumed that the building is capable of being insured by reputable insurers at reasonable market rates. If, for any reason, insurance would be difficult to obtain or would be subject to an abnormally high premium, it may have an effect on value.

LIABILITY CAP

We confirm that the liability of the Valuer (Colliers International) is limited to £50m (Fifty Million Pounds Sterling) for any single case of damages caused by simple negligence, irrespective of the legal reason. A single case of damages is defined as the total sum of all the damage claims of all persons entitled to claim, which arise from one and the same professional error (offence). In the case of damages suffered from several offences brought about by the same technical error within the scope of several coherent services of a similar nature, the Valuer can similarly only be held liable for an amount of £50m.

STANDARD TERMS OF BUSINESS

We confirm that this valuation report has been provided in accordance with our Standard Terms of Business.

2013 FINANCIAL STATEMENTS

Registered No.
5266745

Spirit Issuer plc

Report and Financial Statements

Period ended 17 August 2013

Spirit Issuer plc
Period ended 17 August 2013

DIRECTORS

P Gallagher
Wilmington Trust SP Services (London) Limited
M Filer

SECRETARY

Wilmington Trust SP Services (London) Limited

AUDITOR

KPMG Audit Plc
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

BANKERS

Barclays Bank plc
One Snowhill
Snow Hill Queensway
Birmingham
B3 2WN

SOLICITORS

Slaughter and May
One Bunhill Row
London
EC1Y 8YY

REGISTERED OFFICE

Third Floor
1 King's Arms Yard
London
EC2R 7AF

Spirit Issuer plc
Period ended 17 August 2013

DIRECTORS' REPORT

Registered No. 5266745

The directors present their report and financial statements for the 52 week period ended 17 August 2013.

RESULTS AND DIVIDENDS

The profit after taxation for the 52 week period amounted to £5,000 (52 week period ended 18 August 2012: £10,000). The directors do not propose the payment of a final dividend (2012: £nil).

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the company is the raising and lending of money to other group companies. During the period, the company repurchased £25,610,000 (2012: £37,846,000) of the nominal value of outstanding securitised loan notes.

Spirit Pub Company manages its operations at a group level and the directors therefore believe that disclosure of key performance indicators for the company are not appropriate to understand the development, performance or position of the business. The performance of the Spirit Pub Company group is discussed in the Annual Results 2013 announcement available on the group's website (www.spiritpubcompany.com) and in the Annual Report and Accounts 2013 which will be available on the website from 22 November 2013.

The directors of Spirit Issuer plc have concluded that the company has adequate resources to remain in operation for the foreseeable future. Therefore, the directors have continued to adopt the going concern basis in preparing the financial statements.

RISKS AND UNCERTAINTIES**Market and economic risks**

There is a risk that economic factors such as rising interest rates, higher unemployment, tax increases, lack of consumer credit and falling house prices could all adversely affect the level of consumer confidence, which could result in a negative effect on the level of spending across the hospitality sector. Any delay in economic recovery or further challenges could affect consumer expenditure and the company's cash flows.

Liquidity risk

The company is primarily financed by secured loan notes, with 84% (2012: 87%) of the capital balance on these loan notes being repayable after more than 5 years from the balance sheet date, subject to relevant covenants being met.

The Directors' report and notes 11 and 12 describe the financial position of the group, its cash flows, liquidity position and borrowing facilities, and include the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit and liquidity

After reviewing budgets and other longer term plans and making enquiries, the Directors have a reasonable expectation that the company and the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they adopt the going concern basis of accounting in preparing the financial statements.

The Directors are aware that, without further action on their part and if things remain as planned, there may be pressures on covenant headroom at specific points over the medium term. On that basis, the Directors are reviewing the options available to address these pressures and are confident that such pressures can be appropriately mitigated.

Interest rate risk

The company is exposed to interest rate risk from its loan notes and borrows at both fixed and floating rates of interest. The company employs derivative financial instruments such as interest rate swaps to generate the desired interest rate profile.

Capital risk

The company's capital structure is made up of loan notes, issued share capital and reserves. The company is able to generate sufficient returns to service the debt. Debt is monitored by a variety of measures which are reported to debt providers on a quarterly basis.

Spirit Issuer plc
Period ended 17 August 2013

DIRECTORS

The directors of the company who served during the period are listed on the previous page.

A third party indemnity provision (as defined in section 234 of the Companies Act 2006) is in force for the benefit of the directors.

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the period, the company made no charitable contributions (2012: £nil). The company made no political contributions during the period (2012: £nil).

DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors confirm that, so far as they are aware, there is no relevant audit information of which the auditor is unaware and that each director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

AUDITOR

The company has elected to dispense with the obligation to appoint an auditor annually under s487 of the Companies Act 2006.

On behalf of the board



P Gallagher
Director

21 October 2013

Spirit Issuer plc
Period ended 17 August 2013

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SPIRIT ISSUER PLC**

We have audited the financial statements of Spirit Issuer plc for the 52 week period ended 17 August 2013 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on the previous page, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 17 August 2013 and of its profit for the 52 week period then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Greg Watts
Senior Statutory Auditor
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
21 October 2013

Spirit Issuer plc
Period ended 17 August 2013

PROFIT & LOSS ACCOUNT

for the 52 week period ended 17 August 2013

| | <i>Notes</i> | 52 week period ended 17 August 2013 | | | 52 week period ended 18 August 2012 | | |
|--|--------------|--------------------------------------|--|---------------|--------------------------------------|--|---------------|
| | | Pre- exceptional items £000 | Exceptional items (note 3) £000 | Total £000 | Pre- exceptional items £000 | Exceptional items (note 3) £000 | Total £000 |
| Interest receivable and similar income | 5 | 76,452 | (44,543) | 31,909 | 75,581 | 37,045 | 112,626 |
| Interest payable and similar charges | 6 | (76,445) | 44,543 | (31,902) | (75,568) | (37,045) | (112,613) |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | 7 | - | 7 | 13 | - | 13 |
| Tax on profit on ordinary activities | 7 | (2) | - | (2) | (3) | - | (3) |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION | 14 | 5 | - | 5 | 10 | - | 10 |

The profit and loss account relates to continuing activities.

There are no recognised gains or losses other than those shown above.

Notes 1 to 17 form part of these financial statements.


Spirit Issuer plc
Period ended 17 August 2013

BALANCE SHEET
as at 17 August 2013

| | <i>Notes</i> | 17 August 2013 £000 | 18 August 2012 £000 |
|--|--------------|---------------------------|---------------------------|
| CURRENT ASSETS | | | |
| Debtors (including £1,059,731,000 (2012: £1,144,903,000) due after more than one year) | 8 | 1,254,467 | 1,316,131 |
| Cash at bank and in hand | | 4 | - |
| | | <u>1,254,471</u> | <u>1,316,131</u> |
| CURRENT LIABILITIES | | | |
| Other creditors falling due in less than one year | 9 | (9,307) | (9,290) |
| Secured loan notes | 9 | (24,366) | (562) |
| Derivative financial instruments | 9 | (21,135) | (21,018) |
| CREDITORS: amounts falling due in less than one year | | <u>(54,808)</u> | <u>(30,870)</u> |
| NET CURRENT ASSETS | | <u>1,199,663</u> | <u>1,285,261</u> |
| Due in less than one year | | 139,932 | 140,358 |
| Due after more than one year | | 1,059,731 | 1,144,903 |
| LONG TERM LIABILITIES | | | |
| Other creditors falling due after more than one year | 10 | (269,249) | (256,107) |
| Secured loan notes | 10 | (803,878) | (854,966) |
| Derivative financial instruments | 10 | (126,394) | (174,051) |
| CREDITORS: amounts falling due after more than one year | | <u>(1,199,521)</u> | <u>(1,285,124)</u> |
| NET ASSETS | | <u>142</u> | <u>137</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 13 | 50 | 50 |
| Profit and loss account | 14 | 92 | 87 |
| SHAREHOLDERS' FUNDS | 14 | <u>142</u> | <u>137</u> |

Notes 1 to 17 form part of these financial statements.

The financial statements were approved and authorised for issue by the board and signed on its behalf on 21 October 2013.


P Gallagher
Director

Spirit Issuer plc
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS

for the 52 week period ended 17 August 2013

1 ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared in accordance with applicable UK accounting standards. The financial statements are prepared under the historical cost convention, with the exception of derivative financial instruments which are measured at fair value.

In accordance with FRS 18 the directors have continued to review the accounting policies.

There have been no changes to accounting policies during the year.

Cash flow statement

The directors have taken advantage of the exemption in FRS 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its ultimate parent company, Spirit Pub Company plc, publishes consolidated financial statements.

Going concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future have occurred at the balance sheet date.

Derivative financial instruments and hedging activities

The company uses derivative financial instruments such as interest rate swaps to hedge its risk associated with interest rate fluctuations. Such derivative financial instruments are initially accounted for and subsequently re-measured to fair value. The fair value of the interest rate swap contracts is determined by reference to market values for similar instruments. Changes in fair value of any derivative financial instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account. The company does not have any derivatives that qualify for hedge accounting.

The consolidated financial statements of Spirit Pub Company plc contain financial instrument disclosures which comply with FRS 29 'Financial Instruments: Disclosures'. Consequently, the company has taken advantage of the exemption in FRS 29 not to present separate financial instrument disclosures for the company.

Exceptional items

In order to provide a trend measure of underlying performance, profit is presented excluding items that management believe will distort comparability, either due to their significant nature, or as a result of specific accounting treatments. Further detail on the nature of exceptional items is included in note 3.

Spirit Issuer plc
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

2 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Auditor's remuneration is paid by another company in the Spirit Pub Company group in the current and preceding periods.

3 EXCEPTIONAL ITEMS

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|--|--|--|
| Included within interest receivable and similar income: | | |
| Movement in fair value of interest rate swaps | 44,756 | (36,691) |
| Exceptional interest receivable ¹ | (213) | (354) |
| | 44,543 | (37,045) |
| Included within interest payable and similar charges: | | |
| Movement in fair value of interest rate swaps | (44,756) | 36,691 |
| Exceptional interest payable ² | 213 | 354 |
| | (44,543) | 37,045 |
| | - | - |

¹ Represents the write off of deferred issue costs on redemption of loan notes due from group undertakings.

² Represents the write off of deferred issue costs on redemption of loan notes.

4 DIRECTORS' EMOLUMENTS AND STAFF COSTS

The directors received no emoluments from the company in respect of their services in the current or preceding periods.

The company had no employees during the current or preceding periods.

Spirit Issuer plc
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS

for the 52 week period ended 17 August 2013

5 INTEREST RECEIVABLE AND SIMILAR INCOME

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|--|---|---|
| Interest receivable from group undertakings | 76,452 | 75,581 |
| Movement in fair value of interest rate swaps (note 3) | (44,756) | 36,691 |
| Exceptional interest receivable (note 3) | 213 | 354 |
| | <u>31,909</u> | <u>112,626</u> |

6 INTEREST PAYABLE AND SIMILAR CHARGES

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|--|---|---|
| Bank and other loans | 64,957 | 65,115 |
| Interest payable to group undertakings | 15,494 | 14,297 |
| Movement in fair value of interest rate swaps (note 3) | (44,756) | 36,691 |
| Amortisation of deferred issue costs | 554 | 653 |
| Amortisation of debenture premium | (1,776) | (1,875) |
| Amortisation of swap premium | (2,784) | (2,622) |
| Exceptional interest payable (note 3) | 213 | 354 |
| | <u>31,902</u> | <u>112,613</u> |

Spirit Issuer plc
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

7 TAXATION

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|--|---|---|
| The tax charge for the year comprises: | | |
| UK corporation tax: | | |
| - current year group relief receivable | 2 | 3 |
| | 2 | 3 |
| Total tax charge for the year | 2 | 3 |

There is no provided or unprovided deferred tax.

There is no difference between the tax charge for the period and the result for the period at the standard rate of corporation tax in the UK of 23.6% (2012: 25.2%)

Factors affecting current and future tax charge

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly.

Spirit Issuer plc
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

8 DEBTORS

| | 2013 | 2012 |
|---|-----------|-----------|
| Amounts falling due in less than one year: | £000 | £000 |
| Amounts due from other companies in the Spirit Pub Company plc group | 148,691 | 149,593 |
| Secured loan notes due from companies in the Spirit Pub Company plc group | 24,366 | 562 |
| Prepayments and accrued income | 507 | 18 |
| Derivative financial instruments (note 12) | 21,135 | 21,018 |
| Called up share capital not paid | 37 | 37 |
| | 194,736 | 171,228 |
| | 2013 | 2012 |
| Amounts falling due after more than one year: | £000 | £000 |
| Secured loan notes due from companies in the Spirit Pub Company plc group | 803,878 | 854,966 |
| Loans due from other companies in the Spirit Pub Company plc group | 129,459 | 115,886 |
| Derivative financial instruments (note 12) | 126,394 | 174,051 |
| | 1,059,731 | 1,144,903 |

Secured loan notes due from companies in the Spirit Pub Company plc group comprise secured loan notes due from Spirit Pub Company (Managed) Limited and Spirit Pub Company (Leased) Limited of £803,878,000 (2012: £854,966,000). These are stated net of issue costs of £3,058,000 (2012: £3,825,000), which are amortised over the expected average life of the loans. The terms of loans due from other companies in the Spirit Pub Company plc group are such that the interest rate and repayment schedule are identical to those of the company's loan notes in note 11.

Loans due from other companies in the Spirit Pub Company plc group comprises of a subordinated loan to Spirit Pub Company (Managed) Limited of £129,459,000 (2012: £115,886,000). Interest accrues at 16% per annum.

9 CREDITORS: amounts falling due in less than one year

| | 2013 | 2012 |
|---|--------|--------|
| | £000 | £000 |
| Secured loan notes (note 11) | 24,366 | 562 |
| Amounts owed to other companies in the Spirit Pub Company plc group | 970 | 697 |
| Accruals and deferred income | 8,335 | 8,593 |
| Corporation tax | 2 | - |
| Derivative financial instruments (note 12) | 21,135 | 21,018 |
| | 54,808 | 30,870 |

Spirit Issuer plc
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

10 CREDITORS: amounts falling due after more than one year

| | 2013 £000 | 2012 £000 |
|---|------------------|------------------|
| Secured loan notes (note 11) | 803,878 | 854,966 |
| Loans owed to other companies in the Spirit Pub Company plc group | 129,459 | 115,886 |
| Amounts owed to other companies in the Spirit Pub Company plc group | 139,790 | 140,221 |
| Derivative financial instruments (note 12) | 126,394 | 174,051 |
| | <u>1,199,521</u> | <u>1,285,124</u> |

Secured loan notes are stated net of issue costs, which are amortised over the term of the loan notes. These costs amount to £3,058,000 (2012: £3,825,000).

Loans owed to other companies in the Spirit Pub Company plc group comprises of a loan from Spirit Managed Funding Limited, of £129,459,000 (2012: £115,886,000). Interest accrues at 16% per annum.

Amounts owed to other companies in the Spirit Pub Company plc group are non interest bearing funding balances.

Spirit Issuer plc
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS

for the 52 week period ended 17 August 2013

11 SECURED LOAN NOTES

| | 2013 | 2012 |
|--|----------|----------|
| | £000 | £000 |
| Secured loan notes maturity analysis | | |
| Amounts repayable by instalments falling due: | | |
| In less than one year | 23,153 | - |
| Between one and two years | 34,823 | 23,153 |
| Between two and five years | 74,224 | 83,372 |
| In five years or more | 689,484 | 740,769 |
| Add: debenture premium | 9,618 | 12,059 |
| Less: deferred issue costs | (3,058) | (3,825) |
| | 828,244 | 855,528 |
| | 2013 | 2012 |
| | £000 | £000 |
| Details of the loan notes are as follows: | | |
| Class A1 floating rate secured loan notes due 2026 at LIBOR plus 0.22% per annum to December 2011 and LIBOR plus 0.55% per annum thereafter | 144,704 | 144,704 |
| Class A2 floating rate secured loan notes due 2029 at LIBOR plus 1.08% per annum to December 2011 and LIBOR plus 2.70% per annum thereafter | 188,569 | 188,569 |
| Class A3 fixed / floating rate secured loan notes due 2019 at 5.860% per annum to December 2014 and LIBOR plus 0.55% per annum thereafter | 116,704 | 116,704 |
| Class A4 fixed / floating rate secured loan notes due 2025 at 6.582% per annum to December 2018 and LIBOR plus 2.775% per annum thereafter | 210,481 | 223,286 |
| Class A5 fixed / floating rate secured loan notes due 2032 at 5.472% per annum to December 2028 and LIBOR plus 0.75% per annum thereafter | 161,226 | 174,031 |
| | 821,684 | 847,294 |
| Debenture premium received on the fixed rate loan notes | 45,000 | 45,000 |
| Less: debenture premium amortisation | (35,382) | (32,941) |
| Less: deferred issue costs | (3,058) | (3,825) |
| | 828,244 | 855,528 |

The company uses interest rate swaps to replace the LIBOR rates on the floating rate loan notes with fixed rates.

The loan notes are secured over the assets of the company and certain other companies in the Spirit Pub Company plc group.

During the period, the company redeemed loan notes with a nominal value of £25,610,000, being £12,805,000 Class A4 notes and £12,805,000 Class A5 notes.

Mandatory redemption

If the term facilities have become immediately due and repayable under the terms of the Issuer / Borrower Facility Agreement but the loan notes have not become immediately due and repayable pursuant to the terms and conditions of the loan notes, the loan notes will be subject to redemption pro rata within each class and in the amounts set out in the terms and conditions of the loan notes.

Optional redemption

On giving not fewer than five business days' prior written notice, one or more classes of the loan notes may, at the option of the company, be redeemed in whole or in part (provided that the minimum amount of any such redemption will be £1,000,000 in principal amount of a class of loan notes and thereafter in multiples of £100,000 in principal amount) on any interest payment date subject to certain conditions as set out in the terms and conditions of the loan notes.

Spirit Issuer plc
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS

for the 52 week period ended 17 August 2013

12 DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments such as interest rate swaps to hedge its risk associated with interest rate fluctuations. Such derivatives are initially accounted for and subsequently remeasured to fair value. The fair value of the interest rate swap contracts is determined by reference to market values for similar instruments. Changes in fair value of any derivative financial instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

The company's principal financial instruments other than derivative financial instruments comprise borrowings, loans to group undertakings and cash. The main purpose of these financial instruments is to raise finance for the Spirit Pub Company plc group's operations.

The company enters into derivative transactions. The purpose of such transactions is to manage the interest rate risks arising from the company's sources of finance. It is, and has been throughout the period under review, the company's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the company's financial instruments are interest rate risk and liquidity risk. There is no currency exposure as all material transactions and financial instruments are in sterling. The board reviews and agrees policies for each of these risks.

The consolidated financial statements of Spirit Pub Company plc contain financial instrument disclosures which comply with FRS 29 'Financial Instruments: Disclosures'. Consequently, the company has taken advantage of the exemption in FRS 29 not to present separate financial instrument disclosures for the company.

Derivative financial instruments

The carrying values of derivative financial instruments in the balance sheet are as follows:

| Derivative financial instruments | 2013 £000 | 2012 £000 |
|---|------------------|------------------|
| Debtors: amounts falling due in less than one year: | <u>21,135</u> | <u>21,018</u> |
| Debtors: amounts falling due after more than one year: | <u>126,394</u> | <u>174,051</u> |
| Creditors: amounts falling due in less than one year | <u>(21,135)</u> | <u>(21,018)</u> |
| Creditors: amounts falling due after more than one year | <u>(126,394)</u> | <u>(174,051)</u> |

The interest rate swaps replace the LIBOR rate on the company's secured floating rate loan notes with a fixed rate. The capital amount of the swaps reduce over time to match the contractual repayment profile of the associated notes over their life.

Fair value of non- derivative financial assets and liabilities

With the exception of the company's secured loan notes, there are no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

The carrying value of the company's secured loan notes at 17 August 2013 is £828,244,000 (2012: £855,528,000) and the fair value measured at market value or the market value of equivalent loans of this debt at that date is £743,970,000 (2012: £644,424,000).

Spirit Issuer plc
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

13 SHARE CAPITAL

| | 2013 | 2013 | 2012 | 2012 |
|---|---------------|-----------|---------------|-----------|
| | No. | £000 | No. | £000 |
| <i>Allotted, called up and fully paid:</i> | | | | |
| Ordinary shares of £1 each | 2 | - | 2 | - |
| <i>Allotted, called up and partly paid:</i> | | | | |
| Ordinary shares of £1 each | 49,998 | 50 | 49,998 | 50 |
| <i>Total Allotted</i> | <u>50,000</u> | <u>50</u> | <u>50,000</u> | <u>50</u> |

£0.25 of each of the partly paid shares has been received, while the other £0.75 per share is unpaid. This total of £37,499 has been included within debtors as unpaid share capital.

Spirit Issuer plc
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

14 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

| | Share Capital £000 | Profit & Loss Account £000 | Total Shareholders' Funds £000 |
|-----------------------|--------------------------|----------------------------------|---|
| At 20 August 2011 | 50 | 77 | 127 |
| Profit for the period | - | 10 | 10 |
| At 18 August 2012 | <u>50</u> | <u>87</u> | <u>137</u> |
| Profit for the period | - | 5 | 5 |
| At 17 August 2013 | <u><u>50</u></u> | <u><u>92</u></u> | <u><u>142</u></u> |

Spirit Issuer plc
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

15 RELATED PARTY DISCLOSURES

The company has taken advantage of the exemption in paragraph 3(c) of FRS 8 from disclosing transactions with related parties that are wholly owned subsidiaries of the Spirit Pub Company plc group. There were no other related party transactions during the period.

16 POST BALANCE SHEET EVENTS

At 17 August 2013, no obligation exists for dividends declared after that date (2012: £nil).

17 ULTIMATE PARENT UNDERTAKING

The company's immediate parent undertaking is Spirit Issuer Parent Limited, a company registered in England & Wales.

The company's ultimate parent undertaking and controlling party is Spirit Pub Company plc, a company registered in England & Wales.

The parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the company is a member is Spirit Pub Company plc.

Copies of the financial statements of Spirit Pub Company plc are available from Sunrise House, Ninth Avenue, Burton upon Trent, DE14 3JZ.

Registered No.
5269240

Spirit Pub Company (Managed) Limited

Report and Financial Statements

Period ended 17 August 2013

Spirit Pub-Company (Managed) Limited ~
Period ended 17 August 2013

DIRECTORS

| | |
|----------------|-----------------------------|
| P Gallagher | |
| C Briscoe | appointed 28 September 2012 |
| R Godwin-Bratt | resigned 1 February 2013 |
| R Broadbridge | appointed 28 September 2012 |
| D Moore | appointed 28 September 2012 |
| A Morgan | appointed 28 September 2012 |
| M Tye | |
| C Welham | appointed 28 September 2012 |

SECRETARY

C Stewart
H Jones

AUDITOR

KPMG Audit Plc
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

BANKERS

Barclays Bank plc
One Snowhill
Snow Hill Queensway
Birmingham
B3 2WN

SOLICITORS

Slaughter and May
One Bunhill Row
London
EC1Y 8YY

REGISTERED OFFICE

Sunrise House
Ninth Avenue
Burton upon Trent
Staffordshire
DE14 3JZ

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

DIRECTORS' REPORT

Registered No. 5269240

The directors present their report and financial statements for the 52 week period ended 17 August 2013.

RESULTS AND DIVIDENDS

The loss after taxation for the 52 week period ended 17 August 2013 amounted to £16,961,000 (52 week period ended 18 August 2012: £116,109,000). The directors do not propose the payment of a final dividend (2012: £nil).

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the company is that of pub retailing.

Spirit Pub Company manages its operations at a group level and the directors therefore believe that disclosure of key performance indicators for the company are not appropriate to understand the development, performance or position of the business. The performance of the Spirit Pub Company group is discussed in the Annual Results 2013 announcement available on the group's website (www.spiritpubcompany.com) and in the Annual Report and Accounts 2013 which will be available on the website from 22 November 2013.

As explained in note 1 to the financial statements, the company is dependent upon support from its parent company to meet its liabilities as they fall due. Enquiries have been made of the directors of the company's ultimate parent company, Spirit Pub Company plc, regarding the ability of Spirit Pub Company plc to continue as a going concern. Therefore the directors have, continued to adopt the going concern basis in preparing the financial statements.

RISKS AND UNCERTAINTIES**Market and economic risks**

There is a risk that economic factors such as rising interest rates, higher unemployment, tax increases, lack of consumer credit and falling house prices could all adversely affect the level of consumer confidence, which could result in a negative effect on the level of spending across the hospitality sector. Any delay in economic recovery or further challenges could affect consumer expenditure, the company's suppliers and the company's revenue and cash flows.

Fluctuations in the UK property market as well as continuing uncertain market conditions could impact the value of the company's property portfolio and the ability to acquire or dispose of pubs at an appropriate value.

Liquidity risk

The company is primarily financed by secured loan notes, with 84% (2012: 87%) of the capital balance on these loan notes being repayable after more than 5 years from the balance sheet date, subject to relevant covenants being met.

The Directors' report and notes 15 and 17 describe the financial position of the group, its liquidity position and borrowing facilities, and include the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit and

After reviewing budgets and other longer term plans and making enquiries, the Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they adopt the going concern basis of accounting in preparing the financial statements.

The Directors are aware that, without further action on their part and if things remain as planned, there may be pressures on covenant headroom at specific points over the medium term. On that basis, the Directors are reviewing the options available to address these pressures and are confident that such pressures can be appropriately mitigated.

Interest rate risk

The company is exposed to interest rate risk from its loan notes and borrows at both fixed and floating rates of interest. The company employs derivative financial instruments such as interest rate swaps to generate the desired interest rate profile.

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

Market value of land and buildings

In the opinion of the directors, the book value of the land and buildings of the company exceeds the market values of these assets at 17 August 2013 by £30,427,000 (18 August 2012: £68,094,000).

DIRECTORS

The directors of the company who served during the period are listed on the previous page.

A third party indemnity provision (as defined in section 234 of the Companies Act 2006) is in force for the benefit of the directors.

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the period, the company made no charitable contributions (2012: £nil). The company made no political contributions during the period (2012: £nil).

DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors confirm that, so far as they are aware, there is no relevant audit information of which the auditor is unaware and that each director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

AUDITOR

The company has elected to dispense with the obligation to appoint an auditor annually under s487 of the Companies Act 2006.

On behalf of the board



P Gallagher
Director
21 October 2013

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SPIRIT PUB COMPANY (MANAGED) LIMITED**

We have audited the financial statements of Spirit Pub Company (Managed) Limited for the 52 week period ended 17 August 2013 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on the previous page, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 17 August 2013 and of its loss for the 52 week period then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Greg Watts
Senior Statutory Auditor
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
21 October 2013

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

PROFIT & LOSS ACCOUNT

for the 52 week period ended 17 August 2013

| | Notes | 52 week period ended 17 August 2013 | | | 52 week period ended 18 August 2012 | | |
|--|-------|-------------------------------------|---------------------------------------|---------------|-------------------------------------|---------------------------------------|---------------|
| | | Pre-exceptional items £000 | Exceptional items (note 4) £000 | Total £000 | Pre-exceptional items £000 | Exceptional items (note 4) £000 | Total £000 |
| TURNOVER | 2 | 592,956 | - | 592,956 | 586,353 | - | 586,353 |
| Cost of sales | | (419,906) | - | (419,906) | (417,941) | - | (417,941) |
| GROSS PROFIT | | 173,050 | - | 173,050 | 168,412 | - | 168,412 |
| Administrative expenses | | (91,143) | (1,353) | (92,496) | (99,323) | (7,978) | (107,301) |
| Impairment of tangible fixed assets | | - | - | - | - | (50,429) | (50,429) |
| OPERATING PROFIT | 3 | 81,907 | (1,353) | 80,554 | 69,089 | (58,407) | 10,682 |
| Profit / (loss) on disposal of fixed assets | | - | 1,954 | 1,954 | - | (524) | (524) |
| Interest receivable and similar income | 6 | 17,102 | 2,865 | 19,967 | 17,729 | 4,219 | 21,948 |
| Interest payable and similar charges | 7 | (68,348) | 24,083 | (44,265) | (68,515) | (25,227) | (93,742) |
| Subordinated loan interest payable | 8 | - | (61,509) | (61,509) | - | (57,057) | (57,057) |
| LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION | | 30,661 | (33,960) | (3,299) | 18,303 | (136,996) | (118,693) |
| Tax on loss on ordinary activities | 9 | (14,579) | 917 | (13,662) | (1,243) | 3,827 | 2,584 |
| LOSS ON ORDINARY ACTIVITIES AFTER TAXATION | | 16,082 | (33,043) | (16,961) | 17,060 | (133,169) | (116,109) |

The profit and loss account relates to continuing activities.

Notes 1 to 25 form part of these financial statements.

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the 52 week period ended 17 August 2013

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|--|---|---|
| Loss for the period | (16,961) | (116,109) |
| Profits and losses recognised directly in equity: | | |
| Actuarial (loss) / gain for the period | (28,200) | 10,200 |
| Deferred tax on actuarial (loss) / gain | 6,661 | (2,571) |
| Net actuarial (loss) / gain | <u>(21,539)</u> | <u>7,629</u> |
| Total losses since the last report | <u><u>(38,500)</u></u> | <u><u>(108,480)</u></u> |

Notes 1 to 25 form part of these financial statements.

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

BALANCE SHEET
as at 17 August 2013

| | <i>Notes</i> | 17 August 2013 £000 | 18 August 2012 £000 |
|---|--------------|---------------------------|---------------------------|
| FIXED ASSETS | | | |
| Tangible fixed assets | 10 | 1,088,577 | 1,098,717 |
| Pension - defined benefit scheme asset | 18 | 1,200 | 18,557 |
| | | <u>1,089,777</u> | <u>1,117,274</u> |
| CURRENT ASSETS | | | |
| Stock | 11 | 6,948 | 6,274 |
| Debtors (including £90,872,000 (2012: £108,074,000) due after more than one year) | 12 | 115,890 | 120,064 |
| Cash at bank and in hand | | 41,555 | 45,822 |
| | | <u>164,393</u> | <u>172,160</u> |
| CURRENT LIABILITIES | | | |
| Creditors falling due in less than one year | | (81,622) | (80,166) |
| Secured loan notes owed to group undertakings | | (14,952) | - |
| Derivative financial instruments | | (12,409) | (12,392) |
| CREDITORS: amounts falling due in less than one year | 13 | <u>(108,983)</u> | <u>(92,558)</u> |
| NET CURRENT ASSETS | | <u>55,410</u> | <u>79,602</u> |
| Due in less than one year | | (35,462) | (28,472) |
| Due after more than one year | | 90,872 | 108,074 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>1,145,187</u> | <u>1,196,876</u> |
| LONG TERM LIABILITIES | | | |
| Creditors falling due after more than one year | | (900,584) | (853,079) |
| Secured loan notes owed to group undertakings | | (445,387) | (475,911) |
| Derivative financial instruments | | (74,209) | (102,617) |
| CREDITORS: amounts falling due after more than one year | 14 | <u>(1,420,180)</u> | <u>(1,431,607)</u> |
| PROVISIONS FOR LIABILITIES | 16 | (6,873) | (8,635) |
| NET LIABILITIES | | <u>(281,866)</u> | <u>(243,366)</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 19 | - | - |
| Capital reserve | 20 | 153,287 | 153,287 |
| Profit and loss account | 20 | (435,153) | (396,653) |
| SHAREHOLDERS' DEFICIT | 20 | <u>(281,866)</u> | <u>(243,366)</u> |

Notes 1 to 25 form part of these financial statements.

The financial statements were approved and authorised for issue by the board and signed on its behalf on 21 October 2013.


P Gallagher
Director

Spirit Pub Company (Managed)-Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS

for the 52 week period ended 17 August 2013

1 ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared in accordance with applicable UK accounting standards. The financial statements are prepared under the historical cost convention, with the exception of derivative financial instruments which are measured at fair value.

In accordance with FRS 18 the directors have continued to review the accounting policies.

There have been no changes to accounting policies during the year.

Cash flow statement

The directors have taken advantage of the exemption in FRS 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its ultimate parent company, Spirit Pub Company plc, publishes consolidated financial statements.

Going concern

The company's liabilities exceed its assets. However, the ultimate parent has undertaken to support the company for a period of at least one year following the date of approval of these financial statements and not recall group debt until all other liabilities have been settled and the company has funds to repay. For this reason, the financial statements have been prepared on a going concern basis.

Significant accounting estimates and judgements

The estimates and judgements that have a significant effect on the amounts recognised in the financial statements are detailed below:

Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment if circumstances suggest that the carrying amount may not be recoverable. Recoverable amounts are determined based on value-in-use calculations.

Post-employment benefits

The present value of defined benefit pension assets are determined on an actuarial basis and depend on a number of actuarial assumptions which are disclosed in note 18. Any change in these assumptions could impact the carrying amounts of pension assets.

Tangible fixed assets and depreciation

Fixed assets are stated at historical cost.

Depreciation

Depreciation is charged on a straight-line basis on freehold and long leasehold buildings over the estimated useful life of the asset. It is the company's policy to maintain the properties comprising the licensed estate in such a condition that the residual values of the properties, based on prices prevailing at the time of acquisition or subsequent revaluation, are at least equal to their book values. As a result, the depreciation charged on freehold and long leasehold buildings is nil.

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS

for the 52 week period ended 17 August 2013

1 ACCOUNTING POLICIES

An annual impairment review is carried out on such properties in accordance with FRS 11 and FRS 15.

Landlord's fixtures and fittings include removable items, which are generally regarded as within landlord ownership. These are depreciated in accordance with the policy detailed below.

Depreciation is provided on other tangible fixed assets at rates calculated to write off the cost less estimated residual value of each asset evenly over its expected useful life, as follows:

Short leasehold properties - over the lease term

Fixtures and fittings - 3 to 25 years

IT equipment and developments - 3 to 10 years

Motor vehicles - 3 years

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future have occurred at the balance sheet date.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pensions

The company provides funding for two defined benefit pension schemes operated by a fellow group undertaking. The two schemes are the Spirit Group Pension Scheme (SGPS) and the Spirit Group Retail Pension Scheme (SGRPS).

Defined benefit pension scheme

Full actuarial valuations of the company's defined benefit schemes are carried out every three years with interim reviews in the intervening years; these valuations are updated to the year end each financial period by qualified independent actuaries. For the purposes of these annual updates, scheme assets are included at market value and scheme liabilities are measured on an actuarial basis using the projected unit method; these liabilities are discounted at the current rate of return on a high quality corporate bond of equivalent currency and term. The post-retirement surplus or benefit is included on the company's balance sheet, net of the related amount of deferred tax.

Surpluses are only included to the extent that they are recoverable through reduced contributions in the future or through refunds from the schemes. The current service cost and any past service costs are included in the the profit and loss account within finance costs and the expected return on the schemes' assets is included within finance income. Actuarial gains and losses, including differences between the expected and actual return on scheme assets, are recognised, net of deferred tax, in the statement of total recognised gains and losses.

Provisions

Provisions are recognised when the company has a present legal or constructive obligation to transfer economic resources as a result of past events.

Provisions are measured at management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are discounted if the effect of the time value of money is material. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS

for the 52 week period ended 17 August 2013

1 ACCOUNTING POLICIES

Leasing commitments

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Stocks

Stocks are held at the lower cost and net realisable value. Costs include all costs incurred in bringing each product to its current location and condition. Net realisable value is based on estimated selling price less any further anticipated selling costs.

Derivative financial instruments and hedging activities

The company uses derivative financial instruments such as interest rate swaps to hedge its risk associated with interest rate fluctuations. Such derivative financial instruments are initially accounted for and subsequently re-measured to fair value. The fair value of the interest rate swap contracts is determined by reference to market values for similar instruments. Changes in fair value of any derivative financial instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account. The company does not have any derivatives that qualify for hedge accounting.

The consolidated financial statements of Spirit Pub Company plc contain financial instrument disclosures which comply with FRS 29 'Financial Instruments: Disclosures'. Consequently, the company has taken advantage of the exemption in FRS 29 not to present separate financial instrument disclosures for the company.

Exceptional items

In order to give a true and fair view of the company's performance, profit is presented excluding items that management believe will distort comparability, either due to their significant nature, or as a result of specific accounting treatments. Further detail on the nature of exceptional items is included in note 4.

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS

for the 52 week period ended 17 August 2013

2 TURNOVER

Turnover represents the amounts derived from the provision of goods and services to third parties which fall within the company's ordinary activities, stated net of value added tax. Rents receivable are recognised on a straight-line basis over the lease term. Revenue in respect of drink and food sales is recognised at the point at which the goods are provided. Turnover is derived solely within the United Kingdom.

Turnover includes:

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|---------------|--|--|
| Drink revenue | 312,055 | 318,888 |
| Food revenue | 247,880 | 240,372 |
| Other revenue | 33,021 | 27,093 |
| | <u>592,956</u> | <u>586,353</u> |

3 OPERATING PROFIT

This is stated after charging:

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|-----------------------------------|--|--|
| Depreciation - owned fixed assets | 32,440 | 37,664 |
| Operating lease rentals - other | 32,631 | 29,459 |
| | <u>65,071</u> | <u>67,123</u> |

Auditor's remuneration is paid by another company in the Spirit Pub Company group in the current and preceding periods.

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

4 EXCEPTIONAL ITEMS

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|---|--|--|
| Included within administrative expenses: | | |
| Redundancy, restructuring and other one-off costs ¹ | 1,062 | 5,343 |
| Repayment of VAT ² | - | (3,886) |
| Non-cash impact of annual uplifts in rent and rent-free periods | 291 | 6,521 |
| | 1,353 | 7,978 |
| Impairment of tangible fixed assets (note 10) | - | 50,429 |
| (Profit) / loss on disposal of fixed assets | (1,954) | 524 |
| Included within interest receivable and similar charges: | | |
| Exceptional interest receivable ³ | (2,865) | (4,219) |
| Included within interest payable and similar income: | | |
| Movement in fair value of interest rate swaps (note 7) | (26,614) | 21,910 |
| Exceptional deferred issue costs ⁴ | 2,531 | 3,317 |
| | (24,083) | 25,227 |
| Subordinated loan interest payable ⁵ | 61,509 | 57,057 |
| Tax relief on exceptional items | (917) | (3,827) |
| | 33,043 | 133,169 |

¹ In the current year, represents redundancy costs following a reorganisation of the group. In the prior year, represents restructuring costs incurred following the demerger from Punch Taverns plc in August 2011.

² In the prior year, represents recognition of £3,886,000 of VAT on machine income repaid from HMRC in the year to 20 August 2011, recognised in the year to 18 August 2012 following a ruling of the European Court of Justice in November 2011.

³ Represents profit on the purchase of securitised debt at a discount to nominal value together with the write-off of deferred issue costs.

⁴ Represents the write-off of deferred issue costs on the transfer of properties to Spirit Pub Company (Leased) Limited, a fellow group company.

⁵ Subordinated loan interest payable is capitalising interest expense on intergroup borrowings. The size and nature of this interest, being a quasi equity instrument, has been presented separately in order to provide a clearer presentation of the interest expense of the company.

5 DIRECTORS' EMOLUMENTS AND STAFF COSTS

The directors received no emoluments from the company in respect of their services in the current or preceding periods.

The company had no employees during the current or preceding periods.

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

6 INTEREST RECEIVABLE AND SIMILAR INCOME

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|---|--|--|
| Bank interest receivable | 202 | 529 |
| Finance income from defined benefit pension schemes (note 18) | 16,900 | 17,200 |
| Exceptional interest receivable (note 4) | 2,865 | 4,219 |
| | <u>19,967</u> | <u>21,948</u> |

7 INTEREST PAYABLE AND SIMILAR CHARGES

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|--|--|--|
| Other interest payable | 16 | 125 |
| Movement in fair value of interest rate swaps (note 4) | (26,614) | 21,910 |
| Exceptional deferred issue costs (note 4) | 2,531 | 3,317 |
| Amortisation of deferred issue costs | 326 | 384 |
| Unwinding of discount effect of provision (note 16) | 637 | 902 |
| Amortisation of swap premium | (1,637) | (1,379) |
| Amortisation of debenture premium | (1,045) | (1,113) |
| Finance costs from defined benefit schemes (note 18) | 16,300 | 16,800 |
| Interest payable on secured loan notes to group undertakings | 53,751 | 52,796 |
| | <u>44,265</u> | <u>93,742</u> |

8 SUBORDINATED LOAN INTEREST PAYABLE

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|---|--|--|
| Subordinated loan interest payable to group undertakings (note 4) | <u>61,509</u> | <u>57,057</u> |

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

9 TAXATION

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|--|--|--|
| The tax charge / (credit) for the year comprises: | | |
| UK corporation tax: | | |
| - current year group relief receivable | 4,320 | 11,045 |
| - adjustments in respect of prior periods | (4,405) | (4,779) |
| | (85) | 6,266 |
| Deferred tax: | | |
| - relating to pension costs under FRS 17 | 1,485 | 896 |
| - current year charge / (credit) | 1,198 | (6,994) |
| - relating to fair value of interest rate swaps under FRS 26 | 6,286 | (5,547) |
| - change in standard rate of tax | 1,589 | 2,208 |
| - adjustments in respect of prior periods | 3,189 | 587 |
| | 13,747 | (8,850) |
| Total tax charge / (credit) for the year | 13,662 | (2,584) |

The current tax (credit) / charge for the period is lower (52 week period ended 18 August 2012: higher) than the standard rate of corporation tax in the UK of 23.6% (2012: 25.2%). The differences are explained below.

Reconciliation of current tax (credit) / charge

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|--|--|--|
| Loss on ordinary activities before taxation | (3,299) | (118,693) |
| Loss on ordinary activities at standard rate of corporation tax in the UK of 23.6% (2012: 25.2%) | (779) | (29,923) |
| Effects of: | | |
| Short term timing differences | (8,087) | 2,648 |
| (Profit) / loss on disposal of fixed assets | (461) | 132 |
| Expenses not deductible for tax purposes | 15,353 | 28,677 |
| Depreciation in excess of capital allowances | 817 | 9,511 |
| Utilisation of tax losses brought forward | (2,523) | - |
| Adjustments in respect of prior periods | (4,405) | (4,779) |
| Total current tax (credit) / charge | (85) | 6,266 |

Factors affecting current and future tax charge

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 17 August 2013 has been calculated based on the rates of 20% and 21% substantively enacted at the balance sheet date.

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

10 TANGIBLE FIXED ASSETS

| | Land and buildings £000 | Fixtures and fittings £000 | Total £000 |
|------------------------|-------------------------------|----------------------------------|------------------|
| Cost: | | | |
| As at 18 August 2012 | 999,884 | 353,599 | 1,353,483 |
| Additions | 20,140 | 7,844 | 27,984 |
| Disposals | (13,932) | (2,611) | (16,543) |
| As at 17 August 2013 | <u>1,006,092</u> | <u>358,832</u> | <u>1,364,924</u> |
| Depreciation: | | | |
| As at 18 August 2012 | 55,329 | 199,437 | 254,766 |
| Charge for the year | 7,636 | 24,804 | 32,440 |
| Disposals | (8,422) | (2,437) | (10,859) |
| As at 17 August 2013 | <u>54,543</u> | <u>221,804</u> | <u>276,347</u> |
| Net book value: | | | |
| As at 17 August 2013 | <u>951,549</u> | <u>137,028</u> | <u>1,088,577</u> |
| As at 18 August 2012 | <u>944,555</u> | <u>154,162</u> | <u>1,098,717</u> |

The split of the net book value of land and buildings is as follows:

| | Freehold £000 | Long leasehold £000 | Short leasehold £000 | Total £000 |
|----------------------|------------------|---------------------------|----------------------------|----------------|
| As at 17 August 2013 | <u>788,694</u> | <u>75,376</u> | <u>87,479</u> | <u>951,549</u> |
| As at 18 August 2012 | <u>779,753</u> | <u>74,129</u> | <u>90,673</u> | <u>944,555</u> |

At 17 August 2013, a review of indicators of impairment was performed. No indicators of impairment were identified.

An impairment review was performed on all properties at 18 August 2012 by comparing the value in use of each property to the recoverable amount and historic net book value of each property. Cash flows used in the value-in-use calculation were based on earnings before interest and taxation extrapolated over a 50 year period, using a multiple of 10 as the terminal value. The pre-tax risk adjusted discount rate applied to the cash flow projections was 8.5%, and the growth rate used was 2.25%. As a result an impairment charge of £50,429,000 was recognised in the period to 18 August 2012. This was recognised as an exceptional charge in the profit and loss account.

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

| | | | |
|----|-----------------------|--------------|--------------|
| 11 | STOCKS | 2013 | 2012 |
| | | £000 | £000 |
| | Goods held for resale | <u>6,948</u> | <u>6,274</u> |

The difference between the purchase price of stocks and their replacement cost is not material.

| | | | |
|----|--|---------------|----------------|
| 12 | DEBTORS | 2013 | 2012 |
| | | £000 | £000 |
| | Amounts falling due in less than one year: | | |
| | Trade debtors | 227 | 135 |
| | Amounts due from group undertakings | 11,332 | 3,224 |
| | Prepayments and accrued income | 8,519 | 8,631 |
| | Deferred tax asset | 4,940 | - |
| | | <u>25,018</u> | <u>11,990</u> |
| | Amounts falling due after more than one year: | | |
| | Loans due from group undertakings | 49,520 | 49,520 |
| | Amounts due from group undertakings | 34,390 | 34,390 |
| | Deferred tax asset | 6,962 | 24,164 |
| | | <u>90,872</u> | <u>108,074</u> |

Included within loans due from group undertakings is a non-interest bearing loan to fellow group company, Spirit Pub Company (Leased) Limited of £49,520,000 (2012: £49,520,000).

Amounts due from group undertakings are non interest bearing funding balances.

Deferred tax

| | | |
|---|---------------|---------------|
| | 2013 | 2012 |
| | £000 | £000 |
| The deferred tax asset included in the company balance sheet is as follows: | | |
| Interest rate swaps | 10,798 | 18,560 |
| Losses recognised | 9,110 | 17,447 |
| Short term timing differences | 1,668 | 927 |
| Depreciation in excess of capital allowances | (9,674) | (12,770) |
| As at 17 August 2013 | <u>11,902</u> | <u>24,164</u> |
| | | £000 |
| As at 18 August 2012 | | 24,164 |
| Charged to the profit and loss account | | (12,262) |
| As at 17 August 2013 | | <u>11,902</u> |

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

| | | | |
|-----------|---|----------------|---------------|
| 13 | CREDITORS: amounts falling due in less than one year | | |
| | | 2013 | 2012 |
| | | £000 | £000 |
| | Secured loan notes owed to group undertakings | 14,952 | - |
| | Amounts owed to group undertakings | 29,066 | 27,582 |
| | Accruals and deferred income | 37,779 | 42,818 |
| | Social security and other taxes | 14,777 | 9,766 |
| | Derivative financial instruments (note 17) | 12,409 | 12,392 |
| | | <u>108,983</u> | <u>92,558</u> |

Included within secured loan notes owed to group undertakings are secured loan notes from a fellow group undertaking, Spirit Issuer plc, of £14,952,000 (2012: £nil). The terms of the secured loan notes owed to group undertakings are such that the interest rate is identical to that of a fellow group company's secured loan notes. The repayment profile of this loan is shown in note 15.

| | | | |
|-----------|--|------------------|------------------|
| 14 | CREDITORS: amounts falling due after more than one year | | |
| | | 2013 | 2012 |
| | | £000 | £000 |
| | Secured loan notes owed to group undertakings | 445,387 | 475,911 |
| | Loans owed to group undertakings | 684,502 | 628,786 |
| | Accruals and deferred income | 6,812 | 6,521 |
| | Amounts owed to group undertakings | 209,270 | 217,772 |
| | Derivative financial instruments (note 17) | 74,209 | 102,617 |
| | | <u>1,420,180</u> | <u>1,431,607</u> |

Included within secured loan notes owed to group undertakings are secured loan notes from a fellow group undertaking, Spirit Issuer plc, of £445,387,000 (2012: £475,911,000). The terms of the secured loan notes are such that the interest rate is identical to that of a fellow group company's secured loan notes. The repayment profile of this loan is shown in note 15.

Included within loans owed to group undertakings are subordinated loans from fellow group undertakings, Spirit Managed Funding Limited and Spirit Issuer plc of £531,403,000 and £129,460,000 respectively (2012: £483,048,000 and £115,886,000 respectively). Interest accrues at 16% per annum.

Amounts owed to group undertakings are non interest bearing funding balances.

Accruals and deferred income includes amounts accrued in respect of annual uplifts of rent and rent-free periods.

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

15 SECURED LOAN NOTES

| | 2013 | 2012 |
|---|----------|----------|
| | £000 | £000 |
| Secured loan notes maturity analysis | | |
| Amounts repayable by instalments falling due: | | |
| In less than one year | 13,594 | - |
| Between one and two years | 20,446 | 13,651 |
| Between two and five years | 43,579 | 49,155 |
| In five years or more | 404,814 | 436,745 |
| Less: debenture premium | (20,311) | (18,875) |
| Less: deferred issue costs | (1,783) | (4,765) |
| | 460,339 | 475,911 |

The company uses interest rate swaps to replace the LIBOR rates on the floating rate loan notes with fixed rates. The interest rate swap terms are identical to that of a fellow group company's interest rate swap terms.

The loan notes are secured over the assets of the company and certain other companies in the Spirit Pub Company plc group.

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

16 PROVISIONS FOR LIABILITIES

| | Property leases £000 |
|--|----------------------------|
| As at 18 August 2012 | 8,635 |
| Utilised during the period | (2,399) |
| Unwinding of discount effect of provisions | 637 |
| As at 17 August 2013 | 6,873 |

The provision for property leases has been set up to cover operating costs of vacant or loss making premises. The provision covers the expected shortfall between operating income and rents payable for a period of three years for trading properties and ten years for non trading properties, being the estimated period to mitigate the losses. These properties are not expected to become profitable in the future.

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

17 DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments such as interest rate swaps to hedge its risk associated with interest rate fluctuations. Such derivatives are initially accounted for and subsequently remeasured to fair value. The fair value of the interest rate swap contracts is determined by reference to market values for similar instruments. Changes in fair value of any derivative financial instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account. The company does not have any derivatives that qualify for hedge accounting.

The company's principal financial instruments other than derivative financial instruments comprise borrowings, loans to group undertakings and cash. The main purpose of these financial instruments is to raise finance for the Spirit Pub Company plc group's operations.

The company enters into derivative transactions. The purpose of such transactions is to manage the interest rate risks arising from the company's sources of finance. It is, and has been throughout the period under review, the company's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the company's financial instruments are interest rate risk and liquidity risk. There is no currency exposure as all material transactions and financial instruments are in sterling. The board reviews and agrees policies for each of these risks.

The consolidated financial statements of Spirit Pub Company plc contain financial instrument disclosures which comply with FRS 29 'Financial Instruments: Disclosures'. Consequently, the company has taken advantage of the exemption in FRS 29 not to present separate financial instrument disclosures for the company.

Derivative financial instruments

The carrying values of derivative financial instruments in the balance sheet are as follows:

| | | |
|---|--------|---------|
| Creditors: amounts falling due in less than one year | 2013 | 2012 |
| | £000 | £000 |
| Derivative financial instruments | 12,409 | 12,392 |
| Creditors: amounts falling due after more than one year | 2013 | 2012 |
| | £000 | £000 |
| Derivative financial instruments | 74,209 | 102,617 |

The interest rate swaps replace the LIBOR rate on the company's secured floating rate loan notes with a fixed rate. The capital amount of the swaps reduce over time to match the contractual repayment profile of the associated notes over their life.

Fair value of non- derivative financial assets and liabilities

With the exception of the company's secured loan notes, there are no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

The carrying value of the company's secured loan notes at 17 August 2013 is £460,339,000 (2012: £475,911,000) and the fair value measured at market value or the market value of equivalent loans of this debt at that date is £436,804,000 (2012: £361,496,000).

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS

for the 52 week period ended 17 August 2013

18 PENSION - DEFINED BENEFIT SCHEME (LIABILITY) / ASSET

| Pension asset | 2013 £000 | 2012 £000 |
|---|--------------|---------------|
| Asset brought forward | 24,100 | 8,300 |
| Credited to the profit and loss account | 600 | 400 |
| Cash payments during the period | 5,000 | 5,200 |
| Actuarial (loss) / gain | (28,200) | 10,200 |
| Asset before deferred tax | 1,500 | 24,100 |
| Deferred tax liability | (300) | (5,543) |
| Asset net of deferred tax | <u>1,200</u> | <u>18,557</u> |

During the period, the company operated two funded defined benefit pension schemes; the Spirit Group Pension Scheme (SGPS) and the Spirit Group Retail Pension Scheme (SGRPS). The pension plans have not invested in any of the company's own financial instruments, nor in properties or other assets used by the company. The asset recognised in 2013 relates to the SGPS and the recognition of any asset on the SGRPS is restricted to nil. As explained in the footnote below, the asset in the SGRPS in 2012 was, in error, not restricted to nil. The error was not fundamental to the company's financial position and has been corrected in the current year.

The tables below illustrate the impact of defined benefit schemes on the profit and loss account, the statement of total recognised gains and losses and the balance sheet and relate to both pension plans.

All pension costs relating to the SGPS and SGRPS are incurred by Spirit Pub Company (Services) Limited, the principal employer. These costs are then recharged to Spirit Pub Company (Managed) Limited and Spirit Pub Company (Trent) Limited. The disclosures quoted below are Spirit Pub Company (Managed) Limited's proportion of the total assets and liabilities of the pension schemes.

The amounts recognised in the profit and loss account are as follows:

| Analysis of the amounts credited to interest receivable / (charged) to interest payable: | 2013 £000 | 2012 £000 |
|--|--------------|--------------|
| Expected return on scheme assets | 16,900 | 17,200 |
| Restriction on surplus recognised ¹ | (1,300) | - |
| Interest on scheme liabilities | (15,000) | (16,800) |
| Net (charge) / credit | <u>600</u> | <u>400</u> |

The amounts recognised in the statement of total recognised gains and losses (STRGL) are as follows:

| | 2013 £000 | 2012 £000 |
|---|-----------------|---------------|
| Actual return on assets | 21,300 | 40,800 |
| Expected return on assets | (16,900) | (17,200) |
| Experience loss on liabilities | (21,400) | (13,400) |
| Expected actuarial (losses) / gains recognised in the STRGL | (17,000) | 10,200 |
| Restriction on surplus recognised ¹ | (11,200) | - |
| Actuarial (losses) / gains recognised in the STRGL | <u>(28,200)</u> | <u>10,200</u> |
| Cumulative amounts recognised in the STRGL: | 2013 | 2012 |
| | £000 | £000 |
| At beginning of period | 24,500 | 14,300 |
| Net actuarial (losses) / gains in the period | (28,200) | 10,200 |
| At end of period | <u>(3,700)</u> | <u>24,500</u> |

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

18 PENSION - DEFINED BENEFIT SCHEME (LIABILITY) / ASSET

The amounts recognised in the balance sheet are as follows:

| | 2013 | 2012 |
|--|--------------|---------------|
| | £000 | £000 |
| Present value of scheme liabilities | (352,200) | (327,800) |
| Fair value of scheme assets | 366,200 | 351,900 |
| Net retirement benefit asset | 14,000 | 24,100 |
| Restriction on surplus recognised ¹ | (12,500) | - |
| Net retirement benefit asset recognised in the balance sheet | <u>1,500</u> | <u>24,100</u> |

Movements in the present value of scheme liabilities are as follows:

| | 2013 | 2012 |
|--|----------------|----------------|
| | £000 | £000 |
| Present value of scheme liabilities at beginning of period | 327,800 | 308,700 |
| Interest cost | 15,000 | 16,800 |
| Actuarial losses | 21,400 | 13,400 |
| Benefits paid | (12,000) | (11,100) |
| Present value of scheme liabilities at end of period | <u>352,200</u> | <u>327,800</u> |

Movements in the fair value of scheme assets are as follows:

| | 2013 | 2012 |
|--|----------------|----------------|
| | £000 | £000 |
| Fair value of scheme assets at beginning of period | 351,900 | 317,000 |
| Expected return on scheme assets | 16,900 | 17,200 |
| Actuarial gains | 4,400 | 23,600 |
| Contributions paid by employer | 5,000 | 5,200 |
| Benefits paid | (12,000) | (11,100) |
| Fair value of scheme assets at end of period | <u>366,200</u> | <u>351,900</u> |

Scheme assets are stated at their market values at the balance sheet date and the expected return on scheme assets is derived as a weighted average of the expected return on each asset class, recognising the proportions of the assets invested in each. The expected return on each asset class is determined after taking external expert advice and by reference to relevant equity and bond indices.

The history of experience adjustments on the schemes for the current and previous financial years is as follows:

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---------------|---------------|--------------|-----------------|-----------------|
| Present value of retirement benefit liabilities | (352,200) | (327,800) | (308,700) | (319,500) | (323,800) |
| Fair value of plan assets | 366,200 | 351,900 | 317,000 | 307,300 | 282,800 |
| Net asset / (liability) in the scheme | <u>14,000</u> | <u>24,100</u> | <u>8,300</u> | <u>(12,200)</u> | <u>(41,000)</u> |
| Experience adjustments on scheme liabilities | (21,400) | (13,400) | 3,300 | (14,500) | (28,100) |
| Experience adjustments on scheme assets | 4,400 | 23,600 | 6,800 | 18,900 | (26,200) |

The expected contributions to the defined benefit schemes for the next financial year, beginning 18 August 2013, are £5,000,000, of which the company will pay a proportion.

¹ The impact of the restriction on surplus recognised reflects the effect of adjustments with respect to restrictions in prior years in relation to the Spirit Group Retail Pension Scheme (SGRPS), not identified and accounted for at the time they arose. The Company has not agreed a surplus refund agreement and therefore the asset in relation to this scheme has been restricted to nil. These prior year errors are considered not to be fundamental to any prior years' performance statements.

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

18 PENSION - DEFINED BENEFIT SCHEME (LIABILITY) / ASSET

Spirit Group Pension Scheme funding

The SGPS scheme is a defined benefit scheme operated in the UK. The values of the scheme's liabilities have been determined by a qualified actuary based on the preliminary results of an actuarial valuation as at 31 October 2012, updated to 17 August 2013, the balance sheet date. The mortality assumptions at the year end are based on standard mortality tables that allow for future mortality improvements. The assumptions are that the life expectancy of a member who retires at the age of 65 is as follows:

| | 2013 | 2012 |
|--------------------------|-----------------|-----------------|
| Male currently aged 45 | 25 years | 24 years |
| Male currently aged 65 | 23 years | 22 years |
| Female currently aged 45 | 27 years | 25 years |
| Female currently aged 65 | <u>24 years</u> | <u>23 years</u> |

The assumptions used in determining the valuations are as follows:

| | 2013 | 2012 |
|------------------------------|-------------|-------------|
| Rate of increase in pensions | 3.3% | 2.6% |
| Discount rate | 4.6% | 4.5% |
| Inflation assumption (RPI) | 3.6% | 2.9% |
| Inflation assumption (CPI) | <u>2.7%</u> | <u>2.0%</u> |

The assets in the scheme and expected rates of return were:

| | Long-term rate of return expected at | Value at 17 August 2013 | Long-term rate of return expected at | Value at 18 August 2012 |
|---|---|----------------------------|---|----------------------------|
| | 17 August 2013 | August 2013 | 18 August 2012 | August 2012 |
| | | £000 | | £000 |
| Equities | 7.0% | 46,900 | 7.3% | 43,700 |
| Government bonds | 3.2% | 30,900 | 2.5% | 26,200 |
| Property | 6.0% | 10,200 | 6.8% | 10,200 |
| Corporate bonds | 4.3% | 31,300 | 4.0% | 29,600 |
| Other | 0.5% | <u>1,100</u> | 1.5% | <u>3,800</u> |
| Total market value of assets | | 120,400 | | 113,500 |
| Present value of scheme liabilities | | <u>(118,900)</u> | | <u>(110,900)</u> |
| Surplus in the scheme before deferred tax | | 1,500 | | 2,600 |
| Deferred tax liability | | <u>(300)</u> | | <u>(598)</u> |
| Net pension asset | | <u>1,200</u> | | <u>2,002</u> |

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS

for the 52 week period ended 17 August 2013

18 PENSION - DEFINED BENEFIT SCHEME (LIABILITY) / ASSET

Spirit Group Retail Pension Scheme funding

The SGRPS scheme is a defined benefit scheme operated in the UK. The values of the scheme's liabilities have been determined by a qualified actuary based on the preliminary results of an actuarial valuation as at 31 October 2012, updated to 17 August 2013, the balance sheet date. The mortality assumptions at the year end are based on standard mortality tables that allow for future mortality improvements. The assumptions are that the life expectancy of a member who retires at the age of 65 is as follows:

| | 2013 | 2012 |
|--------------------------|-----------------|-----------------|
| Male currently aged 45 | 24 years | 24 years |
| Male currently aged 65 | 22 years | 21 years |
| Female currently aged 45 | 27 years | 26 years |
| Female currently aged 65 | <u>24 years</u> | <u>21 years</u> |

The assumptions used in determining the valuations are as follows:

| | 2013 | 2012 |
|------------------------------|-------------|-------------|
| Rate of increase in pensions | 3.3% | 2.6% |
| Discount rate | 4.6% | 4.5% |
| Inflation assumption (RPI) | 3.6% | 2.9% |
| Inflation assumption (CPI) | <u>2.7%</u> | <u>2.0%</u> |

The assets in the scheme and expected rates of return were:

| | Long-term rate of return expected at 17 August 2013 | Value at 17 August 2013 £000 | Long-term rate of return expected at 18 August 2012 | Value at 18 August 2012 £000 |
|--|--|------------------------------------|--|------------------------------------|
| Equities | 7.0% | 81,500 | 7.3% | 78,400 |
| Government bonds | 3.2% | 70,600 | 2.5% | 64,600 |
| Corporate bonds | 6.0% | 18,800 | 6.8% | 18,900 |
| Property | 4.3% | 71,600 | 4.0% | 73,800 |
| Other | 0.5% | 3,300 | 1.5% | 2,700 |
| Total market value of assets | | <u>245,800</u> | | <u>238,400</u> |
| Present value of scheme liabilities | | <u>(233,300)</u> | | <u>(216,900)</u> |
| Net surplus in scheme | | 12,500 | | 21,500 |
| Restriction on surplus recognised ¹ | | <u>(12,500)</u> | | - |
| Surplus in the scheme before deferred tax | | - | | 21,500 |
| Deferred tax liability | | - | | <u>(4,945)</u> |
| Net pension asset | | <u>-</u> | | <u>16,555</u> |

¹ The impact of the restriction on surplus recognised reflects the effect of adjustments with respect to restrictions in prior years in relation to the Spirit Group Retail Pension Scheme (SGRPS), not identified and accounted for at the time they arose. The Company has not agreed a surplus refund agreement and therefore the asset in relation to this scheme has been restricted to nil. These prior year errors are considered not to be fundamental to any prior years' performance statements.

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

19 SHARE CAPITAL

| | 2013 | 2013 | 2012 | 2012 |
|--|------|------|------|------|
| | No. | £ | No. | £ |
| <i>Allotted, called up and fully paid:</i> | | | | |
| Ordinary shares of £1 each | 2 | 2 | 2 | 2 |

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

20 **RECONCILIATION OF SHAREHOLDERS' DEFICIT AND MOVEMENTS ON RESERVES**

| | Share Capital £000 | Capital Reserve £000 | Profit & Loss Account £000 | Total Shareholders' Deficit £000 |
|--------------------------------|--------------------------|----------------------------|----------------------------------|---|
| At 20 August 2011 | - | 153,287 | (288,173) | (134,886) |
| Total losses for the period | - | - | (108,480) | (108,480) |
| At 18 August 2012 | - | 153,287 | (396,653) | (243,366) |
| Total losses for the period | - | - | (38,500) | (38,500) |
| At 17 August 2013 | - | 153,287 | (435,153) | (281,866) |

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

21 FINANCIAL COMMITMENTS

| | 2013 | 2012 |
|--|--------------|--------------|
| | £000 | £000 |
| Capital commitments for fixed assets contracted not provided | <u>6,746</u> | <u>9,943</u> |

At 17 August 2013 the company had annual commitments under non-cancellable operating leases as set out below:

Land and buildings

| | 2013 | 2012 |
|--------------------------------|---------------|---------------|
| | £000 | £000 |
| Operating leases which expire: | | |
| In less than one year | 5 | 52 |
| 2 - 5 years | 1,116 | 717 |
| Over five years | 30,475 | 30,749 |
| | <u>31,596</u> | <u>31,518</u> |

22 CONTINGENT LIABILITIES

At 21 August 2010 a contingent asset of £18.9m existed in relation to the Spirit Pub Company plc group's outstanding gaming machine VAT claim. A decision was reached during 2010 in respect of The Rank Group plc's gaming claim, and this latest ruling fell in the taxpayer's favour. As a result, the group was able to further pursue its own gaming claim and during the year to 20 August 2011, the group's claim was repaid by HMRC. HMRC agreed to make the repayment of the existing claim, subject to the group providing a guarantee to HMRC that, in the event that the existing decision in The Rank Group plc is overturned in a higher court, the amount will be repayable in full. The decision in relation to The Rank Group plc's claim was referred to the Court of Justice of the European Union and at 20 August 2011 the group recognised the repayment amount as a provision, with £3,886,000 recognised by the company.

During November 2011, the Court of Justice of the European Union considered the Rank Group plc's gaming claim and found in favour of the taxpayer. As a result of this decision, the group recognised the £18.9m in exceptional items during the year to 18 August 2012, and the company has a contingent liability for £3,886,000 at 17 August 2013.

23 RELATED PARTY DISCLOSURES

The company has taken advantage of the exemption in paragraph 3(c) of FRS 8 from disclosing transactions with related parties that are wholly owned subsidiaries of the Spirit Pub Company plc group.

During the period, the company acquired loan stock of £810,000 (2012: £427,000) in Allied Kunick Entertainments Limited, a company that is a joint venture of the Spirit Pub Company plc group, and interest of £480,000 accrued on the loan stock balance (2012: £nil). At 17 August 2013, the company is owed £6,311,000 (2012: £5,021,000) by Allied Kunick Entertainments Limited, and these amounts are fully provided.

24 POST BALANCE SHEET EVENTS

At 17 August 2013, no obligation exists for dividends declared after that date (2012: £nil).

Spirit Pub Company (Managed) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

25 ULTIMATE PARENT UNDERTAKING

The company's immediate parent undertaking is Spirit Pubs Parent Limited, a company registered in England & Wales.

The company's ultimate parent undertaking and controlling party is Spirit Pub Company plc, a company registered in England & Wales.

The parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the company is a member is Spirit Pub Company plc.

Copies of the financial statements of Spirit Pub Company plc are available from Sunrise House, Ninth Avenue, Burton upon Trent, DE14 3JZ.

Registered No.
5699544

Spirit Pub Company (Leased) Limited

Report and Financial Statements

Period ended 17 August 2013

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

DIRECTORS

| | |
|----------------|-----------------------------|
| P Gallagher | |
| C Briscoe | appointed 28 September 2012 |
| R Godwin-Bratt | resigned 1 February 2013 |
| R Broadbridge | appointed 28 September 2012 |
| D Moore | appointed 28 September 2012 |
| A Morgan | appointed 28 September 2012 |
| M Tye | |
| C Welham | |

SECRETARY

C Stewart
H Jones

AUDITOR

KPMG Audit Plc
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

BANKERS

Barclays Bank plc
One Snowhill
Snow Hill Queensway
Birmingham
B3 2WN

SOLICITORS

Slaughter and May
One Bunhill Row
London
EC1Y 8YY

REGISTERED OFFICE

Sunrise House
Ninth Avenue
Burton upon Trent
Staffordshire
DE14 3JZ

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

DIRECTORS' REPORT

Registered No. 5699544

The directors present their report and financial statements for the 52 week period ended 17 August 2013.

RESULTS AND DIVIDENDS

The loss after taxation for the 52 week period ended 17 August 2013 amounted to £88,669,000 (52 week period ended 18 August 2012: £109,523,000). The directors do not propose the payment of a final dividend (2012: £nil).

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the company is the operation of public houses, by leasing to independent publicans, and the associated wholesale supply of beer products.

Spirit Pub Company manages its operations at a group level and the directors therefore believe that disclosure of key performance indicators for the company are not appropriate to understand the development, performance or position of the business. The performance of the Spirit Pub Company group is discussed in the Annual Results 2013 announcement available on the group's website (www.spiritpubcompany.com) and in the Annual Report and Accounts 2013 which will be available on the website from 22 November 2013.

As explained in note 1 to the financial statements, the company is dependent upon support from its parent company to meet its liabilities as they fall due. Enquiries have been made of the directors of the company's ultimate parent company, Spirit Pub Company plc, regarding the ability of Spirit Pub Company plc to continue as a going concern. Therefore the directors have, continued to adopt the going concern basis in preparing the financial statements.

RISKS AND UNCERTAINTIES**Market and economic risks**

There is a risk that economic factors such as rising interest rates, higher unemployment, tax increases, lack of consumer credit and falling house prices could all adversely affect the level of consumer confidence, which could result in a negative effect on the level of spending across the hospitality sector. Any delay in economic recovery or further challenges could affect consumer expenditure, the company's suppliers and the company's revenue and cash flows.

Fluctuations in the UK property market as well as continuing uncertain market conditions could impact the value of the company's property portfolio and the ability to acquire or dispose of pubs at an appropriate value.

Liquidity risk

The company is primarily financed by secured loan notes, with 84% (2012: 87%) of the capital balance on these loan notes being repayable after more than 5 years from the balance sheet date, subject to relevant covenants being met.

The Directors' report and notes 14 and 16 describe the financial position of the company, its liquidity position and borrowing facilities, and include the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit and liquidity risk.

After reviewing budgets and other longer term plans and making enquiries, the Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they adopt the going concern basis of accounting in preparing the financial statements.

The Directors are aware that, without further action on their part and if things remain as planned, there may be pressures on covenant headroom at specific points over the medium term. On that basis, the Directors are reviewing the options available to address these pressures and are confident that such pressures can be appropriately mitigated.

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

Interest rate risk

The group is exposed to interest rate risk from its loan notes and borrows at both fixed and floating rates of interest. The group employs derivative financial instruments such as interest rate swaps to generate the desired interest rate profile.

DIRECTORS

The directors of the company who served during the period are listed on the previous page.

A third party indemnity provision (as defined in section 234 of the Companies Act 2006) is in force for the benefit of the directors.

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the period, the company made no charitable contributions (2012: £nil). The company made no political contributions during the period (2012: £nil).

CREDITOR PAYMENT POLICY AND PRACTICE

It is the company policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

At 17 August 2013, the company had an average of 17 days (2012: 5 days) purchases outstanding in trade creditors.

DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors confirm that, so far as they are aware, there is no relevant audit information of which the auditor is unaware and that each director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

AUDITOR

The company has elected to dispense with the obligation to appoint an auditor annually under s487 of the Companies Act 2006.

On behalf of the board



P Gallagher
Director

21 October 2013

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SPIRIT PUB COMPANY (LEASED) LIMITED**

We have audited the financial statements of Spirit Pub Company (Leased) Limited for the 52 week period ended 17 August 2013 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Note of Historical Cost Profits and Losses, the Balance Sheet and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on the previous page, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 17 August 2013 and of its loss for the 52 week period then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Greg Watts
Senior Statutory Auditor
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
21 October 2013

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

PROFIT & LOSS ACCOUNT

for the 52 week period ended 17 August 2013

| | Notes | 52 week period ended 17 August 2013 | | | 52 week period ended 18 August 2012 | | |
|---|-------|-------------------------------------|---------------------------------------|---------------|-------------------------------------|---------------------------------------|---------------|
| | | Pre-exceptional items £000 | Exceptional items (note 4) £000 | Total £000 | Pre-exceptional items £000 | Exceptional items (note 4) £000 | Total £000 |
| TURNOVER | 2 | 79,954 | - | 79,954 | 86,395 | - | 86,395 |
| Cost of sales | | (34,661) | - | (34,661) | (36,830) | - | (36,830) |
| GROSS PROFIT | | 45,293 | - | 45,293 | 49,565 | - | 49,565 |
| Administrative expenses | | (14,049) | (2,977) | (17,026) | (13,855) | (332) | (14,187) |
| Revaluation of tangible fixed assets | | - | 700 | 700 | - | 7,067 | 7,067 |
| Impairment of tangible fixed assets | | - | - | - | - | (24,452) | (24,452) |
| OPERATING PROFIT | 3 | 31,244 | (2,277) | 28,967 | 35,710 | (17,717) | 17,993 |
| Profit / (loss) on disposal of fixed assets | | - | 121 | 121 | - | (13,252) | (13,252) |
| Interest receivable and similar income | 6 | 124 | 2,097 | 2,221 | 142 | 7,218 | 7,360 |
| Interest payable and similar charges | 7 | (25,000) | 18,143 | (6,857) | (25,190) | (14,782) | (39,972) |
| Subordinated loan interest payable | 8 | - | (106,882) | (106,882) | - | (98,171) | (98,171) |
| PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION | | 6,368 | (88,798) | (82,430) | 10,662 | (136,704) | (126,042) |
| Tax on profit / (loss) on ordinary activities | 9 | (6,942) | 703 | (6,239) | 17,440 | (921) | 16,519 |
| (LOSS) / PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION | | (574) | (88,095) | (88,669) | 28,102 | (137,625) | (109,523) |

The profit and loss account relates to continuing activities.

Notes 1 to 22 form part of these financial statements.

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the 52 week period ended 17 August 2013

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|--|---|---|
| Loss for the period | (88,669) | (109,523) |
| Profits and losses recognised directly in equity: | | |
| Unrealised surplus on revaluation of tangible fixed assets | 2,026 | 5,955 |
| Unrealised deficit on revaluation of tangible fixed assets | (7,860) | (147,500) |
| Net deficit on revaluation of tangible fixed assets | <u>(5,834)</u> | <u>(141,545)</u> |
| Loss on impairment of fixed assets | - | (2,037) |
| Total losses since the last report | <u>(94,503)</u> | <u>(253,105)</u> |

NOTE OF HISTORICAL COST PROFITS AND LOSSES
for the 52 week period ended 17 August 2013

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|--|---|---|
| Reported loss on ordinary activities before taxation | (82,430) | (126,042) |
| Realisation of property revaluation losses of previous periods | (8,505) | (8,392) |
| Difference between historical cost depreciation charge and the actual depreciation charge for the period calculated on the revalued amount | (200) | (171) |
| Historical cost loss on ordinary activities before taxation | <u>(91,135)</u> | <u>(134,605)</u> |
| Historical cost loss for the period retained after taxation | <u>(97,374)</u> | <u>(118,086)</u> |

Notes 1 to 22 form part of these financial statements.

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

BALANCE SHEET
as at 17 August 2013

| | <i>Notes</i> | 17 August 2013 £000 | 18 August 2012 £000 |
|--|--------------|---------------------------|---------------------------|
| FIXED ASSETS | | | |
| Tangible fixed assets | 10 | 276,356 | 277,255 |
| CURRENT ASSETS | | | |
| Debtors (including £176,979,000 (2012: £189,772,000) due after more than one year) | 11 | 186,244 | 194,166 |
| Cash at bank and in hand | | 8,159 | 13,846 |
| | | 194,403 | 208,012 |
| CURRENT LIABILITIES | | | |
| Creditors falling due in less than one year | | (26,860) | (25,365) |
| Secured loan notes owed to group undertakings | | (10,287) | - |
| Derivative financial instruments | | (8,726) | (8,626) |
| CREDITORS: amounts falling due in less than one year | 12 | (45,873) | (33,991) |
| NET CURRENT ASSETS | | 148,530 | 174,021 |
| Due in less than one year | | (28,449) | (15,751) |
| Due after more than one year | | 176,979 | 189,772 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 424,886 | 451,276 |
| LONG TERM LIABILITIES | | | |
| Creditors falling due after more than one year | | (954,060) | (846,651) |
| Secured loan notes owed to group undertakings | | (319,273) | (339,055) |
| Derivative financial instruments | | (52,185) | (71,434) |
| CREDITORS: amounts falling due after more than one year | 13 | (1,325,518) | (1,257,140) |
| PROVISIONS FOR LIABILITIES | 15 | (1,349) | (1,614) |
| NET LIABILITIES | | (901,981) | (807,478) |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 17 | - | - |
| Revaluation reserve | 18 | (216,982) | (219,653) |
| Profit and loss account | 18 | (684,999) | (587,825) |
| SHAREHOLDERS' DEFICIT | 18 | (901,981) | (807,478) |

Notes 1 to 22 form part of these financial statements.

The financial statements were approved and authorised for issue by the board and signed on its behalf on 21 October 2013.



P Gallagher
Director

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

1 ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared in accordance with applicable UK accounting standards. The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain properties within the company, with the exception of derivative financial instruments which are measured at fair value.

In accordance with FRS 18 the directors have continued to review the accounting policies.

There have been no changes to accounting policies during the year.

Cash flow statement

The directors have taken advantage of the exemption in FRS 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its ultimate parent company, Spirit Pub Company plc, publishes consolidated financial statements.

Going concern

The company's liabilities exceed its assets. However, the ultimate parent has undertaken to support the company for a period of at least one year following the date of approval of these financial statements and not recall group debt until all other liabilities have been settled and the company has funds to repay. For this reason, the financial statements have been prepared on a going concern basis.

Significant accounting estimates and judgements

The estimates and judgements that have a significant effect on the amounts recognised in the financial statements are detailed below:

Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment if circumstances suggest that the carrying amount may not be recoverable. Recoverable amounts are determined based on value-in-use calculations.

Tangible fixed assets and depreciation

Fixed assets, other than trading properties, are stated at cost.

Valuation

Trading properties are revalued professionally by independent valuers on a five-year rolling basis, with at least 20% of properties valued each year.

Surpluses arising from the professional valuation are taken directly to the revaluation reserve, except where a gain reverses a revaluation loss on the same asset that was previously recognised in the profit and loss account, then the surplus is recognised in the profit and loss account. Valuation surpluses realised on sale are transferred from the revaluation reserve to the profit and loss account reserve.

Any deficit arising from the valuation of properties is taken directly to the revaluation reserve until the carrying amount reaches historical cost and thereafter, to the extent that the value in use can be demonstrated to be higher than valuation. Any other deficit arising is charged to the profit and loss account.

Depreciation

Depreciation is charged on a straight-line basis on freehold and capitalised leasehold buildings over the estimated useful life of the asset. It is the company's policy to maintain the properties comprising the licensed estate in such a condition that the residual values of the properties, based on prices prevailing at the time of acquisition or subsequent revaluation, are at least equal to their book values. As a result, the depreciation charged on freehold and long leasehold buildings is nil.

An annual impairment review is carried out on such properties in accordance with FRS 11 and FRS 15.

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

1 ACCOUNTING POLICIES

It is the opinion of the directors that it is not practical or appropriate to separate from the value of the buildings the value of long life fixtures and fittings, which are an integral part of the buildings. This approach is supported by the opinion of an independent external adviser.

Landlord's fixtures and fittings include removable items, which are generally regarded as within landlord ownership. These are depreciated in accordance with the policy detailed below.

Depreciation is provided on other tangible fixed assets at rates calculated to write off the cost less estimated residual value of each asset evenly over its expected useful life, as follows:

Short leasehold properties - over the lease term
Fixtures and fittings - 3 to 25 years

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future have occurred at the balance sheet date.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Provisions

Provisions are recognised when the company has a present legal or constructive obligation to transfer economic resources as a result of past events.

Provisions are measured at management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are discounted if the effect of the time value of money is material. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

Leasing commitments

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Derivative financial instruments and hedging activities

The company uses derivative financial instruments such as interest rate swaps to hedge its risk associated with interest rate fluctuations. Such derivative financial instruments are initially accounted for and subsequently re-measured to fair value. The fair value of the interest rate swap contracts is determined by reference to market values for similar instruments. Changes in fair value of any derivative financial instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account. The company does not have any derivatives that qualify for hedge accounting.

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

1 ACCOUNTING POLICIES

The consolidated financial statements of Spirit Pub Company plc contain financial instrument disclosures which comply with FRS 29 'Financial Instruments: Disclosures'. Consequently, the company has taken advantage of the exemption in FRS 29 not to present separate financial instrument disclosures for the company.

Exceptional items

In order to give a true and fair view of the company's performance, profit is presented excluding items that management believe will distort comparability, either due to their significant nature, or as a result of specific accounting treatments. Further detail on the nature of exceptional items is included in note 4.

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

2 TURNOVER

Turnover represents the amounts derived from the provision of goods and services to third parties which fall within the company's ordinary activities, stated net of value added tax. Rents receivable are recognised on a straight-line basis over the lease term. Revenue in respect of drink and food sales is recognised at the point at which the goods are provided. Turnover is derived solely within the United Kingdom.

Turnover includes:

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|---------------|--|--|
| Drink revenue | 58,134 | 62,826 |
| Rental income | 18,457 | 20,490 |
| Other revenue | 3,363 | 3,079 |
| | <u>79,954</u> | <u>86,395</u> |

3 OPERATING PROFIT

This is stated after charging:

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|--|--|--|
| Depreciation - owned fixed assets | 1,312 | 1,256 |
| Operating lease rentals - land and buildings | 6,116 | 6,356 |
| | <u>7,428</u> | <u>7,612</u> |

Auditor's remuneration is paid by another company in the Spirit Pub Company group in the current and preceding periods.

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

4 EXCEPTIONAL ITEMS

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|---|--|--|
| Included within administrative expenses: | | |
| Redundancy, restructuring and other one-off costs ¹ | 254 | 332 |
| Non-cash impact of annual uplifts in rent and rent-free periods | 2,723 | - |
| | <u>2,977</u> | <u>332</u> |
| Revaluation of tangible fixed assets | (700) | (7,067) |
| Impairment of tangible fixed assets (note 10) | - | 24,452 |
| (Profit) / loss on disposal of fixed assets | (121) | 13,252 |
| Included within interest receivable and similar income: | | |
| Reversal of amortisation of deferred issue costs ² | - | (3,987) |
| Exceptional interest receivable ³ | (2,097) | (3,231) |
| | <u>(2,097)</u> | <u>(7,218)</u> |
| Included within interest payable and similar charges: | | |
| Movement in fair value of interest rate swaps | (18,143) | 14,782 |
| Subordinated loan interest payable ⁴ | 106,882 | 98,171 |
| Tax relief on exceptional items | (703) | 921 |
| | <u>88,095</u> | <u>137,625</u> |

¹ In the current year, represents redundancy costs following a reorganisation of the group. In the prior year, represents restructuring costs incurred following the demerger from Punch Taverns plc in August 2011.

² Represents reversal of amortisation of deferred issue costs recognised as a result of transfers of properties with Spirit Pub Company (Managed) Limited in prior years.

³ Represents profit on the purchase of securitised debt at a discount to nominal value.

⁴ Subordinated loan interest payable is capitalising interest expense on intergroup borrowings. The size and nature of this interest, being a quasi equity instrument, has been presented separately in order to provide a clearer presentation of the interest expense of the company.

5 DIRECTORS' EMOLUMENTS AND STAFF COSTS

The directors received no emoluments from the company in respect of their services in the current or preceding periods.

The company had no employees during the current or preceding periods. -

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS

for the 52 week period ended 17 August 2013

6 INTEREST RECEIVABLE AND SIMILAR INCOME

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|---|--|--|
| Bank interest receivable | 124 | 142 |
| Reversal of amortisation of deferred issue costs (note 4) | - | 3,987 |
| Exceptional interest receivable (note 4) | 2,097 | 3,231 |
| | <u>2,221</u> | <u>7,360</u> |

7 INTEREST PAYABLE AND SIMILAR CHARGES

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|--|--|--|
| Other interest payable | 33 | 81 |
| Movement in fair value of interest rate swaps (note 4) | (18,143) | 14,782 |
| Amortisation of swaps | (1,146) | (1,246) |
| Unwinding of discount effect of provision | 137 | 160 |
| Amortisation of debenture premium | (731) | (762) |
| Interest payable on secured loan notes to group undertakings | 26,707 | 26,957 |
| | <u>6,857</u> | <u>39,972</u> |

8 SUBORDINATED LOAN INTEREST PAYABLE

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|---|--|--|
| Subordinated loan interest payable to group undertakings (note 4) | <u>106,882</u> | <u>98,171</u> |

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

9 TAXATION

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|--|--|--|
| The tax charge / (credit) for the year comprises: | | |
| UK corporation tax: | | |
| - current year group relief receivable | 1,668 | 3,731 |
| - adjustments in respect of prior periods | 711 | 362 |
| | <u>2,379</u> | <u>4,093</u> |
| Deferred tax: | | |
| - current year credit | (887) | (5,335) |
| - relating to fair value of interest rate swaps under FRS 26 | 4,285 | (3,743) |
| - change in standard rate of tax | 1,162 | 1,137 |
| - adjustments in respect of prior periods | (700) | (12,671) |
| | <u>3,860</u> | <u>(20,612)</u> |
| Total tax charge / (credit) for the year | <u>6,239</u> | <u>(16,519)</u> |

The current tax charge for the period is higher (52 week period ended 18 August 2012: higher) than the standard rate of corporation tax in the UK of 23.6% (2012: 25.2%). The differences are explained below.

Reconciliation of current tax charge

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|--|--|--|
| Loss on ordinary activities before taxation | <u>(82,430)</u> | <u>(126,042)</u> |
| Loss on ordinary activities at standard rate of corporation tax in the UK of 23.6% (2012: 25.2%) | (19,470) | (31,775) |
| Effects of: | | |
| Short term timing differences | (3,642) | 3,743 |
| (Profit) / loss on disposal of fixed assets | (29) | 3,341 |
| Expenses not deductible for tax purposes | 26,716 | 25,740 |
| Capital allowances in excess of depreciation | (1,741) | (1,701) |
| (Reversal of impairment) / Impairment of fixed assets | (166) | 4,383 |
| Adjustments in respect of prior periods | 711 | 362 |
| Total current tax charge | <u>2,379</u> | <u>4,093</u> |

Factors affecting current and future tax charge

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 17 August 2013 has been calculated based on the rates of 20% and 21% substantively enacted at the balance sheet date.

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

10 TANGIBLE FIXED ASSETS

| | Land and buildings £000 | Fixtures and fittings £000 | Total £000 |
|---------------------------|-------------------------------|----------------------------------|----------------|
| Cost or valuation: | | | |
| As at 18 August 2012 | 275,094 | 4,746 | 279,840 |
| Additions | 9,856 | 6,980 | 16,836 |
| Disposals | (10,422) | (1,392) | (11,814) |
| Revaluation | (5,368) | - | (5,368) |
| As at 17 August 2013 | <u>269,160</u> | <u>10,334</u> | <u>279,494</u> |
| Depreciation: | | | |
| As at 18 August 2012 | - | 2,585 | 2,585 |
| Charge for the year | 234 | 1,078 | 1,312 |
| Revaluation | (234) | - | (234) |
| Disposals | - | (525) | (525) |
| As at 17 August 2013 | <u>-</u> | <u>3,138</u> | <u>3,138</u> |
| Net book value: | | | |
| As at 17 August 2013 | <u>269,160</u> | <u>7,196</u> | <u>276,356</u> |
| As at 18 August 2012 | <u>275,094</u> | <u>2,161</u> | <u>277,255</u> |

The split of the net book value of land and buildings is as follows:

| | Freehold £000 | Long leasehold £000 | Short leasehold £000 | Total £000 |
|----------------------|------------------|------------------------|----------------------------|----------------|
| As at 17 August 2013 | <u>249,326</u> | <u>19,094</u> | <u>740</u> | <u>269,160</u> |
| As at 18 August 2012 | <u>256,944</u> | <u>16,470</u> | <u>1,680</u> | <u>275,094</u> |

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

10 TANGIBLE FIXED ASSETS

If land and buildings had not been revalued they would have been stated on a historical basis as follows:

| | Total £000 |
|----------------------------------|-----------------------|
| Cost | 586,422 |
| Accumulated depreciation | (8,105) |
| Net book value at 17 August 2013 | 578,317 |
| Net book value at 18 August 2012 | 603,429 |

The company's policy is to carry properties within the estate at valuation. Therefore, the estate is revalued by independent valuers on a five-year rolling basis, with at least 20% of properties valued each year. The valuation at 17 August 2013 was performed in accordance with market practice by Colliers International, independent chartered surveyors, acting as external valuers. At 17 August 2013, 94 properties were revalued resulting in a reduction in net assets of £5,134,000, representing a 9% (18 August 2012: 33%) reduction on those properties revalued. In the prior year, the revaluation identified a material change in value of the estate and therefore an interim valuation was carried out on the remaining estate. The directors performed this interim valuation with reference to the sample valuation of 101 properties which were valued, at 18 August 2012, by Colliers International, independent chartered surveyors. This valuation resulted in a reduction in net assets of £107,598,000.

Surpluses arising from the professional valuation of the estate are taken directly to the revaluation reserve, except where a gain reverses a revaluation loss on the same asset that was previously recognised in the profit and loss account, then the surplus is recognised in the profit and loss account. Deficits are taken directly to the revaluation reserve until the carrying amount reaches historic cost and thereafter, to the extent that the value in use can be demonstrated to be higher than valuation. Any other deficit is charged to the profit and loss account.

At 17 August 2013, a review of indicators of impairment was performed. No indicators of impairment were identified.

In the prior year an impairment review was performed on all properties, prior to the above valuation, by comparing the value in use of each property to the recoverable amount and historic net book value of each property. Cash flows used in the value-in-use calculation were based on earnings before interest and taxation extrapolated over a 50 year period, using a multiple of 10 as the terminal value. The pre-tax risk adjusted discount rate applied to the cash flow projections was 8.5%, and the growth rate used was 2.25%. This resulted in a reduction in net assets of £26,489,000. Of this, £2,037,000 was taken as a reduction in equity in the revaluation reserve and £24,452,000 was charged to the profit and loss account in the period.

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

11 DEBTORS

| | 2013 | 2012 |
|--|--------------|--------------|
| | £000 | £000 |
| Amounts falling due in less than one year: | | |
| Trade debtors | 1,943 | 2,164 |
| Social security and other taxes | 4,087 | - |
| Prepayments and accrued income | 3,235 | 2,230 |
| | <u>9,265</u> | <u>4,394</u> |

| | 2013 | 2012 |
|---|----------------|----------------|
| | £000 | £000 |
| Amounts falling due after more than one year: | | |
| Amounts due from group undertakings | 168,634 | 177,567 |
| Deferred tax asset | 8,345 | 12,205 |
| | <u>176,979</u> | <u>189,772</u> |

Amounts due from group undertakings represent non interest bearing funding balances.

Deferred tax

| | 2013 | 2012 |
|---|--------------|---------------|
| | £000 | £000 |
| The deferred tax asset included in the company balance sheet is as follows: | | |
| Interest rate swaps | 7,594 | 12,920 |
| Short term timing differences | 751 | (715) |
| As at 17 August 2013 | <u>8,345</u> | <u>12,205</u> |

| | £000 |
|---|--------------|
| Deferred tax liability as at 18 August 2012 | 12,205 |
| Charged to the profit and loss account | (3,860) |
| As at 17 August 2013 | <u>8,345</u> |

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

12 CREDITORS: amounts falling due in less than one year

| | 2013 | 2012 |
|---|---------------|---------------|
| | £000 | £000 |
| Secured loan notes owed to group undertakings | 10,287 | - |
| Trade creditors | 1,571 | 515 |
| Amounts owed to group undertakings | 18,206 | 16,795 |
| Other creditors | 4,180 | 4,439 |
| Accruals and deferred income | 2,903 | 2,055 |
| Social security and other taxes | - | 1,561 |
| Derivative financial instruments (note 16) | 8,726 | 8,626 |
| | <u>45,873</u> | <u>33,991</u> |

Included within secured loan notes owed to group undertakings are secured loan notes from a fellow group undertaking, Spirit Issuer plc, of £10,287,000 (2012: £nil). The terms of the secured loan notes owed to group undertakings are such that the interest rate is identical to that of a fellow group company's secured loan notes. The repayment profile of this loan is shown in note 14.

13 CREDITORS: amounts falling due after more than one year

| | 2013 | 2012 |
|---|------------------|------------------|
| | £000 | £000 |
| Secured loan notes owed to group undertakings | 319,273 | 339,055 |
| Loans owed to group undertakings | 944,200 | 839,514 |
| Accruals and deferred income | 2,723 | - |
| Amounts owed to group undertakings | 7,137 | 7,137 |
| Derivative financial instruments (note 16) | 52,185 | 71,434 |
| | <u>1,325,518</u> | <u>1,257,140</u> |

Included within secured loan notes owed to group undertakings are secured loan notes from a fellow group undertaking, Spirit Issuer plc, of £319,273,000 (2012: £339,055,000). The terms of the secured loan notes owed to group undertakings are such that the interest rate is identical to that of a fellow group company's secured loan notes. The repayment profile of this loan is shown in note 14.

Included within loans owed to group undertakings is a loan from fellow group undertaking, Spirit Managed Funding Limited, of £865,313,000 (2012: £765,850,000). Interest accrues at 16% per annum.

Also included within loans owed to group undertakings are non-interest bearing loans from fellow group undertakings, Spirit Pub Company (Managed) Limited, Spirit (SGL) Limited and Spirit Group Retail Limited of £49,520,000, £13,500,000 and £1,000,000 respectively (2012: £49,520,000, £13,500,000 and £1,000,000 respectively).

Amounts owed to group undertakings represent non interest bearing funding balances.

Accruals and deferred income includes amounts accrued in respect of annual uplifts of rent and rent-free periods.

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS

for the 52 week period ended 17 August 2013

14 SECURED LOAN NOTES

| | 2013 | 2012 |
|---|---------|---------|
| | £000 | £000 |
| Secured loan note maturity analysis | | |
| Amounts repayable by instalments falling due: | | |
| In less than one year | 9,559 | - |
| Between one and two years | 14,378 | 9,502 |
| Between two and five years | 30,645 | 34,217 |
| In five years or more | 284,670 | 304,023 |
| Less: debenture premium | (9,692) | (8,687) |
| | 329,560 | 339,055 |

The company uses interest rate swaps to replace the LIBOR rates on the floating rate loan notes with fixed rates. The interest rate swap terms are identical to that of a fellow group company's interest rate swap terms.

The loan notes are secured over the assets of the company and certain other companies in the Spirit Pub Company plc group.

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

15 PROVISIONS FOR LIABILITIES

| | Property leases |
|--|--|
| | £000 |
| As at 18 August 2012 | 1,614 |
| Utilised during the period | (402) |
| Unwinding of discount effect of provisions | 137 |
| As at 17 August 2013 | <div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 100%;">1,349</div> |

The provision for property leases has been set up to cover operating costs of vacant or loss making premises. The provision covers the expected shortfall between operating income and rents payable for a period of three years for trading properties and ten years for non trading properties, being the estimated period to mitigate the losses. These properties are not expected to become profitable in the future.

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS

for the 52 week period ended 17 August 2013

16 DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments such as interest rate swaps to hedge its risk associated with interest rate fluctuations. Such derivatives are initially accounted for and subsequently remeasured to fair value. The fair value of the interest rate swap contracts is determined by reference to market values for similar instruments. Changes in fair value of any derivative financial instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account. The company does not have any derivatives that qualify for hedge accounting.

The company's principal financial instruments other than derivative financial instruments comprise borrowings, loans to group undertakings and cash. The main purpose of these financial instruments is to raise finance for the Spirit Pub Company plc group's operations.

The company enters into derivative transactions. The purpose of such transactions is to manage the interest rate risks arising from the company's sources of finance. It is, and has been throughout the period under review, the company's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the company's financial instruments are interest rate risk and liquidity risk. There is no currency exposure as all material transactions and financial instruments are in sterling. The board reviews and agrees policies for each of these risks.

The consolidated financial statements of Spirit Pub Company plc contain financial instrument disclosures which comply with FRS 29 'Financial Instruments: Disclosures'. Consequently, the company has taken advantage of the exemption in FRS 29 not to present separate financial instrument disclosures for the company.

Derivative financial instruments

The carrying values of derivative financial instruments in the balance sheet are as follows:

| | | |
|---|--------|--------|
| Creditors: amounts falling due in less than one year | 2013 | 2012 |
| | £000 | £000 |
| Derivative financial instruments | 8,726 | 8,626 |
| Creditors: amounts falling due after more than one year | 2013 | 2012 |
| | £000 | £000 |
| Derivative financial instruments | 52,185 | 71,434 |

The interest rate swaps replace the LIBOR rate on the company's secured floating rate loan notes with a fixed rate. The capital amount of the swaps reduce over time to match the contractual repayment profile of the associated notes over their life.

Fair value of non- derivative financial assets and liabilities

With the exception of the company's secured loan notes, there are no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

The carrying value of the company's secured loan notes at 17 August 2013 is £329,560,000 (2012: £339,055,000) and the fair value measured at market value or the market value of equivalent loans of this debt at that date is £307,166,000 (2012: £264,485,000).

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

17 SHARE CAPITAL

| | 2013 | 2013 | 2012 | 2012 |
|--|------|------|------|------|
| | No. | £ | No. | £ |
| <i>Allotted, called up and fully paid:</i> | | | | |
| Ordinary shares of £1 each | 2 | 2 | 2 | 2 |

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS

for the 52 week period ended 17 August 2013

18 RECONCILIATION OF SHAREHOLDERS' DEFICIT AND MOVEMENTS ON RESERVES

| | Share Capital £000 | Revaluation Reserve £000 | Profit & Loss Account £000 | Total Shareholders' Deficit £000 |
|--|--------------------------|--------------------------------|----------------------------------|---|
| At 20 August 2011 | - | (84,463) | (469,910) | (554,373) |
| Total losses for the period | - | (143,582) | (109,523) | (253,105) |
| Transfers on disposal of fixed assets | - | 8,392 | (8,392) | - |
| At 18 August 2012 | - | (219,653) | (587,825) | (807,478) |
| Total losses for the period | - | (5,834) | (88,669) | (94,503) |
| Transfers on disposal of fixed assets | - | 8,505 | (8,505) | - |
| At 17 August 2013 | - | <u>(216,982)</u> | <u>(684,999)</u> | <u>(901,981)</u> |

Spirit Pub Company (Leased) Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

19 FINANCIAL COMMITMENTS

| | 2013 | 2012 |
|--|--------------|--------------|
| | £000 | £000 |
| Capital commitments for fixed assets contracted not provided | <u>5,578</u> | <u>1,092</u> |

At 17 August 2013 the company had annual commitments under non-cancellable operating leases as set out below:

Land and buildings

| | 2013 | 2012 |
|--------------------------------|--------------|--------------|
| | £000 | £000 |
| Operating leases which expire: | | |
| In less than one year | 3 | 80 |
| 2 - 5 years | 181 | 54 |
| Over five years | <u>6,084</u> | <u>6,227</u> |
| | <u>6,268</u> | <u>6,361</u> |

20 RELATED PARTY DISCLOSURES

The company has taken advantage of the exemption in paragraph 3(c) of FRS 8 from disclosing transactions with related parties that are wholly owned subsidiaries of the Spirit Pub Company plc group. There were no other related party transactions during the period.

21 POST BALANCE SHEET EVENTS

At 17 August 2013, no obligation exists for dividends declared after that date (2012: £nil).

22 ULTIMATE PARENT UNDERTAKING

The company's immediate parent undertaking is Spirit Pubs Parent Limited, a company registered in England & Wales.

The company's ultimate parent undertaking and controlling party is Spirit Pub Company plc, a company registered in England & Wales.

The parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the company is a member is Spirit Pub Company plc.

Copies of the financial statements of Spirit Pub Company plc are available from Sunrise House, Ninth Avenue, Burton upon Trent, DE14 3JZ.

Registered No.
5266779

Spirit Pubs Debenture Holdings Limited

Consolidated Report and Financial Statements

Period ended 17 August 2013

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

DIRECTORS

P Gallagher

L Bell

R Godwin-Bratt

DA Kelly

J Langford

resigned 1 February 2013

appointed 1 February 2013

appointed 1 February 2013

SECRETARY

C Stewart

H Jones

AUDITOR

KPMG Audit Plc

One Snowhill

Snow Hill Queensway

Birmingham

B4 6GH

BANKERS

Barclays Bank plc

One Snowhill

Snow Hill Queensway

Birmingham

B3 2WN

SOLICITORS

Slaughter and May

One Bunhill Row

London

EC1Y 8YY

REGISTERED OFFICE

Sunrise House

Ninth Avenue

Burton upon Trent

Staffordshire

DE14 3JZ

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

DIRECTORS' REPORT

Registered No. 5266779

The directors present their report and financial statements for the 52 week period ended 17 August 2013.

RESULTS AND DIVIDENDS

The loss after taxation for the 52 week period ended 17 August 2013 amounted to £80,660,000 (52 week period ended 18 August 2012: £154,980,000). The directors do not propose the payment of a final dividend (2012: £nil).

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the group is that of pub retailing and the leasing of public houses. During the period, the group repurchased £25,610,000 (2012: £37,846,000) of the nominal value of the outstanding securitised loan notes. Subsequent to the period end, the group has repurchased £nil (2012: £13,400,000) of the nominal value of outstanding securitised loan notes.

Spirit Pub Company manages its operations at a group level and the directors therefore believe that disclosure of key performance indicators for the company are not appropriate to understand the development, performance or position of the business. The performance of the Spirit Pub Company group is discussed in the Annual Results 2013 announcement available on the group's website (www.spiritpubcompany.com) and in the Annual Report and Accounts 2013 which will be available on the website from 22 November 2013.

As explained in note 1 to the financial statements, the company is dependent upon support from its parent company to meet its liabilities as they fall due. Enquiries have been made of the directors of the company's ultimate parent company, Spirit Pub Company plc, regarding the ability of Spirit Pub Company plc to continue as a going concern. Therefore the directors have, continued to adopt the going concern basis in preparing the financial statements.

RISKS AND UNCERTAINTIES**Market and economic risks**

There is a risk that economic factors such as rising interest rates, higher unemployment, tax increases, lack of consumer credit and falling house prices could all adversely affect the level of consumer confidence, which could result in a negative effect on the level of spending across the hospitality sector. Any delay in economic recovery or further challenges could affect consumer expenditure, the company's suppliers and the company's revenue and cash flows.

Fluctuations in the UK property market as well as continuing uncertain market conditions could impact the value of the company's property portfolio and the ability to acquire or dispose of pubs at an appropriate value.

Liquidity risk

The group is primarily financed by secured loan notes, with 84% (2012: 87%) of the capital balance on these loan notes being repayable after more than 5 years from the balance sheet date, subject to relevant covenants being met.

The Directors' report and notes 17 and 19 describe the financial position of the group, its cash flows, liquidity position and borrowing facilities, and include the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit and liquidity risk.

After reviewing budgets and other longer term plans and making enquiries, the Directors have a reasonable expectation that the company and the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they adopt the going concern basis of accounting in preparing the financial statements.

The Directors are aware that, without further action on their part and if things remain as planned, there may be pressures on covenant headroom at specific points over the medium term. On that basis, the Directors are reviewing the options available to address these pressures and are confident that such pressures can be appropriately mitigated.

Interest rate risk

The group is exposed to interest rate risk from its loan notes and borrows at both fixed and floating rates of interest. The group employs derivative financial instruments such as interest rate swaps to generate the desired interest rate profile.

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

Capital risk

The group's capital structure is made up of loan notes, issued share capital and reserves. The group is able to generate sufficient returns to service the debt. Debt is monitored by a variety of measures which are reported to debt providers on a quarterly basis.

Market value of land and buildings

In the opinion of the directors, the book value of the land and buildings under the managed operating model exceeds the market values of these assets at 17 August 2013 by £30,427,000 (2012: £68,094,000).

DIRECTORS

The directors of the company who served during the period are listed on the previous page.

A third party indemnity provision (as defined in section 234 of the Companies Act 2006) is in force for the benefit of the directors.

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the period, the company made no charitable contributions (2012: £nil). The company made no political contributions during the period (2012: £nil).

CREDITOR PAYMENT POLICY AND PRACTICE

It is the company policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

At 17 August 2013, the group had an average of 26 days (2012: 20 days) purchases outstanding in trade creditors.

DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors confirm that, so far as they are aware, there is no relevant audit information of which the auditor is unaware and that each director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

AUDITOR

The company has elected to dispense with the obligation to appoint an auditor annually under s487 of the Companies Act 2006.

On behalf of the board



P Gallagher
Director

21 October 2013

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SPIRIT PUBS DEBENTURE HOLDINGS LIMITED**

We have audited the financial statements of Spirit Pubs Debenture Holdings Limited for the 52 week period ended 17 August 2013 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Note of Historical Cost Profits and Losses, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on the previous page, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 17 August 2013 and of the group's loss for the 52 week period then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Greg Watts
Senior Statutory Auditor
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
21 October 2013

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

CONSOLIDATED PROFIT & LOSS ACCOUNT

for the 52 week period ended 17 August 2013

| | Notes | 52 week period ended 17 August 2013 | | | 52 week period ended 18 August 2012 | | |
|---|-------|-------------------------------------|---------------------------------------|---------------|-------------------------------------|---------------------------------------|---------------|
| | | Pre-exceptional items £000 | Exceptional items (note 4) £000 | Total £000 | Pre-exceptional items £000 | Exceptional items (note 4) £000 | Total £000 |
| TURNOVER | 2 | 673,463 | - | 673,463 | 673,062 | - | 673,062 |
| Cost of sales | | (455,477) | - | (455,477) | (455,477) | - | (455,477) |
| GROSS PROFIT | | 217,986 | - | 217,986 | 217,585 | - | 217,585 |
| Administrative expenses | | (76,195) | (4,187) | (80,382) | (84,391) | (3,854) | (88,245) |
| Revaluation of tangible fixed assets | | - | 700 | 700 | - | 7,067 | 7,067 |
| Impairment of tangible fixed assets | | - | - | - | - | (74,881) | (74,881) |
| OPERATING PROFIT / (LOSS) | 3 | 141,791 | (3,487) | 138,304 | 133,194 | (71,668) | 61,526 |
| Profit / (loss) on disposal of fixed assets | | - | 2,291 | 2,291 | - | (13,672) | (13,672) |
| Interest receivable and similar income | 6 | 17,646 | 4,874 | 22,520 | 18,291 | 7,108 | 25,399 |
| Interest payable and similar charges | 7 | (78,506) | 44,757 | (33,749) | (79,463) | (36,691) | (116,154) |
| Subordinated loan interest payable | 8 | - | (183,885) | (183,885) | - | (169,514) | (169,514) |
| PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION | | 80,931 | (135,450) | (54,519) | 72,022 | (284,437) | (212,415) |
| Tax on loss on ordinary activities | 9 | (27,130) | 989 | (26,141) | 54,168 | 3,267 | 57,435 |
| PROFIT / (LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION | | 53,801 | (134,461) | (80,660) | 126,190 | (281,170) | (154,980) |

The profit and loss account relates to continuing activities.

Notes 1 to 28 form part of these financial statements.

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the 52 week period ended 17 August 2013

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|--|---|---|
| Loss for the period | (80,660) | (154,980) |
| Profits and losses recognised directly in equity: | | |
| Actuarial (loss) / profit for the period | (28,200) | 10,200 |
| Deferred tax on actuarial (loss) / profit | 6,661 | (2,571) |
| | <u>(21,539)</u> | <u>7,629</u> |
| Unrealised surplus on revaluation of tangible fixed assets | 2,026 | 5,955 |
| Unrealised deficit on revaluation of tangible fixed assets | (7,860) | (147,500) |
| Net loss on revaluation of tangible fixed assets | <u>(5,834)</u> | <u>(141,545)</u> |
| Loss on impairment of fixed assets | - | (2,037) |
| Total losses since the last report | <u><u>(108,033)</u></u> | <u><u>(290,933)</u></u> |

NOTE OF HISTORICAL COST PROFITS AND LOSSES
for the 52 week period ended 17 August 2013

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|--|---|---|
| Reported loss on ordinary activities before taxation | (54,519) | (212,415) |
| Realisation of property revaluation losses of previous periods | (8,505) | (8,392) |
| Difference between historical cost depreciation charge and the actual depreciation charge for the period calculated on the revalued amount | (200) | (171) |
| Historical cost loss on ordinary activities before taxation | <u>(63,224)</u> | <u>(220,978)</u> |
| Historical cost loss for the period retained after taxation | <u><u>(89,365)</u></u> | <u><u>(163,543)</u></u> |

Notes 1 to 28 form part of these financial statements.

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

CONSOLIDATED BALANCE SHEET

as at 17 August 2013

| | Notes | 17 August 2013 £000 | 18 August 2012 £000 |
|--|-------|------------------------|------------------------|
| FIXED ASSETS | | | |
| Goodwill | 10 | (380,504) | (409,335) |
| Tangible fixed assets | 12 | 1,365,585 | 1,376,624 |
| Pension - defined benefit scheme asset | 20 | 1,200 | 18,557 |
| | | <u>986,281</u> | <u>985,846</u> |
| CURRENT ASSETS | | | |
| Stock | 13 | 6,948 | 6,274 |
| Debtors (including £766,714,000 (2012: £788,154,000) due after more than one year) | 14 | 794,943 | 801,940 |
| Cash at bank and in hand | | 50,108 | 59,749 |
| | | <u>851,999</u> | <u>867,963</u> |
| CURRENT LIABILITIES | | | |
| Other creditors falling due in less than one year | | (102,744) | (97,740) |
| Secured loan notes | | (24,366) | (562) |
| Derivative financial instruments | | (21,135) | (21,018) |
| CREDITORS: amounts falling due in less than one year | 15 | <u>(148,245)</u> | <u>(119,320)</u> |
| NET CURRENT ASSETS | | | |
| | | 703,754 | 748,643 |
| Due in less than one year | | (62,960) | (39,511) |
| Due after more than one year | | 766,714 | 788,154 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | |
| | | <u>1,690,035</u> | <u>1,734,489</u> |
| LONG TERM LIABILITIES | | | |
| Other creditors falling due after more than one year | | (1,671,094) | (1,506,695) |
| Secured loan notes | | (803,878) | (854,966) |
| Derivative financial instruments | | (126,395) | (174,051) |
| CREDITORS: amounts falling due after more than one year | 16 | <u>(2,601,366)</u> | <u>(2,535,712)</u> |
| PROVISIONS FOR LIABILITIES | | | |
| | 18 | (11,601) | (13,676) |
| NET LIABILITIES | | | |
| | | <u>(922,932)</u> | <u>(814,899)</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 21 | - | - |
| Share premium | 22 | 39,996 | 39,996 |
| Revaluation reserve | 22 | (216,982) | (219,653) |
| Capital reserve | 22 | 153,287 | 153,287 |
| Profit and loss account | 22 | (899,233) | (788,529) |
| SHAREHOLDERS' DEFICIT | 22 | <u>(922,932)</u> | <u>(814,899)</u> |

Notes 1 to 28 form part of these financial statements.

The financial statements were approved and authorised for issue by the board and signed on its behalf on 21 October 2013.



P Gallagher
 Director

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

CONSOLIDATED CASH FLOW STATEMENT
for the 52 week period ended 17 August 2013

| | <i>Notes</i> | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|---|--------------|--|--|
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 28 | 128,582 | 144,810 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Interest paid | | (66,743) | (65,963) |
| Interest received | | 8 | 470 |
| | | <u>(66,735)</u> | <u>(65,493)</u> |
| CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | | |
| Payments to acquire tangible fixed assets | | (41,187) | (83,243) |
| Receipts from sales of tangible fixed assets | | 12,293 | 29,229 |
| | | <u>(28,894)</u> | <u>(54,014)</u> |
| NET CASH INFLOW BEFORE FINANCING | | <u>32,953</u> | <u>25,303</u> |
| FINANCING | | | |
| Loans repaid | | (20,094) | (28,956) |
| Amounts paid to other Spirit Pub Company plc group undertakings | | (22,500) | (5,000) |
| | | <u>(42,594)</u> | <u>(33,956)</u> |
| NET DECREASE IN CASH IN THE PERIOD | 28 | <u><u>(9,641)</u></u> | <u><u>(8,653)</u></u> |

Notes 1 to 28 form part of these financial statements.

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

COMPANY BALANCE SHEET
as at 17 August 2013

| | <i>Notes</i> | 17 August 2013 £000 | 18 August 2012 £000 |
|--|--------------|---------------------------|---------------------------|
| FIXED ASSETS | | | |
| Investments | 11 | 94,008 | 94,008 |
| | | <u>94,008</u> | <u>94,008</u> |
| NET CURRENT ASSETS | | | |
| | | - | - |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | |
| | | <u>94,008</u> | <u>94,008</u> |
| NET ASSETS | | | |
| | | <u>94,008</u> | <u>94,008</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 21 | - | - |
| Share premium | | 39,996 | 39,996 |
| Capital reserve | | 153,287 | 153,287 |
| Profit and loss account | | (99,275) | (99,275) |
| SHAREHOLDERS' FUNDS | | | |
| | | <u>94,008</u> | <u>94,008</u> |

Notes 1 to 28 form part of these financial statements.

The financial statements were approved and authorised for issue by the board and signed on its behalf on 21 October 2013.


P Gallagher
Director

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS

for the 52 week period ended 17 August 2013

1 ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared in accordance with applicable UK accounting standards. The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain properties within the company, with the exception of derivative financial instruments which are measured at fair value.

In accordance with FRS 18 the directors have continued to review the accounting policies.

There have been no changes to accounting policies during the period.

Group financial statements

The financial statements consolidate the accounts of Spirit Pubs Debenture Holdings Limited and its subsidiary undertakings drawn up to the 17 August 2013.

Company profit and loss account

As permitted by section 408 of the Companies Act 2006, the Company has not included its profit and loss account within these financial statements. The company had no profit or loss in the current and prior periods.

Going concern

The group's liabilities exceed its assets. However, the ultimate parent has undertaken to support the group for a period of at least one year following the date of approval of these financial statements and not recall group debt until all other liabilities have been settled and the company has funds to repay. For this reason, the financial statements have been prepared on a going concern basis.

Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the fair value of the group's share of the identifiable assets, liabilities and contingent liabilities. Where negative goodwill arises, this is capitalised and released to the profit and loss account by equal annual instalments over its useful economic life of 22 years, reflecting the approximate average life of the underlying non-monetary assets at the date of acquisition.

Fixed asset investments

Investments are stated at cost, less provision for impairment in value. The carrying value of investments is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Significant accounting estimates and judgements

The estimates and judgements that have a significant effect on the amounts recognised in the financial statements are detailed below:

Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment if circumstances suggest that the carrying amount may not be recoverable. Recoverable amounts are determined based on value-in-use calculations.

Post-employment benefits

The present value of defined benefit pension assets are determined on an actuarial basis and depend on a number of actuarial assumptions which are disclosed in note 20. Any change in these assumptions could impact the carrying amounts of pension assets.

Tangible fixed assets and depreciation

Fixed assets other than trading properties under the leased operating model are stated at cost less accumulated depreciation and provisions for impairment.

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

1 ACCOUNTING POLICIES

Valuation

Trading properties under the leased operating model are revalued professionally by independent valuers on a five-year rolling basis, with at least 20% of properties valued each year.

Surpluses arising from the professional valuation are taken directly to the revaluation reserve. Valuation surpluses realised on sale are transferred from the revaluation reserve to the profit and loss account reserve.

Any deficit arising from the professional valuation of properties is taken directly to the revaluation reserve until the carrying amount reaches historical cost and thereafter, to the extent that the value in use can be demonstrated to be higher than valuation. Any other deficit arising is charged to the profit and loss account.

Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment if circumstances suggest that the carrying amount may not be recoverable. Recoverable amounts are determined based on value-in-use calculations.

Depreciation

Depreciation is charged on a straight-line basis on freehold and long leasehold buildings over the estimated useful life of the asset. It is the company's policy to maintain the properties comprising the licensed estate in such a condition that the residual values of the properties, based on prices prevailing at the time of acquisition or subsequent revaluation, are at least equal to their book values. As a result, the depreciation charged on freehold and long leasehold buildings is nil.

An annual impairment review is carried out on such properties in accordance with FRS 11 and FRS 15.

It is the opinion of the directors that it is not practical or appropriate to separate from the value of the buildings the value of long life fixtures and fittings, which are an integral part of the buildings. This approach is supported by the opinion of an independent external adviser.

Fixtures and fittings include removable items within pubs, which are generally regarded as within landlord ownership. These are depreciated in accordance with the policy detailed below.

Depreciation is provided on other tangible fixed assets at rates calculated to write off the cost less estimated residual value of each asset evenly over its expected useful life, as follows:

Short leasehold properties - over the lease term
Fixtures and fittings - 3 to 25 years
IT equipment and developments - 3 to 10 years
Motor vehicles - 3 years

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future have occurred at the balance sheet date.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS

for the 52 week period ended 17 August 2013

1 ACCOUNTING POLICIES

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pensions

The group operates two defined benefit pension schemes. The present value of defined benefit pension scheme liabilities are determined on an actuarial basis and depend on a number of actuarial assumptions, disclosed in note 20.

Defined benefit pension scheme

Full actuarial valuations of the company's defined benefit schemes are carried out every three years with interim reviews in the intervening years; these valuations are updated to the year end each financial period by qualified independent actuaries. For the purposes of these annual updates, scheme assets are included at market value and scheme liabilities are measured on an actuarial basis using the projected unit method; these liabilities are discounted at the current rate of return on a high quality corporate bond of equivalent currency and term. The post-retirement surplus or benefit is included on the company's balance sheet, net of the related amount of deferred tax.

Surpluses are only included to the extent that they are recoverable through reduced contributions in the future or through refunds from the schemes. The current service cost and any past service costs are included in the the profit and loss account within finance costs and the expected return on the schemes' assets is included within finance income. Actuarial gains and losses, including differences between the expected and actual return on scheme assets, are recognised, net of deferred tax, in the statement of total recognised gains and losses.

Provisions

Provisions are recognised when the company has a present legal or constructive obligation to transfer economic resources as a result of past events.

Provisions are measured at management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are discounted if the effect of the time value of money is material. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

Leasing commitments

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Stocks

Stocks are held at the lower cost and net realisable value. Costs include all costs incurred in bringing each product to its current location and condition. Net realisable value is based on estimated selling price less any further anticipated selling costs.

Derivative financial instruments and hedging activities

The company uses derivative financial instruments such as interest rate swaps to hedge its risk associated with interest rate fluctuations. Such derivative financial instruments are initially accounted for and subsequently re-measured to fair value. The fair value of the interest rate swap contracts is determined by reference to market values for similar instruments. Changes in fair value of any derivative financial instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account. The group does not have any derivatives that qualify for hedge accounting.

The consolidated financial statements of Spirit Pub Company plc contain financial instrument disclosures which comply with FRS 29 'Financial Instruments: Disclosures'. Consequently, the company has taken advantage of the exemption in FRS 29 not to present separate financial instrument disclosures for the company.

Exceptional items

In order to give a true and fair view of the group's performance, profit is presented excluding items that management believe will distort comparability, either due to their significant nature, or as a result of specific accounting treatments. Further detail on the nature of exceptional items is included in note 4.

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

2 TURNOVER

Turnover represents the amounts derived from the provision of goods and services to third parties which fall within the company's ordinary activities, stated net of value added tax. Rents receivable are recognised on a straight-line basis over the lease term. Revenue in respect of drink and food sales is recognised at the point at which the goods are provided. Turnover is derived solely within the United Kingdom.

Turnover includes:

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|---------------|---|---|
| Drink revenue | 370,189 | 381,714 |
| Food revenue | 247,880 | 240,372 |
| Rental income | 18,994 | 20,801 |
| Other revenue | 36,400 | 30,175 |
| | <u>673,463</u> | <u>673,062</u> |

3 OPERATING PROFIT / (LOSS)

This is stated after charging / (crediting):

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|--|---|---|
| Depreciation - owned fixed assets | 33,752 | 38,923 |
| Amortisation - negative goodwill | (28,831) | (28,831) |
| Operating lease rentals - land and buildings | 39,653 | 36,521 |
| | <u>39,653</u> | <u>36,521</u> |

Auditor's remuneration is paid by another company in the Spirit Pub Company group in the current and preceding periods.

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

4 EXCEPTIONAL ITEMS

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|---|---|---|
| Included within administrative expenses: | | |
| Redundancy, restructuring and other related one-off costs | 1,173 | 5,675 |
| Movement on property liabilities ¹ | - | 765 |
| Repayment of VAT ² | - | (9,107) |
| Non-cash impact of annual uplifts in rent and rent-free periods | 3,014 | 6,521 |
| | <u>4,187</u> | <u>3,854</u> |
| Revaluation of tangible fixed assets | (700) | (7,067) |
| Impairment of tangible fixed assets (note 12) | - | 74,881 |
| (Profit) / loss on disposal of fixed assets | (2,291) | 13,672 |
| Included within interest receivable and similar income: | | |
| Exceptional interest receivable ³ | (4,874) | (7,108) |
| Included within interest payable and similar charges | | |
| Movement in fair value of interest rate swaps | (44,757) | 36,691 |
| Subordinated loan interest payable ⁴ | 183,885 | 169,514 |
| Tax relief on exceptional items | (989) | (3,267) |
| | <u>134,461</u> | <u>281,170</u> |

¹ In the prior year, the movement represents the provision for rent payments following the reversion of onerous leases to the Group.

² Represents recognition of £9,107,000 of VAT on machine income repaid from HMRC in the year to 20 August 2011, recognised in the year to 18 August 2012 following a ruling of the European Court of Justice in November 2011.

³ Represents profit on the purchase of securitised debt at a discount to nominal value together with the write-off of deferred issue costs.

⁴ Subordinated loan interest payable is capitalising interest expense on intergroup borrowings. The size and nature of this interest, being a quasi equity instrument, has been presented separately in order to provide a clearer presentation of the interest expense of the group.

5 DIRECTORS' EMOLUMENTS AND STAFF COSTS

The directors received no emoluments from the company in respect of their services in the current or preceding

The group had no employees during the current or preceding periods.

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS

for the 52 week period ended 17 August 2013

6 INTEREST RECEIVABLE AND SIMILAR INCOME

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|---|--|--|
| Bank interest receivable | 331 | 676 |
| Interest receivable from other companies in the Spirit Pub Company plc group | 415 | 415 |
| Finance income from defined benefit pension schemes (note 20) | 16,900 | 17,200 |
| Exceptional interest receivable (note 4) | 4,874 | 7,108 |
| | <u>22,520</u> | <u>25,399</u> |

7 INTEREST PAYABLE AND SIMILAR CHARGES

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|--|--|--|
| Bank and other loans | 64,823 | 65,114 |
| Other interest payable | 323 | 206 |
| Movement in fair value of interest rate swaps (note 4) | (44,757) | 36,691 |
| Amortisation of swap premium | (2,784) | (2,622) |
| Amortisation of deferred issue costs | 554 | 653 |
| Unwinding of discount effect of provision | 1,066 | 1,187 |
| Amortisation of debenture premium | (1,776) | (1,875) |
| Finance costs from defined benefit pension schemes (note 20) | 16,300 | 16,800 |
| | <u>33,749</u> | <u>116,154</u> |

8 SUBORDINATED LOAN INTEREST PAYABLE

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|---|--|--|
| Subordinated loan interest payable to other companies in the Spirit Pub Company plc group (note 4) | <u>183,885</u> | <u>169,514</u> |

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS

for the 52 week period ended 17 August 2013

9 TAXATION

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|--|---|---|
| The tax charge / (credit) for the year comprises: | | |
| UK corporation tax: | | |
| - current year group relief receivable / (surrendered) | 3,873 | (88) |
| - adjustments in respect of prior periods | (3,342) | (6,888) |
| | <u>531</u> | <u>(6,976)</u> |
| Deferred tax: | | |
| - relating to pension costs under FRS 17 | 1,485 | 896 |
| - current year charge / (credit) | 4,408 | (375) |
| - relating to fair value of interest rate swaps under FRS 26 | 10,571 | (9,290) |
| - change in standard rate of tax | 4,872 | 5,179 |
| - adjustments in respect of prior periods | 4,274 | (46,869) |
| | <u>25,610</u> | <u>(50,459)</u> |
| Total tax charge / (credit) for the year | <u><u>26,141</u></u> | <u><u>(57,435)</u></u> |

The current tax charge / (credit) for the period is higher (52 week period ended 18 August 2012: lower) than the standard rate of corporation tax in the UK of 23.6% (2012: 25.2%). The differences are explained below.

Reconciliation of current tax charge / (credit)

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|--|---|---|
| Loss on ordinary activities before taxation | <u>(54,519)</u> | <u>(212,415)</u> |
| Loss on ordinary activities at standard rate of corporation tax in the UK of 23.6% (2012: 25.2%) | (12,877) | (53,550) |
| Effects of: | | |
| Short term timing differences | (12,252) | 5,075 |
| (Profit) / loss on disposal of fixed assets | (530) | 3,447 |
| Expenses not deductible for tax purposes | 36,720 | 43,384 |
| (Capital allowances in excess of depreciation) / depreciation in excess of capital allowances | (927) | 7,805 |
| Utilisation of tax losses brought forward | (6,095) | (10,632) |
| Impairment of fixed assets | (166) | 4,383 |
| Adjustments in respect of prior periods | (3,342) | (6,888) |
| Total current tax charge / (credit) | <u><u>531</u></u> | <u><u>(6,976)</u></u> |

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

9 TAXATION

Factors affecting current and future tax charge

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 17 August 2013 has been calculated based on the rates of 20% and 21% substantively enacted at the balance sheet date.

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

10 INTANGIBLE ASSETS

| | Negative goodwill £000 |
|---|---------------------------------------|
| Cost: | |
| As at 17 August 2013 and 18 August 2012 | 634,280 |
| Amortisation: | |
| As at 18 August 2012 | 224,945 |
| Credit for the period | 28,831 |
| As at 17 August 2013 | 253,776 |
| Net book value: | |
| As at 17 August 2013 | 380,504 |
| As at 18 August 2012 | 409,335 |

Negative goodwill arising on previous acquisitions is released to the profit and loss account by equal annual instalments over a 22 year period being the approximate average life of the underlying non-monetary assets at the date of acquisition.

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

11 FIXED ASSET INVESTMENTS

| Company | Shares in subsidiary undertakings £000 |
|---|---|
| Cost: | |
| As at 17 August 2013 and 18 August 2012 | 193,283 |
| Impairment: | |
| As at 17 August 2013 and 18 August 2012 | 99,275 |
| Net book value: | |
| As at 17 August 2013 and 18 August 2012 | 94,008 |

Details of the principal wholly owned subsidiary undertakings, in which the shareholdings are in ordinary shares, are as follows:

| Subsidiary undertaking | Principal activity |
|--------------------------------------|--------------------------|
| Held directly: | |
| Spirit Pubs Parent Limited | Holding company |
| Held indirectly: | |
| Spirit Pub Company (Leased) Limited | Leasing of public houses |
| Spirit Pub Company (Managed) Limited | Pub retailing |
| Spirit (SGL) Limited | Holding company |
| Aspect Ventures Limited | Non trading |
| Spirit Group Retail Limited | Non trading |
| Spirit Retail Bidco Limited | Holding company |
| Spirit Pub Company (Faith) Limited | Pub retailing |

Details of the principal joint venture, in which the indirect shareholding is 51% of ordinary shares, is as follows:

| | |
|--------------------------------------|---------------------|
| Joint venture: | |
| Allied Kunick Entertainments Limited | Property management |

Exemption has been taken to exclude subsidiary undertakings from the above disclosure, whose results or financial position do not principally affect the financial statements.

The company also maintains day-to-day control over Spirit Issuer Parent Limited and its wholly owned subsidiary, Spirit Issuer plc, a special purpose entity that was set up purely for providing finance to the Spirit group of companies.

The above companies are incorporated in England and Wales.

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

12 TANGIBLE FIXED ASSETS

| | Leased land and buildings £000 | Managed land and buildings £000 | Fixtures and fittings £000 | Total £000 |
|---------------------------|--------------------------------------|---------------------------------------|----------------------------------|------------------|
| Cost or valuation: | | | | |
| As at 18 August 2012 | 276,701 | 939,335 | 437,645 | 1,653,681 |
| Additions | 5,421 | 17,742 | 14,824 | 37,987 |
| Disposals | (8,024) | (9,547) | (4,003) | (21,574) |
| Revaluation | (5,368) | - | - | (5,368) |
| Reclassification | - | 59,425 | (78,486) | (19,061) |
| As at 17 August 2013 | <u>268,730</u> | <u>1,006,955</u> | <u>369,980</u> | <u>1,645,665</u> |
| Depreciation: | | | | |
| As at 18 August 2012 | - | 56,094 | 220,963 | 277,057 |
| Charge for the period | 234 | 7,636 | 25,882 | 33,752 |
| Disposals | - | (8,472) | (2,962) | (11,434) |
| Revaluation | (234) | - | - | (234) |
| Reclassification | - | (282) | (18,779) | (19,061) |
| As at 17 August 2013 | <u>-</u> | <u>54,976</u> | <u>225,104</u> | <u>280,080</u> |
| Net book value: | | | | |
| As at 17 August 2013 | <u>268,730</u> | <u>951,979</u> | <u>144,876</u> | <u>1,365,585</u> |
| As at 18 August 2012 | <u>276,701</u> | <u>883,241</u> | <u>216,682</u> | <u>1,376,624</u> |

The split of the net book value of land and buildings is as follows:

| | Freehold £000 | Long leasehold £000 | Short leasehold £000 | Total £000 |
|----------------------|------------------|------------------------|-------------------------|------------------|
| As at 17 August 2013 | <u>1,038,020</u> | <u>94,470</u> | <u>88,219</u> | <u>1,220,709</u> |
| As at 18 August 2012 | <u>986,941</u> | <u>85,869</u> | <u>87,132</u> | <u>1,159,942</u> |

If land and buildings had not been revalued they would have been stated on a historical cost basis as follows:

| | Total £000 |
|----------------------------------|------------------|
| Cost | 1,971,654 |
| Accumulated depreciation | (304,108) |
| Net book value at 17 August 2013 | <u>1,667,546</u> |
| Net book value at 18 August 2012 | <u>1,702,798</u> |

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

12 TANGIBLE FIXED ASSETS

The company's policy is to carry properties under the leased operating model at valuation. Therefore, the estate is revalued by independent valuers on a five-year rolling basis, with at least 20% of properties valued each year. The valuation was performed in accordance with market practice by Colliers International, Independent Chartered Surveyors, acting as external valuers. At 17 August 2013, 94 properties were revalued resulting in a reduction in net assets of £5,134,000, representing a 9% (2012: 33%) reduction on those properties revalued. In the prior year, the revaluation identified a material change in value of the estate and therefore an interim valuation was carried out on the remaining estate. The directors performed this interim valuation with reference to the sample valuation of 101 properties which were valued, at 18 August 2012, by Colliers International, Independent Chartered Surveyors. This valuation resulted in a reduction in net assets of £107,598,000.

Surpluses arising from the professional valuation of the estate are taken directly to the revaluation reserve. Deficits are taken directly to the revaluation reserve until the carrying amount reaches historic cost and thereafter, to the extent that the value in use can be demonstrated to be higher than valuation.

In the prior year an impairment review was performed on all properties, prior to the above revaluation, by comparing the value in use of each property to the recoverable amount and historic net book value of each property. Cash flows used in the value-in-use calculation were based on earnings before interest and taxation extrapolated over a 50 year period, using a multiple of 10 as the terminal value. The pre-tax risk adjusted discount rates applied to the cash flow projections ranged between 8% and 9%, and the growth rate used was 2.25%. This resulted in a reduction in net assets of £76,918,000. Of this, £2,037,000 was taken as a reduction in equity in the revaluation reserve and £74,881,000 was charged to the profit and loss account in the period.

A reclassification between cost and accumulated depreciation has been made as at 17 August 2013. There is no impact on net book value as a result of this reclassification.

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

13 STOCKS

| | 2013 | 2012 |
|-----------------------|--------------|--------------|
| | £000 | £000 |
| Goods held for resale | <u>6,948</u> | <u>6,274</u> |

The difference between the purchase price of stocks and their replacement cost is not material.

14 DEBTORS

| | 2013 | 2012 |
|--|---------------|---------------|
| | £000 | £000 |
| Amounts falling due in less than one year: | | |
| Trade debtors | 2,196 | 2,299 |
| Amounts due from other companies in the Spirit Pub Company plc group | 8,324 | 582 |
| Prepayments and accrued income | 12,764 | 10,905 |
| Corporation tax | 5 | - |
| Deferred tax asset | 4,940 | - |
| | <u>28,229</u> | <u>13,786</u> |

| | 2013 | 2012 |
|--|----------------|----------------|
| | £000 | £000 |
| Amounts falling due after more than one year: | | |
| Loans due from other companies in the Spirit Pub Company plc group | 338,865 | 338,450 |
| Amounts due from other companies in the Spirit Pub Company plc group | 398,296 | 391,086 |
| Deferred tax asset | 29,553 | 58,618 |
| | <u>766,714</u> | <u>788,154</u> |

Included within loans due from other companies in the Spirit Pub Company plc group are non-interest bearing loans to Spirit Group Equity Limited, Spirit Group Parent Limited and Spirit Acquisition Properties Limited for £445,000, £216,033,000 and £113,276,000 respectively (2012: £445,000, £216,033,000 and £113,276,000).

Also included within loans due from other companies in the Spirit Pub Company plc group is a loan to Spirit Managed Inns Limited of £9,111,000 (2012: £8,696,000). Interest accrues at 7% per annum on the original loan.

Amounts due from other companies in the Spirit Pub Company plc group are non interest bearing funding balances.

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS

for the 52 week period ended 17 August 2013

Deferred tax

| | 2013 | 2012 |
|---|---------|----------|
| | £000 | £000 |
| The deferred tax asset included in the company balance sheet is as follows: | | |
| Interest rate swaps | 18,392 | 31,480 |
| Losses recognised | 24,224 | 40,089 |
| Short term timing differences | 1,849 | 927 |
| Depreciation in excess of capital allowances | (9,972) | (13,878) |
| As at 17 August 2013 | 34,493 | 58,618 |
| | | £000 |
| As at 18 August 2012 | | 58,618 |
| Charged to the profit and loss account | | (24,125) |
| As at 17 August 2013 | | 34,493 |

15 CREDITORS: amounts falling due in less than one year

| | 2013 | 2012 |
|---|---------|---------|
| | £000 | £000 |
| Secured loan notes (note 17) | 24,366 | 562 |
| Trade creditors | 1,628 | 515 |
| Amounts owed to other companies in the Spirit Pub Company plc group | 32,872 | 24,403 |
| Other creditors | 13,658 | 12,180 |
| Accruals and deferred income | 40,383 | 45,816 |
| Social security and other taxes | 14,203 | 14,826 |
| Derivative financial instruments (note 19) | 21,135 | 21,018 |
| | 148,245 | 119,320 |

16 CREDITORS: amounts falling due after more than one year

| | 2013 | 2012 |
|---|-----------|-----------|
| | £000 | £000 |
| Secured loan notes (note 17) | 803,878 | 854,966 |
| Loans owed to other companies in the Spirit Pub Company plc group | 1,526,158 | 1,364,773 |
| Accruals and deferred income | 9,535 | 6,521 |
| Amounts owed to other companies in the Spirit Pub Company plc group | 135,401 | 135,401 |
| Derivative financial instruments (note 19) | 126,395 | 174,051 |
| | 2,601,366 | 2,535,712 |

Included within loans owed to other companies in the Spirit Pub Company plc group are subordinated loans from Spirit Managed Funding Limited of £865,313,000, £531,403,000 and £129,460,000 respectively (2012: £765,843,000, £483,045,000 and £115,885,000 respectively). Interest accrues at 16% per annum.

Amounts owed to other companies in the Spirit Pub Company plc group are non interest bearing funding balances.

**Spirit Pubs Debenture Holdings Limited -
Period ended 17 August 2013**

NOTES TO THE FINANCIAL STATEMENTS

for the 52 week period ended 17 August 2013

17 SECURED LOAN NOTES

| | 2013 | 2012 |
|---|----------------|----------------|
| | £000 | £000 |
| Secured loan notes maturity analysis | | |
| Amounts repayable by instalments falling due: | | |
| In less than one year | 23,153 | - |
| Between one and two years | 34,823 | 23,153 |
| Between two and five years | 74,224 | 83,372 |
| In five years or more | 689,484 | 740,769 |
| Add: debenture premium | 9,618 | 12,059 |
| Less: deferred issue costs | (3,058) | (3,825) |
| | <u>828,244</u> | <u>855,528</u> |

| | 2013 | 2012 |
|---|----------------|----------------|
| | £000 | £000 |
| Details of the loan notes are as follows: | | |
| Class A1 floating rate secured loan notes repayable by September 2026 at LIBOR plus 0.22% per annum to December 2011 and LIBOR plus 0.55% per annum thereafter | 144,704 | 144,704 |
| Class A2 floating rate secured loan notes repayable by June 2029 at LIBOR plus 1.08% per annum to December 2011 and LIBOR plus 2.70% per annum thereafter | 188,569 | 188,569 |
| Class A3 fixed / floating rate secured loan notes repayable by September 2019 at 5.860% per annum to December 2014 and LIBOR plus 0.55% per annum thereafter | 116,704 | 116,704 |
| Class A4 fixed / floating rate secured loan notes repayable by March 2025 at 6.582% per annum to December 2018 and LIBOR plus 2.775% per annum thereafter | 210,481 | 223,286 |
| Class A5 fixed / floating rate secured loan notes repayable by December 2032 at 5.472% per annum to December 2028 and LIBOR plus 0.75% per annum thereafter | 161,226 | 174,031 |
| | <u>821,684</u> | <u>847,294</u> |
| Add: debenture premium | 9,618 | 12,059 |
| Less: deferred issue costs | (3,058) | (3,825) |
| | <u>828,244</u> | <u>855,528</u> |

The group uses interest rate swaps to replace the LIBOR rates on the floating rate loan notes with fixed rates.

The loan notes are secured over the assets of the group and certain other companies in the Spirit Pub Company plc group.

During the period, the group redeemed notes with a nominal value of £25,610,000, being £12,805,000 Class A4 and £12,805,000 Class A5.

Mandatory redemption

If the term facilities have become immediately due and repayable under the terms of the Issuer / Borrower Facility Agreement but the loan notes have not become immediately due and repayable pursuant to the terms and conditions of the loan notes, the loan notes will be subject to redemption pro rata within each class and in the amounts set out in the terms and conditions of the loan notes.

Optional redemption

On giving not fewer than five business days' prior written notice, one or more classes of the loan notes may, at the option of the company, be redeemed in whole or in part (provided that the minimum amount of any such redemption will be £1,000,000 in principal amount of a class of loan notes and thereafter in multiples of £100,000 in principal amount) on any interest payment date subject to certain conditions as set out in the terms and conditions of the loan notes.

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS

for the 52 week period ended 17 August 2013

18 PROVISIONS FOR LIABILITIES

| | Property leases |
|--|------------------------|
| | £000 |
| As at 18 August 2012 | 13,676 |
| Utilised during the period | (3,141) |
| Unwinding of discount effect of provisions | 1,066 |
| As at 17 August 2013 | 11,601 |

The provision for property leases has been set up to cover operating costs of vacant or loss making premises. The provision covers the expected shortfall between operating income and rents payable for a period of three years for trading properties and ten years for non trading properties, being the estimated period to mitigate the losses. These properties are not expected to become profitable in the future.

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS

for the 52 week period ended 17 August 2013

19 DERIVATIVE FINANCIAL INSTRUMENTS

The group uses derivative financial instruments such as interest rate swaps to hedge its risk associated with interest rate fluctuations. Such derivatives are initially accounted for and subsequently remeasured to fair value. The fair value of the interest rate swap contracts is determined by reference to market values for similar instruments. Changes in fair value of any derivative financial instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

The group's principal financial instruments other than derivative financial instruments comprise borrowings, loans to group undertakings and cash. The main purpose of these financial instruments is to raise finance for the Spirit Pub Company plc group's operations.

The group enters into derivative transactions. The purpose of such transactions is to manage the interest rate risks arising from the group's sources of finance. It is, and has been throughout the period under review, the group's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the group's financial instruments are interest rate risk and liquidity risk. There is no currency exposure as all material transactions and financial instruments are in sterling. The board reviews and agrees policies for each of these risks.

The consolidated financial statements of Spirit Pub Company plc contain financial instrument disclosures which comply with FRS 29 'Financial Instruments: Disclosures'. Consequently, the company has taken advantage of the exemption in FRS 29 not to present separate financial instrument disclosures for the company.

Derivative financial instruments

The carrying values of derivative financial instruments in the balance sheet are as follows:

| | | |
|---|----------------|----------------|
| Creditors: amounts falling due in less than one year | 2013 | 2012 |
| | £000 | £000 |
| Derivative financial instruments | <u>21,135</u> | <u>21,018</u> |
| Creditors: amounts falling due after more than one year | 2013 | 2012 |
| | £000 | £000 |
| Derivative financial instruments | <u>126,395</u> | <u>174,051</u> |

The interest rate swaps replace the LIBOR rate on the company's secured floating rate loan notes with a fixed rate. The capital amount of the swaps reduce over time to match the contractual repayment profile of the associated notes over their life.

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

20 PENSION - DEFINED BENEFIT SCHEME ASSET

| Pension asset | 2013 £000 | 2012 £000 |
|---|---------------------|----------------------|
| Asset brought forward | 24,100 | 8,300 |
| Credited to the profit and loss account | 600 | 400 |
| Cash payments during the period | 5,000 | 5,200 |
| Actuarial (loss) / gain | (28,200) | 10,200 |
| Asset before deferred tax | <u>1,500</u> | <u>24,100</u> |
| Deferred tax liability | (300) | (5,543) |
| Asset net of deferred tax | <u><u>1,200</u></u> | <u><u>18,557</u></u> |

During the period, the company operated two funded defined benefit pension schemes; the Spirit Group Pension Scheme (SGPS) and the Spirit Group Retail Pension Scheme (SGRPS). The pension plans have not invested in any of the company's own financial instruments, nor in properties or other assets used by the company. The asset recognised in 2013 relates to the SGPS and the recognition of any asset on the SGRPS is restricted to nil. As explained in the footnote below, the asset in the SGRPS in 2012 was, in error, not restricted to nil. The error was not fundamental to the company's financial position and has been corrected in the current year.

The tables below illustrate the impact of defined benefit schemes on the profit and loss account, the statement of total recognised gains and losses and the balance sheet and relate to both pension plans.

All pension costs relating to the SGPS and SGRPS are incurred by Spirit Pub Company (Services) Limited, the principal employer. These costs are then recharged to Spirit Pub Company (Managed) Limited and Spirit Pub Company (Trent) Limited. The disclosures quoted below are Spirit Pub Company (Managed) Limited's, and therefore Spirit Pubs Debenture Holdings Limited's, proportion of the total assets and liabilities of the pension schemes.

The amounts recognised in the profit and loss account are as follows:

| Analysis of the amounts credited to interest receivable / (charged) to interest payable: | 2013 £000 | 2012 £000 |
|--|--------------|--------------|
| Expected return on scheme assets | 16,900 | 17,200 |
| Restriction on surplus recognised ¹ | (1,300) | - |
| Interest on scheme liabilities | (15,000) | (16,800) |
| Net credit | <u>600</u> | <u>400</u> |

The amounts recognised in the statement of total recognised gains and losses (STRGL) are as follows:

| | 2013 £000 | 2012 £000 |
|---|-----------------|---------------|
| Actual return on assets | 21,300 | 40,800 |
| Expected return on assets | (16,900) | (17,200) |
| Experience loss on liabilities | (21,400) | (13,400) |
| Expected actuarial (losses) / gains recognised in the STRGL | (17,000) | 10,200 |
| Restriction on surplus recognised ¹ | (11,200) | - |
| Actuarial (losses) / gains recognised in the STRGL | <u>(28,200)</u> | <u>10,200</u> |
| Cumulative amounts recognised in the STRGL: | 2013 £000 | 2012 £000 |
| At beginning of period | 24,500 | 14,300 |
| Net actuarial (losses) / gains in the period | (28,200) | 10,200 |
| At end of period | <u>(3,700)</u> | <u>24,500</u> |

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

20 PENSION - DEFINED BENEFIT SCHEME ASSET

The amounts recognised in the balance sheet are as follows:

| | 2013 | 2012 |
|--|--------------|---------------|
| | £000 | £000 |
| Present value of scheme liabilities | (352,200) | (327,800) |
| Fair value of scheme assets | 366,200 | 351,900 |
| Net retirement benefit asset | 14,000 | 24,100 |
| Restriction on surplus recognised ¹ | (12,500) | - |
| Net retirement benefit asset recognised in the balance sheet | <u>1,500</u> | <u>24,100</u> |

Movements in the present value of scheme liabilities are as follows:

| | 2013 | 2012 |
|--|----------------|----------------|
| | £000 | £000 |
| Present value of scheme liabilities at beginning of period | 327,800 | 308,700 |
| Interest cost | 15,000 | 16,800 |
| Actuarial losses | 21,400 | 13,400 |
| Benefits paid | (12,000) | (11,100) |
| Present value of scheme liabilities at end of period | <u>352,200</u> | <u>327,800</u> |

Movements in the fair value of scheme assets are as follows:

| | 2013 | 2012 |
|--|----------------|----------------|
| | £000 | £000 |
| Fair value of scheme assets at beginning of period | 351,900 | 317,000 |
| Expected return on scheme assets | 16,900 | 17,200 |
| Actuarial gains | 4,400 | 23,600 |
| Contributions paid by employer | 5,000 | 5,200 |
| Benefits paid | (12,000) | (11,100) |
| Fair value of scheme assets at end of period | <u>366,200</u> | <u>351,900</u> |

Scheme assets are stated at their market values at the balance sheet date and the expected return on scheme assets is derived as a weighted average of the expected return on each asset class, recognising the proportions of the assets invested in each. The expected return on each asset class is determined after taking external expert advice and by reference to relevant equity and bond indices.

The history of experience adjustments on the schemes for the current and previous financial years is as follows:

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---------------|---------------|--------------|-----------------|-----------------|
| | £000 | £000 | £000 | £000 | £000 |
| Present value of retirement benefit liabilities | (352,200) | (327,800) | (308,700) | (319,500) | (323,800) |
| Fair value of plan assets | 366,200 | 351,900 | 317,000 | 307,300 | 282,800 |
| Net asset / (liability) in the scheme | <u>14,000</u> | <u>24,100</u> | <u>8,300</u> | <u>(12,200)</u> | <u>(41,000)</u> |
| Experience adjustments on scheme liabilities | (21,400) | (13,400) | 3,300 | (14,500) | (28,100) |
| Experience adjustments on scheme assets | 4,400 | 23,600 | 6,800 | 18,900 | (26,200) |

The expected contributions to the defined benefit schemes for the next financial year, beginning 18 August 2013, are £5,000,000, of which the group will pay a proportion.

¹The impact of the restriction on surplus recognised reflects the effect of adjustments with respect to restrictions in prior years in relation to the Spirit Group Retail Pension Scheme (SGRPS), not identified and accounted for at the time they arose. The Company has not agreed a surplus refund agreement and therefore the asset in relation to this scheme has been restricted to nil. These prior year errors are considered not to be fundamental to any prior years' performance statements.

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

20 PENSION - DEFINED BENEFIT SCHEME ASSET

Spirit Group Pension Scheme funding

The SGPS scheme is a defined benefit scheme operated in the UK. The values of the scheme's liabilities have been determined by a qualified actuary based on the results of an actuarial valuation as at 31 October 2009, updated to 17 August 2013, the balance sheet date. The mortality assumptions at the year end are based on standard mortality tables that allow for future mortality improvements. The assumptions are that the life expectancy of a member who retires at the age of 65 is as follows:

| | 2013 | 2012 |
|--------------------------|----------|----------|
| Male currently aged 45 | 25 years | 24 years |
| Male currently aged 65 | 23 years | 22 years |
| Female currently aged 45 | 27 years | 25 years |
| Female currently aged 65 | 24 years | 23 years |

The assumptions used in determining the valuations are as follows:

| | 2013 | 2012 |
|------------------------------|------|------|
| Rate of increase in pensions | 3.3% | 2.6% |
| Discount rate | 4.6% | 4.5% |
| Inflation assumption (RPI) | 3.6% | 2.9% |
| Inflation assumption (CPI) | 2.7% | 2.0% |

The assets in the scheme and expected rates of return were:

| | Long-term rate of return expected at 17 August 2013 | Value at 17 August 2013 £000 | Long-term rate of return expected at 18 August 2012 | Value at 18 August 2012 £000 |
|---|--|------------------------------------|--|------------------------------------|
| Equities | 7.00% | 46,900 | 7.3% | 43,700 |
| Government bonds | 3.20% | 30,900 | 2.5% | 26,200 |
| Property | 6.00% | 10,200 | 6.8% | 10,200 |
| Corporate bonds | 4.30% | 31,300 | 4.0% | 29,600 |
| Other | 0.50% | 1,100 | 1.5% | 3,800 |
| Total market value of assets | | <u>120,400</u> | | <u>113,500</u> |
| Present value of scheme liabilities | | <u>(118,900)</u> | | <u>(110,900)</u> |
| Surplus / (deficit) in the scheme before deferred tax | | 1,500 | | 2,600 |
| Deferred tax asset / (liability) | | <u>(300)</u> | | <u>(598)</u> |
| Net pension asset / (liability) | | <u>1,200</u> | | <u>2,002</u> |

Spirit Pubs Debenture Holdings Limited
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NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

20 PENSION - DEFINED BENEFIT SCHEME ASSET

Spirit Group Retail Pension Scheme funding

The SGRPS scheme is a defined benefit scheme operated in the UK. The values of the scheme's liabilities have been determined by a qualified actuary based on the results of an actuarial valuation as at 31 October 2009, updated to 17 August 2013, the balance sheet date. The mortality assumptions at the year end are based on standard mortality tables that allow for future mortality improvements. The assumptions are that the life expectancy of a member who retires at the age of 65 is as follows:

| | 2013 | 2012 |
|--------------------------|----------|----------|
| Male currently aged 45 | 24 years | 24 years |
| Male currently aged 65 | 22 years | 21 years |
| Female currently aged 45 | 27 years | 26 years |
| Female currently aged 65 | 24 years | 21 years |

The assumptions used in determining the valuations are as follows:

| | 2013 | 2012 |
|------------------------------|------|------|
| Rate of increase in pensions | 3.3% | 2.6% |
| Discount rate | 4.6% | 4.5% |
| Inflation assumption (RPI) | 3.6% | 2.9% |
| Inflation assumption (CPI) | 2.7% | 2.0% |

The assets in the scheme and expected rates of return were:

| | Long-term rate of return expected at | | Long-term rate of return expected at | |
|--|---|----------------------------|---|----------------------------|
| | 17 August 2013 | Value at 17 August 2013 | 18 August 2012 | Value at 18 August 2012 |
| | | £000 | | £000 |
| Equities | 7.00% | 81,500 | 7.3% | 78,400 |
| Government bonds | 3.20% | 70,600 | 2.5% | 64,600 |
| Corporate bonds | 6.00% | 18,800 | 6.8% | 18,900 |
| Property | 4.30% | 71,600 | 4.0% | 73,800 |
| Other | 0.50% | 3,300 | 1.5% | 2,700 |
| Total market value of assets | | <u>245,800</u> | | <u>238,400</u> |
| Present value of scheme liabilities | | (233,300) | | (216,900) |
| Surplus in the scheme before deferred tax | | 12,500 | | 21,500 |
| Restriction on surplus recognised ¹ | | (12,500) | | - |
| Surplus in the scheme before deferred tax | | - | | 21,500 |
| Deferred tax asset / (liability) | | - | | (4,945) |
| Net pension asset | | <u>-</u> | | <u>16,555</u> |

¹The impact of the restriction on surplus recognised reflects the effect of adjustments with respect to restrictions in prior years in relation to the Spirit Group Retail Pension Scheme (SGRPS), not identified and accounted for at the time they arose. The Company has not agreed a surplus refund agreement and therefore the asset in relation to this scheme has been restricted to nil. These prior year errors are considered not to be fundamental to any prior years' performance statements.

Spirit Pubs Debenture Holdings Limited
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NOTES TO THE FINANCIAL STATEMENTS
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21 **SHARE CAPITAL**

| | 2013 | 2013 | 2012 | 2012 |
|--|------|------|------|------|
| | No. | £ | No. | £ |
| <i>Allotted, called up and fully paid:</i> | | | | |
| Ordinary shares of £1 each | 4 | 4 | 4 | 4 |

Spirit Pubs Debenture Holdings Limited
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NOTES TO THE FINANCIAL STATEMENTS

for the 52 week period ended 17 August 2013

22 RECONCILIATION OF SHAREHOLDERS' DEFICIT AND MOVEMENTS ON RESERVES

| Group | Share Capital £000 | Share Premium £000 | Revaluation Reserve £000 | Capital Reserve £000 | Profit & Loss Account £000 | Total Shareholders' Deficit £000 |
|--|--------------------------|--------------------------|--------------------------------|----------------------------|-------------------------------------|---|
| At 20 August 2011 | - | 39,996 | (84,463) | 153,287 | (632,786) | (523,966) |
| Total losses for the period | - | - | (143,582) | - | (147,351) | (290,933) |
| Transfers on disposal of fixed assets | - | - | 8,392 | - | (8,392) | - |
| At 18 August 2012 | - | 39,996 | (219,653) | 153,287 | (788,529) | (814,899) |
| Total losses for the period | - | - | (5,834) | - | (102,199) | (108,033) |
| Transfers on disposal of fixed assets | - | - | 8,505 | - | (8,505) | - |
| At 17 August 2013 | - | 39,996 | (216,982) | 153,287 | (899,233) | (922,932) |

The company has had no movement in reserves during the current or prior periods.

- Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 17 August 2013

23 FINANCIAL COMMITMENTS

| | 2013 | 2012 |
|---|---------------|---------------|
| | £000 | £000 |
| Capital commitments for tangible fixed assets contracted not provided | <u>12,324</u> | <u>11,038</u> |

At 17 August 2013 the company had annual commitments under non-cancellable operating leases as set out below:

Land and buildings

| | 2013 | 2012 |
|--------------------------------|---------------|---------------|
| | £000 | £000 |
| Operating leases which expire: | | |
| In less than one year | 8 | 132 |
| 2 - 5 years | 1,901 | 1,407 |
| Over five years | <u>36,736</u> | <u>37,153</u> |
| | <u>38,645</u> | <u>38,692</u> |

24 CONTINGENT LIABILITIES

At 21 August 2010 a contingent asset of £18.9m existed in relation to the Spirit Pub Company plc group's outstanding gaming machine VAT claim. A decision was reached during 2010 in respect of The Rank Group plc's gaming claim, and this latest ruling fell in the taxpayer's favour. As a result, the group was able to further pursue its own gaming claim and during the year to 20 August 2011, the group's claim was repaid by HMRC. HMRC agreed to make the repayment of the existing claim, subject to the group providing a guarantee to HMRC that, in the event that the existing decision in The Rank Group plc is overturned in a higher court, the amount will be repayable in full. The decision in relation to The Rank Group plc's claim was referred to the Court of Justice of the European Union and at 20 August 2011 the group recognised the repayment amount as a provision, with £9,107,000 recognised by the group.

During November 2011, the Court of Justice of the European Union considered the Rank Group plc's gaming claim and found in favour of the taxpayer. As a result of this decision, the Spirit Pub Company plc group recognised the £18.9m in exceptional items during the period to 18 August 2012, and the group released its provision to the profit and loss account. Accordingly, the group has a contingent liability for the amount at 17 August 2013.

25 RELATED PARTY DISCLOSURES

The company has taken advantage of the exemption in paragraph 3(c) of FRS 8 from disclosing transactions with related parties that are wholly owned subsidiaries of the Spirit Pub Company plc group. There were no other related party transactions during the period.

26 POST BALANCE SHEET EVENTS

At 17 August 2013, no obligation exists for dividends declared after that date (2012: £nil).

Spirit Pubs Debenture Holdings Limited
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NOTES TO THE FINANCIAL STATEMENTS
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27 ULTIMATE PARENT UNDERTAKING

The company's immediate parent undertaking is Spirit Parent Limited, a company registered in England & Wales.

The company's ultimate parent undertaking and controlling party is Spirit Pub Company plc, a company registered in England & Wales.

The parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the company is a member is Spirit Pub Company plc.

Copies of the financial statements of Spirit Pub Company plc are available from Sunrise House, Ninth Avenue, Burton upon Trent, DE14 3JZ.

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

NOTES TO THE CASH FLOW STATEMENT
for the 52 week period ended 17 August 2013

28 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|---|--|---|
| Operating profit | 138,304 | 61,526 |
| Depreciation | 33,752 | 38,923 |
| Amortisation of negative goodwill | (28,831) | (28,831) |
| Revaluation and impairment of tangible fixed assets | (700) | 67,814 |
| Non-cash impact of annual uplifts in rent and rent-free periods | 3,014 | 6,521 |
| Share based payment expense | 2,048 | 1,503 |
| Pension contributions paid | (5,000) | (5,200) |
| Increase in stocks | (674) | (193) |
| (Increase) / decrease in debtors | (1,969) | 781 |
| (Decrease) / increase in creditors | (8,221) | 4,893 |
| Decrease in provisions | (3,141) | (2,927) |
| NET CASH INFLOW FROM OPERATING ACTIVITIES | <u>128,582</u> | <u>144,810</u> |

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

| | 52 week period ended 17 August 2013 £000 | 52 week period ended 18 August 2012 £000 |
|--|--|---|
| Decrease in cash in the period | (9,641) | (8,653) |
| Cash inflow from change in debt financing | 42,594 | 33,956 |
| Change in net debt resulting from cash flows | 32,953 | 25,303 |
| Other non cash movements in net debt | (129,155) | (192,784) |
| Change in net debt resulting from non cash flows | (129,155) | (192,784) |
| Movement in net debt | (96,202) | (167,481) |
| Net debt at beginning of period | (2,355,621) | (2,188,140) |
| Net debt at end of period | <u>(2,451,824)</u> | <u>(2,355,621)</u> |

Spirit Pubs Debenture Holdings Limited
Period ended 17 August 2013

NOTES TO THE CASH FLOW STATEMENT
for the 52 week period ended 17 August 2013

ANALYSIS OF CHANGES IN NET DEBT

| | 18 August 2012 | Cash flow | Other non- | 17 August 2013 |
|--|--------------------|---------------|------------------|--------------------|
| | £000 | £000 | cash changes | £000 |
| | | | £000 | |
| Cash at bank and in hand | 59,749 | (9,641) | - | 50,108 |
| Loans owed to other companies in the Spirit Pub Company plc group | (1,364,773) | 22,500 | (183,885) | (1,526,158) |
| Other loans | (855,528) | 20,094 | 7,191 | (828,244) |
| Derivative financial instrument | (195,069) | - | 47,539 | (147,530) |
| | <u>(2,355,621)</u> | <u>32,953</u> | <u>(129,155)</u> | <u>(2,451,824)</u> |

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