Marston's PLC
Annual Report and Accounts 2016

Making Marston's The Place to Be

THE PLACE TO BE...

Our ambition

TO MAKE MARSTON'S 'THE PLACE TO BE' FOR...

OUR PEOPLE

We want to recruit, retain and develop the best possible people in the industry.

More on page 16

OUR CUSTOMERS

We want our customers to visit us and then come back time and time again.

More on page 14

OUR SHAREHOLDERS

We want to be the place for long-term investors who support our strategy.

More on page 43

We've been running pubs and brewing beer in one form or another for over 180 years. It's a heritage that we're hugely proud of but a lot has changed in this time. As markets and customer needs have moved on, we've adapted with them so that our products, services and teams continue to be the best they can possibly be.

We own a wide range of industry-leading assets – from pubs to brands – which are the result of investment decisions that support our clear and consistent strategy.

There are more than 14,000 employees at almost 1,600 pubs, inns, breweries, depots and offices across the UK focused on delivering a great customer experience. We do this at the same time as looking at ways to meet our stated financial objectives.

In 2016, we reinvigorated and recommunicated our ambition, purpose and ways of working to ensure we are all aspiring to the same standards and outcomes.

1,559
pubs

42
new beers

953
rooms

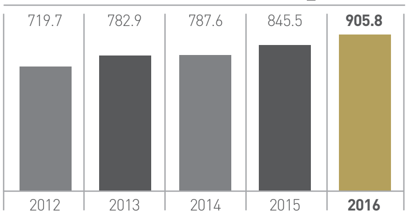
14,000
employees

A Snapshot of 2016 (52 weeks ending 1 October 2016)

- Revenue and earnings growth, stronger balance sheet.
- Transformed pub estate generating growth opportunities.
- Local strategy and innovation creating growth in Brewing.
- Final dividend up 4.4% to 4.7 pence. Dividend cover up 0.1 times to 1.9 times.
- Well positioned for growth in 2017.

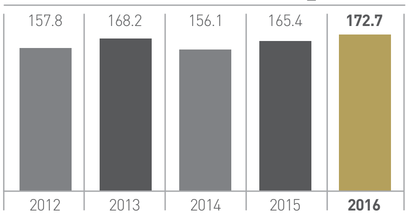
Underlying* revenue (£m)

£905.8m up 7.1%



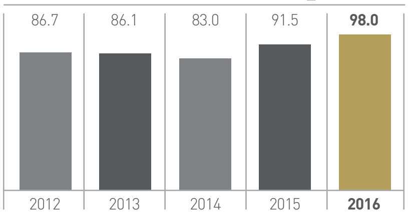
Underlying* operating profit (£m)

£172.7m up 4.4%



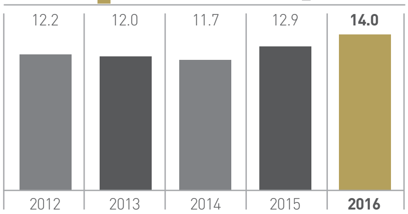
Underlying* profit before tax (£m)

£98.0m up 7.1%



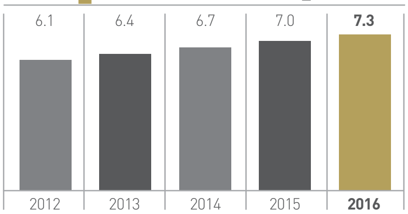
Underlying* earnings per share (p)

14.0p up 8.5%



Total dividend per share (p)

7.3p up 4.3%



* The underlying results reflect the performance of the Group before exceptional and other adjusting items. The Directors consider that these figures provide a useful indication of the underlying performance of the Group.

On a statutory basis profit before tax was £80.8 million (2015: £31.3 million) and earnings per share were 12.7 pence (2015: 4.1 pence).

More online

This year we have incorporated material information on our community involvement and our people into our main narrative report. More case studies about Marston's 'The Place to Be...' and additional Corporate Responsibility information can be found on our website.

www.marstons.co.uk/investors/strategy

www.marstons.co.uk/responsibility

For a full-year end press release, preliminary results presentation, webcast and video of a summary of the year, visit:

www.marstons.co.uk/investors

Strategic report approval

The Strategic report, outlined from the inside front cover to page 33 incorporates: A Snapshot of 2016, At a glance, Our Business Model, Our Marketplace, Chairman's Statement, Chief Executive's Statement and Strategy Update, Our Strategy, Our Key Performance Indicators, Our Risks and Risk Management, Our Principal Risks and Uncertainties, Group Operating and Financial Review and Corporate Responsibility.

By order of the Board

Ralph Findlay
Chief Executive Officer

24 November 2016

A glossary of terms used within the Annual Report and Accounts can be found on page 122.

THE PLACE TO BE... ACROSS THE NATION

National coverage with a growing, high quality estate

We operate across the UK and are focused on expanding a high quality estate, which we continue to strengthen through organic development of pub-restaurants and franchise-style pubs, including planned new-builds and, more recently, through investment in lodges and Premium bars that widen our appeal. Our five breweries supply and distribute a wide portfolio of beers to our estate, supermarkets and other pub businesses across the nation.

Marston's estate 2016

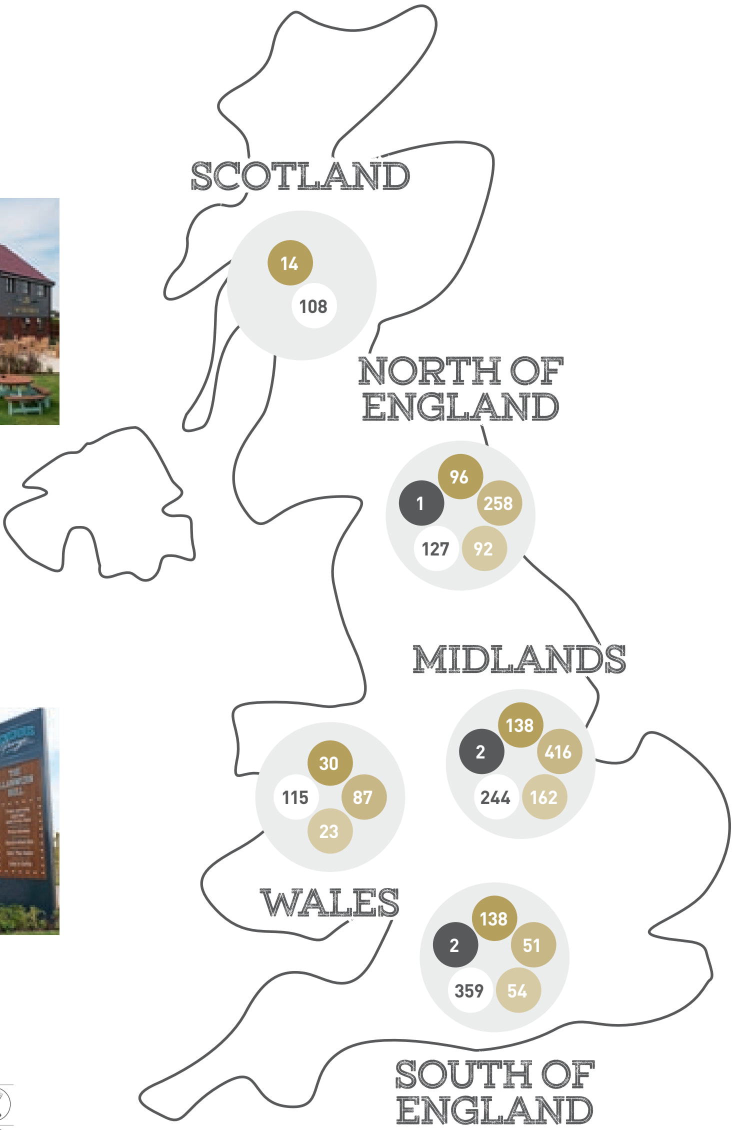

Chain Bridge, Boston

22
new pub-restaurants and bars


Llanwern Bull, Newport

Key

Destination and Premium	416	
Taverns	812	
Leased	331	
Rooms	953	
Breweries	5	



Foundry 39, Edinburgh

156
rooms added


Mug House, Worcester

42
new beers


Wychwood Brewery, Witney

Organised to reflect market trends

We have five operating segments, as set out below, which reflect different customer profiles, flexible operating models, products and services. More detailed information about each reporting segment can be found in our Group Operating and Financial Review on pages 24 to 30.

Key operating segment	**Destination and Premium**	**Taverns**	**Leased**	**Brewing**	**Group Services**
	416 pubs	812 pubs	331 pubs	5 breweries	
2016 underlying operating profit	**£90.2m** +7.9% (2015: £83.6m)	**£56.0m** +0.2% (2015: £55.9m)	**£24.2m** +1.7% (2015: £23.8m)	**£23.2m** +12.1% (2015: £20.7m)	
2016 underlying operating profit by segment (excluding Group Services costs)	47%	29%	12%	12%	
	• Family dining and great value • Relaxed pub environment • Main formats include: Marston's 'Two for One', 'Milestone Rotisserie', 'Milestone Carvery', and 'Generous George' • Destination food sales mix is 60% • Pitcher & Piano and Revere pubs offer premium food and drink • Attractive, often iconic, town centre and suburban locations • Premium food sales mix is 29%	• Community pubs with a more traditional pub ambience • Includes franchised pubs, managed pubs and tenancies • Strong community engagement, often with entertainment, sports teams and games • Typically wet-led pubs, with food sales representing 19% in 2016 and growing	• Distinctive pubs with a high degree of independence • Longer-term agreements that attract skilled entrepreneurs who develop their own businesses • Our partnership approach attracts the right lessee and provides business support	• A blend of traditional heritage, innovative development and contemporary breweries • A wide portfolio of beers with appeal for all types of drinker and to suit any occasion • National distribution network • Local approach to beer brand management • Publican National Cask Ale Supplier of the Year • Brand collaboration and contract services	Our Group Services team provides a range of functional services that support and connect the wider business, including IT, HR, Finance, Retail Systems, Company Secretariat, Legal, Risk and Compliance.

Rooms

We operate 953 rooms across 54 pubs and lodges within our Destination and Premium estate, having added six new lodges during the year. Accommodation acts as a complementary income stream to an existing pub.

THE PLACE TO BE... DRINKING, EATING AND STAYING

Our core business is running great pubs and brewing great beer, which delivers good and sustainable returns. However, in our fast-moving and fiercely competitive markets we need to stand out from the crowd. Our competitive advantage comes from the behaviours and skills of our people and the quality of our assets.

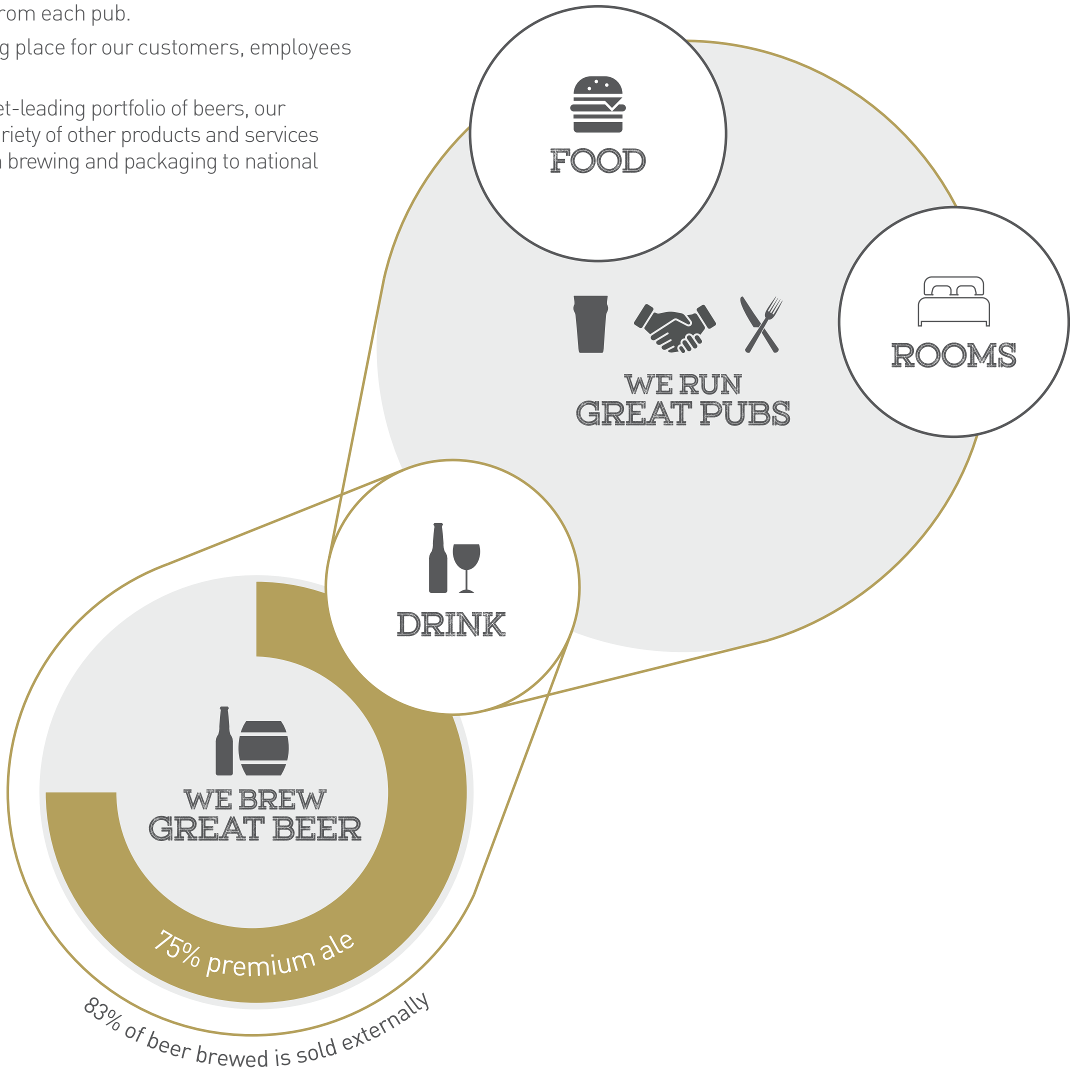
We create value through offering our customers great experiences in our pubs and producing great beers from our breweries. This is underpinned by a people strategy that focuses on creating competitive advantage through developing and recruiting the best teams to deliver this value.

To maximise the value generated we continuously explore ways to innovate and improve our customers' experience in the most cost effective way. We maintain strong financial discipline across the business to ensure growth is sustainable and maximises long-term returns on our assets. There are three components to our way of working:

- Focusing on new experiences and offers for our customers.
- Matching the right customer offer with the appropriate operating model to maximise returns from each pub.
- Creating a fun and welcoming place for our customers, employees and our partners.

In addition to brewing our market-leading portfolio of beers, our beer business also provides a variety of other products and services for our customers: ranging from brewing and packaging to national distribution services.

All of our activities are supported by a central support team focused on setting the strategic, financial and governance framework to deliver growth.



How we add value

Pubs

- Different ownership models provide flexibility in selecting the best way to operate each pub.
- Market-leading contemporary pub-restaurant designs and offers are increasing customer spend.
- Ability to tailor formats to suit customer demand.
- Finding opportunities in new locations for expansion and choosing the format that fits best.
- Monitoring market trends, consumer insight and customer feedback to drive improvements, new products and identify opportunities.
- Increasing control over customer offer, standards and service across the estate enhances earnings at franchisee and Group level.

Food/Drink

- A differentiated informal experience combining casual dining standards and pub values.
- Development of branding and format clarity has enabled fast and coherent food and drink innovation.
- Concession-style approach to food innovation increases the appeal to a wider age range.
- Economies of scale from Group buying power.
- Higher-margin premium and craft drinks development.

Rooms

- Using the locations of our well-positioned pubs to add value to our estate by strengthening and broadening the customer offer:
  - Increasing our lodge developments to target the growing budget accommodation market
  - Premium rooms within our Premium business command higher room rates
  - Room guests offer increased contributions from drinking and eating in our pubs

Beer

- Own-brewed beers reflect and strengthen our regional provenance, increase brand awareness at home and increase footfall in our pubs and bars.
- Five breweries supporting a variety of service offers to customers from brewing for third parties to packaging, storage and distribution across the UK using our 12 depots – all generating strong returns.
- Sales of own beer, exclusive licensed beer brands and business solutions to third party businesses using our in-house brewing and beer expertise.

Who benefits from our business model

Customers

- We keep our customers at the heart of everything we do:
  - Aiming to improve customer satisfaction at all times.
  - Offering choice and menus to suit all occasions.
  - Offering good value for money.
  - Continual food and drink development and innovation.
  - Aiming to provide market-leading support and advice for our pub partners.

Our people

- United by a clear purpose and set of values.
- Engaged and enabled employees create a happy workplace with 3,977 qualifications achieved.
- As a responsible business we continually strive to update and train our people on a regular basis to safeguard their health, safety and welfare and that of our customers.
- A rewarding career with benefits clearly linked to performance.

The environment

- Operating a sustainable and responsible business.
- Reducing our impact through investment in energy-saving technology and recycling:
  - Average energy use per pub in 2016: 464,000 kWh (2015: 498,000 kWh).
  - In 2016 27,000 tonnes of waste from our breweries was recycled (2015: 29,000 tonnes). Around 97% of waste from our breweries is recycled.

Investors

- Sustainable shareholder returns reflected through our progressive dividend policy.
- Efficient operations and secured funding to maximise returns on investments.
- Protecting our reputation – accredited member of FTSE4Good.
- A strong governance framework facilitates disciplined decision making, targeted support and monitoring of Group performance.

Suppliers

- Long-term relationships give security to invest and expand.
- Fair and transparent terms and conditions with maximum 60 days payment.
- Encouraging innovation and development.

Government

- Collection and payment of a wide range of taxes.
- Engagement with Government health initiatives and signed up to UK Government Public Health.

Community

- Creating employment in local communities and contributing to local social initiatives:
  - 'Pub is the Hub' sponsor.
  - Responsible drinking promotions.
  - Our head office teams and participating pubs raised over £36,000 in Give Back Week.

Key resources and relationships we depend upon to support our business model

Engaged colleagues who work in the right way
More on page 16

Strong R&D, innovative spirit and market insight
More on page 14

Valued and recognised brands
More on page 15

Strong relationships with key stakeholders
More on pages 31–33

THE PLACE TO BE... IN THE RIGHT MARKETS

We operate in a competitive marketplace, which presents both immediate challenges and long-term opportunities. Our market and consumer insight helps to support our strategic and investment decisions.

Eat

Our pubs offer something for everyone and every occasion, from custom-made burger options and street food to Sunday roasts and other traditional favourites.

Trends

- Healthy eating versus little indulgences, the rising obesity crisis and the desire for treats.
- There is a rise in demand for 'free from' foods, to cater for vegetarian, vegan and coeliac diets.
- Creating experiences – consumers have a desire for theatre, knowledge and authenticity, and experiences that can be shared.
- Technology and convenience – integrating technology to improve the customer experience both in-pub and at home.
- The impact of Millennials and their influence on the broader customer base. Expectations from customers are high, particularly in terms of quality of food and the demand for more adventurous tastes and flavours.

Challenges

- To create balanced menus with sufficient choices for different occasions and customer groups.
- We operate within an increasingly regulated environment.
- Attracting and retaining talented chefs who deliver great quality dishes.
- Growth of delivery services in towns and cities makes it easier than ever for consumers to access high quality, convenient meals tailored to their specific tastes.
- Attracting the Millennial consumer for whom pubs are not always the first choice.

Drink

Our pubs offer a broad range of alcoholic and non-alcoholic drinks, including beers, wines, and soft drinks, to suit all our customers and occasions. Our breweries produce a varied portfolio of cask beers that appeal to all types of drinkers.

Trends

- Growth in consumption of soft drinks against a decline in alcohol consumption, particularly among younger consumers.
- Creating experiences – consumers are showing an increased desire for theatre, knowledge and authenticity.
- Premiumisation – consumers are drinking less when they visit pubs but spending more on the drinks they do purchase and actively seeking new and interesting styles of drinks.
- Craft – the continued rise of craft ale and cider, bringing what was previously a niche category to the mass market.

Challenges

- Ensuring our range of drinks remains relevant and appealing for different occasions and customer groups.
- Providing consistent products and experiences to meet our customers' expectations in a dynamic and competitive market.
- Ensuring that we have the right range of premium products available to meet our customers' desire and ensure that these are served perfectly to justify the higher price.
- Spending on beer is shifting from the on-trade to off-trade.
- Keeping pace with this fast evolving area of the market.
- Micro and smaller craft breweries are taking market share from larger multinational brewers.

Stay

Our rooms offer great value and convenience for business and leisure visits, with a range of town centre and rural locations to choose from.

Trends

- Branded budget hotels continue to lead the way with a strong pipeline for growth.
- Continued rise in demand for quality accommodation outside London and other major cities.
- Regional revenue continues to grow driven by higher rates as demand remains strong.
- Alternative providers are creating new options for away-from-home accommodation.

Challenges

- Higher expectations of room quality and technology increases pressure on the investment model.
- Loss of volume to alternative accommodation providers.
- Higher costs including the National Living Wage challenging profitability.

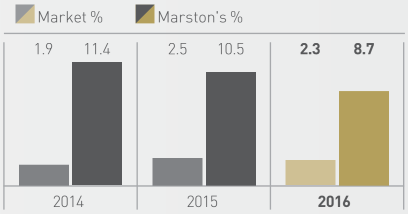
Opportunities

- Providing customers with healthy choices as well as 'permission' to treat themselves for a celebration or midweek treat.
- Creating experiences through innovative meals and drinks that are difficult to replicate at home.
- Improving order and payment processes before and during pub visits to improve the customer experience.
- To develop the pub of the future, now.

Our response

- We will always include healthier choices in our menus including lower calorie choices and 'free from' options.
- We offer great value menus with a range of different prices for a variety of occasions.
- The addition of new dishes on our menus that are cooked and presented with flair.
- We are increasing the range of world dishes and flavours in our menus to attract new customers and more frequent visits.
- We are investing in our order and payment systems to improve the customer experience in our pubs.
- We are trialling recommendations from our Pub of the Future project.

Eating-out sales growth



Source: MCA Eating Out Report 2016

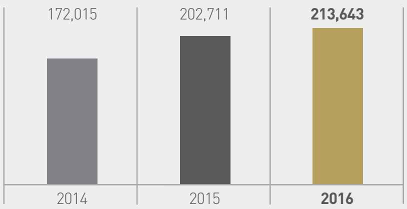
Opportunities

- Diversifying our range of drinks to meet the differing needs of our customers and occasions; providing a reason to choose our pubs over the competition.
- Leveraging Marston's expertise in brewing and retailing beers to ensure that we have the best offer in the marketplace, delivered by passionate and knowledgeable teams.
- Engaging with our pub teams to ensure they are aware of these trends and maximising opportunities to stock and sell premium products.
- The premium ale market is in growth in the off-trade, where Marston's is the number one brewer and continues to grow.
- Developing our drinks offers within our pubs to ensure that we have the right balance of craft products alongside traditional favourites.
- Using our brewing expertise to innovate and develop new products.

Our response

- We continue to innovate our soft drinks offer, building on cola floats, smoothies and other mixed juice drinks, and extending the range of non-alcoholic beers, wines and ciders available in our pubs.
- We have extended the range and distribution of craft beers, premium spirits and cocktails across our pubs, working with our partners and our teams to engage with new products.
- Marston's has five breweries meeting consumer demand for authenticity, localness and innovation. Our new micro-brewery DE14, in Burton, will further strengthen the development of new products.
- We have exclusive rights in the UK to two premium world lagers, of which one, Shipyard is the second most popular US craft beer in the UK.
- Our Best in Glass training programme focuses our pub teams on selling great quality premium drinks to our customers.
- Several new craft beers were launched into our pubs during the year.

Premium bottled ale sales (own ale) (CBR*)



* Composite barrels

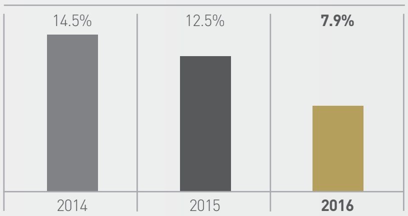
Opportunities

- Locating new lodges in high traffic market towns, or areas with high flows of people, with lower competitive pressures.
- Partnering our lodges with a high quality pub-restaurant for a great night's stay.
- Creating packages that include dinner, bed and breakfast to encourage 'full service' stayovers.
- Post-Brexit drop in sterling value may boost overseas visitor numbers whilst increasing demand for 'stay at home' leisure visits.

Our response

- We will increase our rooms revenue via additional capacity, intelligent pricing and appropriate investment.
- We will add between 5–10 new lodges in 2017, with free parking, Wi-Fi and breakfast included at no additional cost.
- We will maintain our budget pricing model for affordable stays away from home.
- We will improve the overall customer experience with superfast broadband and a better booking journey at **www.marstonsinns.co.uk.**

Room income yield growth



Chairman's Statement

"Marston's attention to quality, service and value means we are well-placed to further our track record of market outperformance. We are alert to changing consumer tastes and trends, and this is reflected in our plans. We remain highly focused on the execution of our strategy."

Roger Devlin
Chairman

Overview

I am pleased to report good progress in 2016, including turnover up 7.1% to £905.8 million, underlying profit before taxation up 7.1% to £98.0 million, and underlying earnings per share up 8.5% to 14.0 pence per share. Our stated financial objectives are sustainable growth, to increase return on capital, and to reduce leverage. Each of these objectives was met this year.

Against a background of intense competition, operational effectiveness and good controls have been key to our success, which this year included performance ahead of the market in our pubs, and market-leading growth in our beer brands. Our objective is to demonstrate further improvement from this already strong market position, and during the year your Board reviewed plans for the training and development of our staff, marketing activity in our pubs and pub-restaurants, and approved continued investment in IT which will see our EPOS systems replaced and upgraded in 2017.

We have also reviewed carefully the basis of capital allocation across the business. As described in detail within this report, we made capital investments of £143.7 million in 2016. We have continued to expand our estate, opening 22 pubs and bars and six lodge developments during the year.

In approving capital investment, the Board is careful to ensure that return on capital targets are met, that leverage remains appropriate for a pub and brewing business with a 97% freehold estate, and that we are aware of the impact of competition. We continue to strengthen our balance sheet with leverage reducing and fixed charge cover continuing to increase. We are satisfied that we are creating shareholder value and have good opportunities for growth.

Dividend

We propose a final dividend of 4.7 pence per share, an increase of 4.4%, providing a total dividend for the year of 7.3 pence per share. Dividend cover increased to 1.9 times 2015: 1.8 times.

Board

Neil Goulden will stand down from the Board at the 2017 Annual General Meeting. Neil joined the Board in 2007, and we have benefited significantly from his industry and financial experience. I thank him for his contribution. Neil will be succeeded as Senior Independent Director by Carolyn Bradley, and as Chairman of the Remuneration Committee by Catherine Glickman. Consistent with our aim to ensure that the Board has the right blend of skills and experience, we will consider a further non-executive appointment to the Board in the coming months.

People

This year's engagement survey confirmed the extent to which our people are proud to work for Marston's. Our culture and values are important strengths in an age when authenticity and integrity are values recognised by customers and colleagues alike, and I thank our employees for their dedication. In February this year we opened our refurbished head office in Wolverhampton, a necessary investment but one which also contributes to our ambition to make Marston's 'The Place To Be' for the best in the industry.

Outlook

Although much has been made of Brexit uncertainty, Marston's attention to quality, service and value means we are well-placed to further our track record of market outperformance. We are alert to changing consumer tastes and trends, and this is reflected in our plans. We remain highly focused on the execution of our strategy.

Roger Devlin
Chairman

Chief Executive's Statement and Strategy Update

"We have a high quality pub and beer business which is displaying positive momentum and is consistently outperforming the market. We believe that, despite some continuing market headwinds, our expansion plans further enhance our ability to deliver attractive returns."

Ralph Findlay
Chief Executive Officer

Group performance

We are pleased to report that we have again achieved profit growth across all of our trading segments, with solid underlying earnings growth, demonstrating further good progress in implementing our strategy.

Strategy overview

Our strategy remains consistent, focusing on operating and expanding a high quality pub estate through investment in new pubs and bars as well as increasing our investment in accommodation. In addition, our beer business focuses on increasing market share in the growth areas of premium beers and bottled ale where we are the market leader.

The new-build programme remains our key growth driver. Since 2009, when the current investment plan started, we have opened over 150 new pub-restaurants generating consistently high levels of profitability and strong returns, thereby creating significant shareholder value. Where possible, accommodation is added alongside a new pub-restaurant to generate additional income and enhance returns. We opened six new lodges under the Marston's Inns brand in 2016. We also see expansion opportunities in premium bars, having opened three new bars in 2016 on a leasehold basis.

We identified several years ago that, in locations where Marston's has direct control over the retail offer, we are better able to deliver a stronger consumer proposition with more consistent standards across the estate. We therefore pioneered an innovative franchise-style agreement in 2009 and, as at the end of 2016, approximately 80% of profits from our pubs are generated by managed or franchise-style pubs.

In Brewing, our focus remains on the growth market of premium beers underpinned by local provenance, our strong brewing heritage and state-of-the-art logistics capability. Our core brewing business grew strongly, in terms of revenue and earnings in the year, supplemented by the successful integration of the Thwaites' beer business acquired in April 2015.

Financial overview

Total underlying revenue increased by 7.1% from 2015 reflecting like-for-like growth in our pubs, the positive impact of new openings, growth in our beer brands and the acquisition of Thwaites' beer business.

Underlying profit before tax was up 7.1% to £98.0 million (2015: £91.5 million) principally reflecting the contribution from new pub-restaurants and a strong performance from Brewing. Basic underlying earnings per share for the period increased by 8.5% to 14.0 pence per share (2015: 12.9 pence per share).

On a statutory basis profit before tax was £80.8 million (2015: £31.3 million) and earnings per share were 12.7 pence (2015: 4.1 pence).

Net debt at the period end was £1,269 million (2015: £1,245 million). Net debt includes £1,074 million of long-term, structured finance with a stable repayment profile and no exposure to increases in interest rates, underpinned by an estate which is 97% freehold.

More detail can be found in the Group Operating and Financial Review on pages 24 to 30.

Chief Executive's Statement and Strategy Update continued

Our purpose and values

In March 2016 Marston's launched its new ambition, purpose and values (Our Ways of Working) across the business, helping employees to connect to the Group strategy and future goals, as well as express the uniqueness of our culture and ways of working.

Since that launch, employees have positively embraced all three elements, proactively bringing them to life in their daily tasks and demonstrating their alignment and support. Our Ways of Working are now present in all aspects of the Marston's experience, from the employee magazine and divisional newsletters, to our pub noticeboards and team meetings.

Plans are now afoot to update many of our business processes to ensure alignment and integration of our ambition, purpose and values, deepening our culture and helping our people to collectively focus on our ambition to make Marston's 'The Place to Be'.

By encouraging our people to work as one team, demonstrate that they care, celebrate our successes and dream big, we know both they and our customers will feel the benefit.

Our strategy

Our purpose is supported by our strategic pillars, which we increased to six during the year. Our strategic pillars are listed below and more detailed information on each pillar is set out on the following pages.

1. Operating a high quality pub estate
2. Targeting pub growth: investing in pub-restaurants and Premium pubs, further developing Franchise
3. Increased investment in rooms
4. Offering the best consumer experience: quality, service, value and innovation
5. Leadership in the UK beer market
6. Ensuring people are at the heart of our business

OUR PURPOSE

Helping our people and customers feel good by keeping people at the heart of all we do.

OUR WAYS OF WORKING

We are one Marston's, one team – trusted to make the right decisions and play our part.

We care – we take time to listen, understand and do the right things for our customers.

We celebrate – when we do something really well, we shout about it and have fun celebrating.

We dream big – together we strive to make Marston's 'The Place to Be' and exceed expectations.

Our Strategy

Marston's strategic objectives remain focused on delivering sustainable growth and maximising return on capital, with our six key pillars described below.

1

Operating a high quality pub estate

Strategic priority	Our KPIs	
To ensure we have the right consumer offer by having a pub estate with flexible operating models that cater for a broad range of customers.	• Like-for-like sales versus market • Number of main meals served	• Average profit per pub • Employee engagement and enablement

More on pages 18–19

2016 update

We operate a pub estate that caters for a broad range of customers, with flexible operating models. As a consequence we ensure we have the right consumer offer, accompanied by the most appropriate operating model, to maximise sales and profits for each pub. The key elements of this are as follows:

Destination and Premium - 416 pubs

Our Destination pubs offer family dining and great value in a relaxed pub environment. We aim to retain strong pub values while reflecting modern tastes and trends in a fast moving market. We operate several formats depending upon local preferences: Marston's 'Two for One', 'Milestone Rotisserie', 'Milestone Carvery', and 'Generous George', allowing us to have the right consumer offer in each pub. The food sales mix is 60%.

Our Pitcher & Piano and Revere bars and restaurants offer premium food and drink in attractive, often iconic, town centre and suburban locations. The food sales mix is 29%.

Taverns - 812 pubs

Our community pubs are great 'locals' with a more traditional pub ambience in strong locations. The contribution of the licensee is critical to the success of the pub and strong community engagement, with entertainment, teams and games often at the heart of the pub's activities. Typically, these are wet-led pubs although food sales are growing and represented 19% of sales in 2016.

Leased - 331 pubs

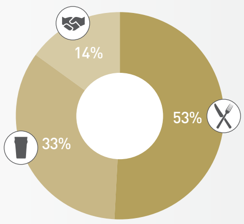
These distinctive pubs benefit from a high degree of independence and committed licensees. The leased model, with longer-term assignable agreements, attracts skilled entrepreneurs who build value through developing their own businesses. We contribute through our expertise in attracting the right lessee, having a partnership approach with our licensees and providing business support.

Average profit per pub

2016 Profit Mix

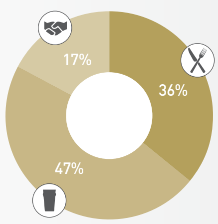
£108k

+50%



2012 Profit Mix

£73k



Key

Destination and Premium

Taverns

Leased

The Place to Be…

For our lessees

Through our partnership approach we fully engage with our lessee business partners, ensuring that we understand their business and work together to create a bespoke business plan, keeping their key personal and business objectives at the centre. Each lessee works with their Business Development Manager (BDM) to formulate a proactive plan that sets the agenda for the lessee and BDM to work towards over the year, helping to strengthen their working relationship. The Lease team also facilitates regular workshops where lessees can work together, alongside the BDM, sharing ideas and insight on a variety of subjects from wine development to improving margins. Combined with our capex programme that enables us to jointly invest with our business partners, this creates a genuine business partnership.

Our Strategy continued

2

Targeting pub growth: investing in pub-restaurants and Premium pubs, further developing Franchise

Strategic priority	Our KPIs	
The new-build programme remains our key growth driver. Our strategy has evolved to capitalise upon other opportunities for expansion where the returns create significant shareholder value.	• New-builds completed • Underlying EPS • Free cash flow	• CROCCE • Average profit per pub More on pages 18–19

2016 update

New pub-restaurants

In our Destination business, since 2009 we have opened over 150 pub-restaurants offering family dining at reasonable prices. These pubs generate high turnover, with target sales of £25,000 per week and a food sales mix in excess of 60%. We have an experienced site acquisition team, and a well-established and proven site selection process. This expansionary investment has generated consistently strong returns and has enabled us to extend the locations in which we trade to include southern England, and Scotland. New pub-restaurant investment creates significant value for shareholders, as demonstrated in the 2015 pub estate valuation. In 2016 we opened 19 pub-restaurants, and we are targeting at least 20 for 2017.

Competition and differentiation remain key considerations. We operate in a market with significant investment supply in casual dining, fast food and restaurants, therefore our pub-restaurant investment is targeted in areas that are less exposed to intense competition, particularly outside London and city centres. We benefit from the broad appeal of the 'pub' brand which occupies a unique position in the market and has demonstrated longevity.

New Premium pubs

In recent years we have invested in our Premium pub business, including Pitcher & Piano and Revere. Through this investment we have been able to operate Premium pubs as an 'innovation-hub' from which learnings can be extended into our broader pub business.

Given the success to date, we are seeking to further expand the Premium estate. In 2016 we converted one pub from the Destination estate to the Revere format, with a further three Revere Town bars opened in Leeds, Edinburgh and Knutsford. We expect to open at least three bars per annum in future, with openings in Hammersmith, Harrogate and Sheffield planned in 2017.

Development of the franchise model

In 2009 we pioneered the introduction of franchise-style agreements in the pub sector. We believe that the franchise operating model in community pubs creates the best experience for our customers and is the most flexible and attractive model for licensees. It is our intention to continue to roll out this model into most of our pubs within the Taverns estate over time.

We have also been successful in expanding franchise-style agreements into higher turnover pubs. This year some of our most successful franchisees have generated turnover levels similar to those in the Destination estate, and we have opened our first new-build Tavern operating under the franchise operating model. We are also evaluating the potential for franchise-style agreements in the Destination estate, and anticipate trialling this in the next two years.

The Place to Be…

For our franchisees

A number of successful multiple operators have joined us this year. Darren Brett became franchisee at the Oak Apple in Worcester in January 2016, and took on his second site, the Woodman in Netherton, a few months later. Darren says, "I am really excited about the direction Marston's is moving in. It's a progressive company and my future with Marston's is looking really promising."

The Place to Be…

For our suppliers

We have worked with Newman Gauge as a key partner in our new-build design process for around 10 years. They work across a wide client base within the hospitality and leisure sector and bring with them a breadth of knowledge and new ideas. They are currently working across our 'Two for One' and Pizza formats as well as 'Generous George'. Newman Gauge were also instrumental in supporting us with our refurbishment of Marston's House, being a primary designer of all the office spaces.

Increased investment in rooms

3

Strategic priority	Our KPIs	
To enhance pub profitability by expanding our rooms offer.	• Lodges completed • Like-for-like sales versus market • Free cash flow	• CROCCE • Average profit per pub • Underlying EPS

More on pages 18–19

2016 update

We operate around 950 rooms across 54 pubs within our Destination and Premium estate. Accommodation acts as a complementary income stream to an existing pub making the total pub revenue more consistent and less dependent on weather. Organic room income has been consistently strong with double-digit sales growth for each of the last four years and we anticipate similar trends in the future with continued growth in leisure and business visitors.

In recent years the focus of this investment has been on two key areas:

Lodge development within Marston's Inns

Within our Destination estate we currently operate 13 lodges with 25–40 rooms, having added six new lodges in 2016. The accommodation has a typical room rate of between £60–£90 per night, including breakfast and high-speed broadband. In addition, we have developed a new Marston's Inns website and have recently recruited additional accommodation sales and marketing expertise into our business to maximise the opportunity for this income stream.

The performance of this investment has been encouraging and as a consequence we expect accommodation to be an increasingly important component of our investment plans. In future, we expect to open between 5–10 lodges per annum and we have clear visibility on sites for 2017 and 2018.

Development of Premium rooms

In our Premium business we operate around 120 rooms out of 10 pubs, all of which have been transferred from the Destination pub estate. These have a typical room rate of £90–£120 per night and offer a premium boutique room experience. We continue to review the existing pub estate to identify additional opportunities to develop premium rooms in future.

Number of rooms

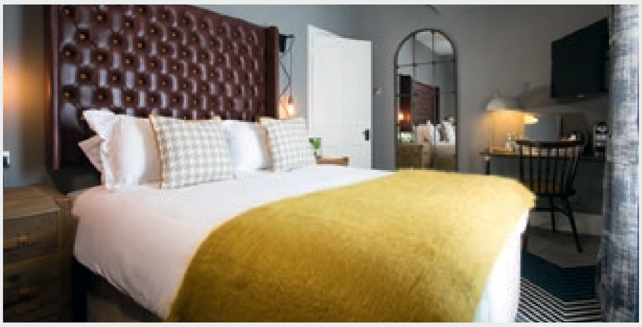
	2016	2015
Lodges	**371**	209
Other Destination pubs	**418**	421
Premium	**124**	127
Taverns	**40**	40

The Place to Be…

For our people

The investment within the Marston's Inns estate, and future growth plans, enables us to enhance the guest journey. Our teams, used to working in a pub environment, have the opportunity to upskill, by developing the skills required to manage the 24-hours-a-day business of an inn. Managers and their teams will also benefit from enhancing their knowledge and expertise.

The Place to Be…



For our customers

Marston's Inns have invested in the most important element of any stay away from home: the bed! Through our partnership with Hypnos, our estate will be updated with a carefully crafted Hypnos bed, created specially for our Marston's Inns guests, with the flexibility to vary bed configurations to suit different room requirements. Hypnos beds use a blend of natural and sustainable fillings, whilst being 100% recyclable.

Our Strategy continued

Offering the best consumer experience: quality, service, value and innovation

4

Strategic priority	Our KPIs
Providing a premium experience in an informal setting at any time of the day and ensuring our offer remains attractive to customers.	• Number of main meals served • Like-for-like sales versus market • Employee engagement and enablement More on page 19

2016 update

Quality of food and drink

Given the pace of change and competitive nature of our industry we prioritise quality and target a food offer with broad demographic appeal. Our food quality scores improved in 2016, underpinned by consistent food and service brand values. Traditional favourites such as fish and chips are staple pub classics on our menus, although we continue to develop and evolve our food offers, introducing new tastes and flavours to maintain our reputation for innovation and keep ahead of the competition.

As outlined on page 12, the Revere business acts as an 'innovation-hotbed' where we trial new food styles and concepts that can then be extended to the broader pub estate. Pizza is a good example and in 2016 we continued the rollout of Pizza Kitchen offering fabulous fresh-made pizza with 'theatre', which now operates in 70 pubs. Similarly, we have introduced 'smoke-house food' and 'better-burger' concepts in our Generous George pubs following successful trials in the Revere business.

We are also well placed to benefit from current trends in beer, wines, spirits and non-alcoholic drinks. Growth in premium drinks continues, with strong consumer interest in new brands and styles, particularly in craft beer, spirits and non-alcoholic drinks. Premium beers account for over 70% of beer sold, we sell 16 million glasses of wine and five million cups of coffee a year, with soft drinks accounting for 15% of total drinks volume. In our Revere pubs, cocktails account for 12% of drinks sales reflecting the premium nature of the experience, and we have enhanced our cocktail offer in both our Destination and Taverns pubs to capitalise on this growing area of the market.

Non-alcoholic drinks are becoming an increasingly important part of our offer, particularly for younger customers. This year we have introduced more premium branded soft drinks and are also developing freshly prepared drinks such as mocktails, milkshakes and smoothies.

We benefit from having a market-leading beer business. Our pub and beer teams work closely together to ensure our pubs have the best beer range locally, underpinned through initiatives such as 'Masters of Cask' in our Taverns pubs, and supported by our own beer quality specialists visiting pubs to help ensure the beer served in our own pubs and those of our customers is of the highest quality.

Service

We believe that there is a direct link between relative market performance and service. As such, we are focused on ensuring we offer our customers the highest level of service. We measure service at pub level using a combination of both internal and external measures, and data from InMoment suggests that we have consistently outperformed the hospitality sector over the last two years.

In order to maintain this differential, we have introduced an internally developed social media listening tool this year which provides our pub managers with the ability to quickly respond to any customer feedback. Looking forward, we are in the process of investing significantly in high speed broadband and state of the art EPOS equipment (to be completed in 2017) which will provide us with better customer information and contribute further to improved service.

Value

Value for money is a key element of our offer. Importantly, value does not necessarily mean the cheapest – customers are prepared to pay for a quality experience. We do not seek to be the lowest priced offer locally but to be perceived as offering great value for money. Similarly, we do not participate in significant voucher activity, believing a consistent offer based upon everyday value is important to our customers.

The Place to Be…

For our customers

The Generous George menu was given a significant overhaul during 2016, resulting in a new format and focus on great pizzas and legendary burgers illustrated by great photography. Our customers love the look of the new menu and the featured burgers jumped straight into the top 10 dishes sold. Customer satisfaction remains extremely strong; food quality scores are the highest they have ever been and our customers are more likely than ever to recommend us to other people.

Leadership in the UK beer market

5

Strategic priority	Our KPIs
To provide a portfolio of market-leading brands to meet consumer demand for local provenance and taste, focused on the growth segments of the market.	• Market share of premium cask ale • Market share of premium bottled ale More on page 19

2016 update

The UK beer market is evolving with consumers seeking a wider choice of beers with local provenance and taste, including craft beers. The off-trade continues to grow, with the strongest growth in the premium bottled ale segment and the Craft Beer category.

Our established strategy is well positioned to benefit from these trends. We have a wide portfolio of beers from our own five breweries, a national distribution network and a local approach to beer brand management. Around 1 in 4 premium bottled ales and 1 in 5 premium cask ales in the UK are Marston's brands and Premium ales now account for around 70% of sales with the mix of sales to the off-trade being around 54%.

Category leadership

Our position as category leaders has been recognised across the industry, most recently by being awarded the Publican National Cask Ale Supplier of the Year for the third year in succession. Our own annual publications, the Cask Ale Report and Premium Bottled Ale Report, continue to be highly valued by both our on-trade and off-trade customers, for insight into current and future market trends.

Brands and innovation

Our largest brand, Hobgoblin, continues to grow, with total brand volumes of around 130,000 barrels. The introduction of Hobgoblin Gold has proved extremely successful, with volumes now at 30,000 barrels since its launch in 2014. The brand is the most followed beer brand on social media, and in a recent YouGov survey, Hobgoblin was voted the third most recognised beer brand in the UK, only sitting behind two global beer brands. It remains after nine years the 'unofficial Beer of Halloween'.

We will be energising the Marston's brand in 2017, including the iconic Pedigree, to capitalise on its growing appeal to younger consumers. This campaign will include a redesign of pump clips and bottles, together with an urban marketing campaign under the banner 'From Burton with Love'.

Following the Thwaites' acquisition in 2015, it has been successfully integrated into the wider beer business and the anticipated synergies realised. The Wainwright brand has performed strongly since acquisition and we have repositioned the branding resulting in significant growth.

Innovation is key to maintaining our competitive advantage. During the year, we invested in the DE14 microbrewery in Burton, enabling us to test new and innovative beer styles to introduce into the market in the future.

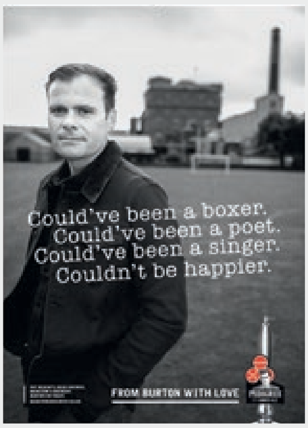
Collaboration

Alongside our own beers and ales, collaboration brands also form an integral part of our strategy. Within our portfolio, we have the UK licences for the Shipyard, Warsteiner and Krušovice beer brands and for Kingstone Press Cider in the growing cider category. All have performed extremely well in the year, and of particular note, Shipyard is now the second most popular craft beer in the UK. We anticipate increasing the number of these partnerships in the future.

Growing the business through partnerships and investment

We also have a highly experienced and talented brewing and logistics team, who ensure that we are operating at optimal cost efficiency. In addition, we undertake extensive contract services work on behalf of a broad range of competitors who also recognise the benefits of working in partnership with us. In 2016 we invested in additional warehousing at the Marston's Brewery in Burton in response to the growth in our own brands as well as the needs of our expanding contract business.

The Place to Be…



For our customers

Looking ahead to 2017, Marston's beers have been given a striking new look with the aim of attracting a new generation of drinkers. At the heart of the new campaign is Marston's Burton heritage: the spiritual home of UK brewing. The new Marston's brand is '100% Burton': rooted in its past but with a keen eye on the future. The range includes the iconic Marston's Pedigree and the newly created 61 Deep.

Our Strategy continued

Ensuring people are at the heart of our business

6

Strategic priority	Our KPIs
If our people feel good and enjoy what they do, our customers will feel the benefits, enjoying and buying more of our products more frequently.	• Employee engagement and enablement • Like-for-like sales versus market • Number of main meals served More on page 19

2016 update

Marston's employs around 14,000 people and, although many businesses claim that 'people are our most important asset', it is truly the case that nothing makes a bigger difference to our business than our people.

We want Marston's to be 'The Place to Be' for our employees as well as our customers. Following recruitment of a new People Director last year we have continued to invest in our People Support team, with senior appointments in Talent Development and Internal Communications. We have reviewed and reinvigorated our approach to ways of working, aiming to modernise and build on the excellent values and culture which the business has developed over many years. There are three key components to our People Strategy:

Recruit the best people

Differentiation is essential in our industry and we recognise that the way our people think, feel and act will make Marston's stand out. As such, we aim to recruit, retain and develop the very best people, those who can truly deliver best practice, bring fresh thinking and have the passion and drive to help our business go from strength to strength.

Investment in training and development

We have a strong, caring and collegiate culture at Marston's. Our people are trusted and empowered to play their part in exceeding our customers' expectations and in turn we support the development of their skills and careers in partnership. We are committed to training: this year 1 in 4 employees received formal training, encompassing pub, brewing and finance related courses, degree courses and training with the Wine & Spirit Education Trust and Chartered Institute of Management. Around 50% of our people are below the age of 25 and we have completed around 1,500 apprenticeships in the last four years.

Engaged and empowered workforce

People come first at Marston's – making people feel good is what we're all about, whether that's our team, our customers, or our suppliers. By keeping people at the heart of the business we ensure they are engaged and loyal in all they do. We act as one team, we are proud of our heritage and are always striving for success. The results of the 2016 engagement survey have been extremely encouraging with an employee engagement score of 76%, which is 9% above the UK average and 2% above the UK High Performers. In addition, our internal magazine 'The Place' won the best new internal communication at the 2016 Institute of Internal Communications Awards.

The Place to Be…

For our people

When opening or refurbishing a site, it is essential that we set our teams up for success – giving them the confidence and skills to be the best that they can be and to deliver an outstanding experience for the customer. Each of our new-build and refurbishment sites receives dedicated support and a bespoke training programme, for both front and back of house teams, enabling them to consistently delight their customers and make Marston's 'The Place to Be'.

Over the last year, we have delivered 1,125 days of training and development for these sites.

The Place to Be…

For our people

We have developed new channels to improve how we communicate with our people. We launched an all-employee print magazine: The Place, which is delivered to every Marston's pub, brewery, depot and office. For our more remote and younger employees, we also developed an app version of the magazine, with extra audio and video content. These new channels, combined with existing means of communicating: intranet sites, email announcements and digital screens, are enabling us to communicate and engage with our people more frequently than ever before.

Our future plans

- Building at least 20 new-build pub-restaurants, three Revere bars and at least five lodges.
- Constant evolution of our offer:
  - Using our Pub of the Future insight from our Pub of the Future project, we take the best ideas and build them into our pub portfolio in order to broaden the appeal of our pubs to younger generations. Some of the ideas that we are trialling include an interactive table, community board and digital signage boards. New Autumn menus feature more international dishes as well as an increased focus on sharing dishes and street food for a less formal eating occasion. Our broader range of craft beers and increased focus on cocktails in relevant pubs all have a younger drinker in mind with team training to ensure a high quality experience in every pub.

    Forthcoming pub refurbishments will feature additional ideas that were borne out of the Pub of the Future project.
  - Through developing clear and differentiated fame points for each of the formats within our strong and balanced portfolio. Keeping the pub at the heart of our business, we seek to engage customers at an emotional level through a constantly improving menu and innovation to wow at the table. Examples include the American-style smokehouse offer in Generous George, the range of new dishes incorporating the rotisserie chicken product, app-based 'specials' menu changing frequently and tailored to each pub, a more independent look and feel for our more unique county pubs and the range of sharing dishes for our more drinks-led occasion formats.
- In-pub technology – we are focused on utilising technology to improve both customer experience and job satisfaction, for our pub team members. Over the next 12 months we will be:
  - Upgrading pub broadband speeds and Wi-Fi quality.
  - Introducing a new EPOS system which will provide faster ordering and payment processes.
  - Making it easier for our pubs to report faults and our Head Office teams to fix them.
- Continuing our focus on premium and craft beer to drive further growth. More information on the rebranding of our Marston's beers is on page 15 and details of our new microbrewery are included on this page.
- Our newly appointed compliance officer, as required by The Pubs Code, will need to verify our compliance with the regulations covering our relationship with our franchisees, tenants and lessees. We will be required to submit a compliance report to the Adjudicator each year and the first report will cover the financial year ending 30 September 2017. Prior to submission, the report needs to be approved by the Chairman of our Audit Committee and a summary of the report will be included in next year's Annual Report and Accounts.

Current trading and outlook

Trading in the current financial year is in line with our plans, our new site development is on track, and there have been no material changes to market conditions that would impact upon our expectations for the full year.

Accepting there are wider concerns regarding the possible impact of Brexit on consumer sentiment and input costs as a consequence of sterling weakness since the vote; to date there has been no discernible change in the spending habits of our customers, and we have forward contracts in place for 2017 and much of 2018 which will mitigate the risk of higher input costs due to exchange rate fluctuation. We have planned for modest increases in business rates in 2017, but are protected from more significant increases by our low exposure on the high street and in city centres. Non-cash pension interest costs will increase by £1.4 million this year as a consequence of the impact of falling gilt yields on pension deficits.

In summary, we are well placed to continue our track record of growth and to make further progress against our key financial objectives.

Ralph Findlay
Chief Executive Officer

The Place to Be…

For the future

Taking the name from our Burton brewery's postcode, DE14 is our recently commissioned microbrewery in the Visitor's Centre at Marston's Brewery. With a brew length of just 600 pints per brew it will be an innovation hub, where our brewers will have free rein to create spectacular new beers. Each member of the brewing team will have the opportunity to test their ideas on DE14, as well as collaborating with other brewers. These small-batch beers will initially feature in pubs local to Burton and later at festivals and events across the country.

Our Key Performance Indicators

We have a range of financial and non-financial KPIs to help us stay focused on our strategy and align remuneration to performance.

Our Strategy on page 11
Our Principal Risks on page 22
Directors' Remuneration Report on page 47

Financial KPIs

Average profit per pub

Why we have chosen this KPI

A measure of our success in creating quality pubs that match customers' needs.

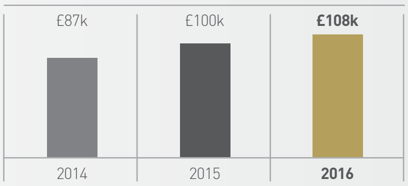
How it links to Strategy, Risk and Remuneration

Pillars 1, 2 and 3

Risk 2 (regulatory)

Annual bonus measure – Group profit

Progress



CROCCE

Why we have chosen this KPI

A key driver of shareholder value and reflects progress made on investments,disposals and profitability of our core estate.

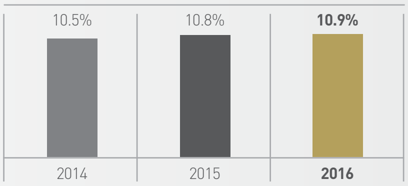
How it links to Strategy, Risk and Remuneration

Pillars 2 and 3

Risk 1 (continuity) and 2 (regulatory)

Annual bonus & LTIP measure

Progress



Free cash flow (FCF)

Why we have chosen this KPI

A measure of cash generated and available to reinvest in the business, return to shareholders in the form of dividend or repay debt.

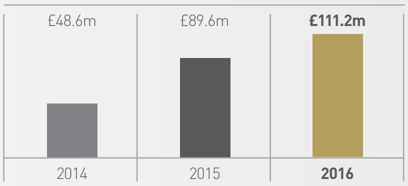
How it links to Strategy, Risk and Remuneration

Pillars 2 and 3

Risk 1 (continuity), 2 (regulatory) and 6 (financial covenants)

LTIP measure

Progress



Underlying earnings per share (EPS)

Why we have chosen this KPI

A widely-used profitability and valuation measure.

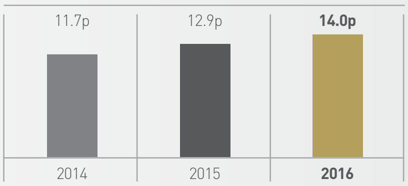
How it links to Strategy, Risk and Remuneration

Pillars 2 and 3

Risk 1 (continuity) and 2 (regulatory)

Forms part of LTIP measure – relative TSR

Progress



Non-financial KPIs

New-build pub-restaurants and lodges completed

Why we have chosen this KPI

The programme is a key driver of profit and returns growth within our business. Our plan is to open at least 20 pubs and bars and at least five lodges per annum.

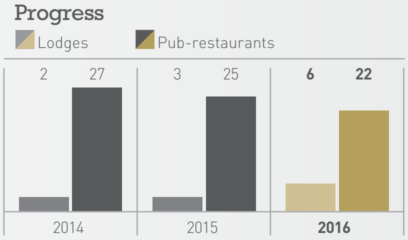
How it links to Strategy, Risk and Remuneration

Pillars 2 and 3

Risk 2 (regulatory),3 (health and safety), 4 (IT) and 6 (financial covenants)

Impacts bonus measure of Group profit

Progress



Like-for-like sales versus market (Destination and Premium)

Why we have chosen this KPI

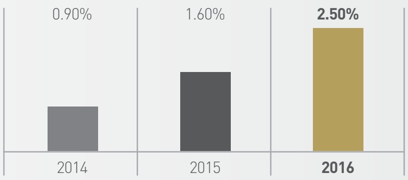
Our aim is to make Marston's 'The Place to Be' and the best way to measure this is to compare our like-for-like sales performance against the market (based on the Coffer Peach Business Tracker).

How it links to Strategy, Risk and Remuneration

Pillars 1, 3, 4 and 6

Risk 4 (IT) and 5 (staff and licensees)

Progress



Number of main meals served

Why we have chosen this KPI

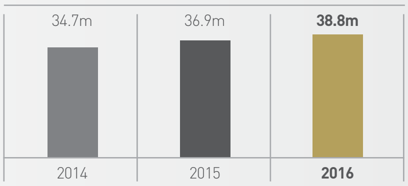
A key volume indicator of growth in food sales, it provides the foundation from which increased spend per head can be achieved through starters, desserts and coffee.

How it links to Strategy, Risk and Remuneration

Pillars 1, 4 and 6

Risk 2 (regulatory), 3 (health and safety) 4 (IT) and 5 (staff and licensees)

Progress



Market share of premium ale

Why we have chosen this KPI

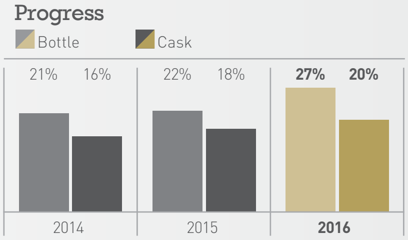
We seek to maintain our lead in the premium cask and bottled ale market through innovation, quality and range of beers. This measure allows us to compare our relative performance to competitors.

How it links to Strategy, Risk and Remuneration

Pillar 5

Risk 2 (regulatory), 3 (health and safety)

Progress



Employee engagement and enablement

Why we have chosen this KPI

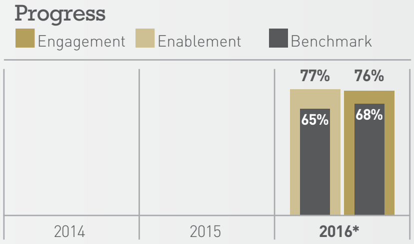
We believe that engagement and enablement are inextricably linked and essential to our ongoing success. If our employees are engaged with us and our strategy and enabled to contribute and deliver, this will result in a positive work environment, great customer service and improved business performance.

How it links to Strategy, Risk and Remuneration

Pillars 1, 4 and 6

Risk 3 (health and safety), 5 (staff and licensees)

Progress



* In Spring 2016 we undertook an improved employee survey process, measuring both engagement and enablement across our business. Due to the fact that this process is significantly different to past survey data, we are not able to provide any direct like-for-like comparisons, however, this year we have included data for the 'UK Norm' from the Korn Ferry Hay Group Engagement Survey, to provide a comparison. In future, employee surveys will form part of our annual programme, allowing comparisons to be included from 2016 onwards.

Our Risks and Risk Management

Key actions in 2016

- Risk & Compliance Committee formed.
- Improved protection of personal data.
- Internal audit strategy approved.

Next steps for 2017

- Strengthening our cyber protection monitoring.
- Mapping our personal data.
- Development of our crisis plans.
- Improving staff awareness of our whistleblowing procedure.

Internal controls

The Board is responsible for the Group's systems of internal control and risk management and for reviewing their effectiveness. The extent of management reporting to the Board is sufficient for the Board to assess their risk appetite in the context of the risks and opportunities at any point in time. This allows the Board to make reasonable decisions enabling the Group to accomplish its strategic objectives and make Marston's 'The Place to Be'.

The Board has performed a robust assessment of the principal risks faced by the Group in achieving its strategic objectives. The management and mitigation of risk is delegated to the Executive Directors and other senior management.

The Executive Committee is chaired by the Chief Executive Officer, and is responsible for the implementation of strategy, monitoring performance and overseeing risk management and internal control. Actions required are communicated to the senior managers across the Group.

Each operating division of the Group (MIT/MBC) has a management committee which meets regularly to consider: the actions required for Marston's to achieve its business objectives (supported by Our Ways of Working) taking into account all risks and opportunities, and whether any improvements in controls are required.

Management are responsible for monitoring and reporting upon the effectiveness of the controls to the Board. The managers' assessment of the effectiveness of the key business controls is facilitated by Internal Audit and considered by the Board annually.

The key features of the internal control system are:

- a clearly defined management structure operating within a framework of policies and procedures covering authority levels, responsibilities and accountabilities;
- a detailed formal budgeting process for all Group activities, with the annual Group budget and projections for future years being formally approved by the Board;
- established procedures for planning, approving and monitoring capital expenditure and major projects;
- Board approval is needed for all major investment, divestment and strategic plans and programmes; and
- at each meeting the Board reviews financial and non-financial progress towards the Group's goals.

Control systems are designed to manage rather than eliminate risk. By their nature, such systems provide only a reasonable and not absolute defence against material errors, losses, fraud or breaches of the law.

Risk management

The Corporate Risk Director operates an enterprise-wide risk management process in order to identify, monitor and report those risks which are key to achieving the strategic objectives. The key risks and controls, and their ownership, are documented. The effectiveness of the controls at reducing risk to an acceptable level is considered and reported to the Audit Committee.

Risk appetite

The Board have a clear understanding of the key risks which Marston's faces, which is based upon the executive management's understanding of those risks and the effectiveness of the controls operated to manage them. This understanding instructs the Board's appetite for risk and influences the strategy set by the Group in order to meet the aims of its six strategic pillars. The Board regularly discuss internal and external factors which have a bearing on their appetite for risk. The Audit Committee seeks assurance that risk is controlled within tolerance limits. The executive management are tasked with producing reports which provide sufficient information for the Board to continually assess its risk appetite.

Risk documentation and assessment

Marston's has developed a portal on which to register all the key risks of the business. Each risk is attributed to an owner within the business who has visibility at all times of the current assessment of the risk. The portal allows risks to be grouped and categorised so they are visible at appropriate management levels within the business. Key controls and actions are attributed to risks and business owners. The register of risks on the portal is essential to the enterprise-wide risk management process at Marston's, allowing the complete range of risks to be captured, from high impact corporate risks to more local site specific risks. The flexibility of reports from the portal is able to keep pace with changes to risk and organisational changes.

The assessment of the principal risks and uncertainties is a continual process by senior management. The registration of these risks is made within the portal alongside the other key risks of the business. The selection of the principal risks is conducted by the executive management and the Board, with the assistance of the Corporate Risk Director. The principal risks are reported to the Board and the Audit Committee for consideration.

The Leadership Group (chaired by the Chief Executive Officer)

The Leadership Group comprises the senior management team and provides a group perspective on areas of key importance, including:

- Financial performance
- Policies and practices
- Group Services
- Corporate culture and values

The Leadership Group provides a forum at a senior level, for the consideration of the key risks to the business, the control environment and the internal audit plan.

Supporting Committees

Marston's operates a number of supporting committees within its governance framework in order to focus attention on particular areas of risk requiring senior management attention.

Risk & Compliance Committee (chaired by the Group Secretary)

The Committee is attended by a broad range of senior managers who are best placed to understand the changing risk environment within which Marston's operates, including the Corporate Risk Director and Head of Internal Audit. The Committee considers key corporate risks as well as emerging risks. Aspects of legal compliance are considered by the Committee particularly when legislation is emerging or now in operation such as The Pubs Code. This ensures that senior management is more widely aware of the impact of emerging risks or new areas of compliance, and thereby can develop, or update, processes that meet those obligations within the required timeframe. Executive management are informed when necessary on areas of risk and compliance by the Committee members. The Committee reports to the Board to inform their assessment of risk.

Data Security Committee (chaired by the Group Secretary)

The increased threat of data theft is recognised as a key risk by Marston's. The Group has policies and practices in place in order to provide a high level of protection regarding data. The protection of the personal data of our customers, employees and the public is treated as a priority. Our data held internally is protected by a firewall and there are policies on IT usage which provide a robust framework of controls. The operation of these controls is tested by external penetration testing, annual PCI compliance accreditation, and specific cyber risk tests conducted by security experts.

The Data Security Committee is attended by relevant managers from across the business that have knowledge of the sensitivity of the data held, the controls protecting the data and Marston's legal obligations. Data protection is an increasing risk because of a variety of factors. Cyber attacks on UK corporates are on the increase; in a technology driven world the amount of personal data stored by companies is increasing, as are the legal obligations in preparation for the General Data Protection Regulation to be applied from 2018.

Business Continuity Steering Committee (chaired by the Corporate Risk Director)

The continuous operations of the Group are essential for the strategic pillars to be achieved. Marston's operations are heavily reliant upon its IT network and it is essential that the Group has effective contingency plans were the network to be impeded. The service of our customers is also reliant upon the continual supply of goods and services from our suppliers.

The Business Continuity Steering Committee considers the resilience of the Group to dealing with disruption. Contingency plans are collected from across the business and stored on our portal; they are subject to a periodic review co-ordinated by the Committee. The business impacts of disruption are considered with managers in order to guide our crisis planning. Our sites rehearse their response to incidents and emergency communication across the Group. The contingency plans of our key suppliers are also collected and assessed.

In recent years Marston's has shown a high degree of resilience to external events which have not been allowed to disrupt operations. These include a flood at Cockermouth brewery in December 2015, and a shortage of CO_2 gas in the UK during 2015 which required us to quickly adapt our production process to switch our reliance upon this gas.

Internal Audit

The Internal Audit function is managed by the Corporate Risk Director and is independent of the operational functions of the Group. The internal audit strategy is risk based, so it focuses its attention upon the greatest risks to the Group. The strategy is approved by the Audit Committee and aims to provide a sufficient level of assurance regarding the strength of the control environment as well as supporting continual improvement in risk management.

The Corporate Risk Director has a reporting line to the Group Secretary who sits on the Executive Committee. In addition, the Corporate Risk Director has access to all the Executive Committee members and meets regularly with the Audit Committee Chairman throughout the year.

The internal audit projects are planned with the assistance of senior management and the Risk & Compliance Committee, and the results are reported to the Audit Committee. Internal Audit also monitors legal compliance, pub financial controls and health and safety practices on a continual basis.

Our Principal Risks and Uncertainties

The following risks are, in the opinion of the Board, the principal risks which affect Marston's and are not listed in any particular order of priority. It is not intended to be a complete analysis of all risks and may change over time.

Risk context	The risk	Potential impact	Strategic pillars affected	Mitigation
1 Business continuity Marston's receives many of its supplies of goods and services from single sources.	Disruption to key suppliers (logistics, food, drink), or shortage of essential commodities could significantly impact Marston's operations.	Disruption to trade impacting upon profit.	1, 4, 5	• Assessment of suppliers' resilience and capacity during the tender process before appointment. • Periodic supplier site visits to assess crisis planning. • Contingency planning to switch products or services supplied.
Movement ↑ External events can be disruptive and require an effective response. In 2015 Marston's was able to adapt quickly to a shortage of CO_2 gas with minimum impact on production.				
2 Regulatory Marston's operates across heavily regulated areas – alcohol licensing, food service, alcohol production, transport, property development and property management.	Changes in regulation impacting upon the cost of business, or obstructing growth.	Increased regulation affecting Marston's directly, or our suppliers, could increase the cost of compliance and/or damage our reputation	1, 4, 2, 5, 3, 6	• Maintain excellent levels of compliance through training and monitoring. • Robust health and safety management systems. • Active consultation with Government, trade bodies and the BBPA. • Risk and Compliance Committee monitors proposed legislative changes and structures operations accordingly to minimise impact where possible.
Movement ↑ The Pubs Code introduced in 2016 has increased the legislative requirements for large pub companies such as Marston's when dealing with franchisees, tenants and lessees. The Government announced that the National Living Wage would increase to £9.00 per hour by 2020. Future increases in the National Minimum Wage or National Living Wage above inflation could continue beyond 2020.				
3 Health and safety, including food hygiene	Breaches of health and safety or food hygiene regulations have in recent years attracted media attention and higher penalties for corporates.	Significant damage to reputation and ultimately the value of the Group could follow from a serious breach of the law.	1, 4, 2, 5, 3, 6	• Health and safety management systems. • Dedicated health and safety managers. • Continual documented inspections. • Well understood policies and procedures. • Training of staff. • Regular audits. • Escalation of potential threats to safety to senior management.
Movement ↑ The increased diversity of our estate, the range of pub formats and the continued development of our menus can all increase the challenge of maintaining high standards of safety. Recent trends in accident rates have shown a decrease, however the challenges posed by working in busy and evolving environments are continually changing.				
4 Information Technology Marston's has a heavy reliance upon IT networks to operate efficiently, process transactions and report on results.	Network outage. Loss, theft or corruption of data. Denial of service.	Reduction in the effectiveness of operations, business interruption and loss of profit. Regulatory fine as a result of the loss of data.	1, 4, 2, 5, 3	• Anti-virus and firewall protection. • Access control, password protection and IT policy adherence. • Network controls and monitoring. • Penetration testing and remediation. • Backup procedures. • Data recovery plans and rehearsals.
Movement ↑ Global cyber risk threat remains and it is recognised that this risk will continue to evolve. Theft of personal data is more common. Marston's has conducted penetration testing on its network for many years. Specific cyber risk reviews and internal audits have been conducted in recent years on IT governance, the protection of personal data by a team independent of our IT department, security of mobile phones and network attack monitoring.				

Our six strategic pillars are:

1. **Operating a high quality pub estate**
2. **Targeting pub growth: investing in pub-restaurants and Premium pubs, further developing Franchise**
3. **Increased investment in rooms**
4. **Offering the best consumer experience: quality, service, value and innovation**
5. **Leadership in the beer market**
6. **Ensuring people are at the heart of our business**

Risk context	The risk	Potential impact	Strategic pillars affected	Mitigation
5 Our staff and licensees Increased demand for high calibre people. Marston's operates in a very competitive environment; the achievement of its strategic objectives has a heavy reliance upon the quality of its managers.	Failure to attract or retain the best people.	Financial targets and strategic objectives are not met.	2 4 6	• Training and induction programmes. • Development of our Ways of Working. • Staff appraisals and development programmes. • Staff engagement survey and identifying action points for teams. • Flexible agreements with our tenants and franchisees.

Movement

The sustained growth in our business has allowed for improvements in training programmes, and given more opportunity for staff to progress.

The opening of our newly refurbished head office early in 2016 has provided an exciting and engaging environment, encouraging creativity amongst our staff and interaction between teams.

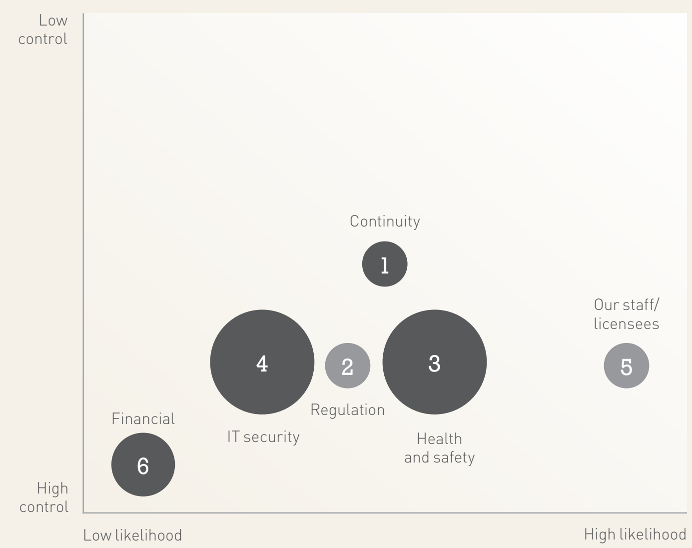
Risk context	The risk	Potential impact	Strategic pillars affected	Mitigation
6 Financial covenants, pension fund deficit and accounting controls The Group's financial system has to handle a large number of transactions securely. Accurate reporting of financial results is key to running the business effectively and critically important for compliance with financial covenants.	Breach of financial covenants with our lenders. Inadequate funding of the pension scheme. Incorrect reporting of financial results. Unauthorised transactions.	Loss of investor confidence, and reputational damage. Potential loss as a result of fraud. Breach of covenant, resulting in additional financial operating restrictions.	1 2 3 5	• Detailed management accounts, budgets and forecasts. • Constant monitoring of financial ratios. • Internal audit programme. • Annual external audit. • Extensive segregation of duties. • Access controls over the financial systems accurately aligned with responsibilities. • Levels of authority appropriately authorised. • Monitoring pension investment yields, increasing contributions to the pension deficit (based upon actuarial reports) in order to clear the deficit within a reasonable timeframe.

Movement

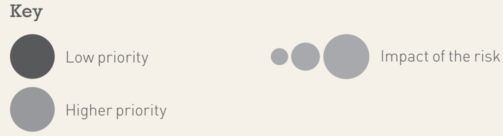
There are strong controls mitigating this risk to a low level. There has been no change in the risk since last year.

Risk likelihood, control and impact

Post mitigation



Key



The Risk number corresponds to the Principal Risks.

The general profile of our highest risks is one of rising likelihood. This includes high impact risks such as IT security and health and safety. All of the principal risks are however still considered to be well controlled despite the upward pressure.

Group Operating and Financial Review

- **Underlying profit before tax up 7.1% to £98.0 million**
- **Operating cash flow increased 12.6% to £182.8 million**
- **Fixed charge cover improved by 0.1 times to 2.6 times demonstrating our increased balance sheet strength.**

Andrew Andrea
Chief Financial and Corporate Development Officer

	Underlying revenue		Underlying operating profit		Margin	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 %**	2015 %
Destination and Premium	**440.8**	408.1	**90.2**	83.6	**20.5**	20.5
Taverns	**221.0**	214.7	**56.0**	55.9	**25.3**	26.0
Leased	**50.7**	53.6	**24.2**	23.8	**47.7**	44.4
Brewing	**193.3**	169.1	**23.2**	20.7	**12.0**	12.2
Group Services	**–**	–	**(20.9)**	(18.6)	**(2.3)**	(2.2)
Group	**905.8**	**845.5**	**172.7**	**165.4**	**19.1**	**19.6**

Group

Total underlying revenue increased by 7.1% from 2015 reflecting like-for-like growth in our pubs, the positive impact of new openings, growth in our beer brands and the acquisition of Thwaites' beer business.

As previously highlighted, our operating margin was 0.5% below last year reflecting lower margins in Brewing as a result of the contract to supply Thwaites' pubs and the continued impact of franchise conversion within Taverns. In Destination and Premium operating margins were in line with last year, despite the introduction of the National Living Wage in April 2016.

Underlying operating profit of £172.7 million (2015: £165.4 million) was up 4.4% with profit growth in each of our trading segments.

Underlying profit before tax was up 7.1% to £98.0 million (2015: £91.5 million) principally reflecting the contribution from new pub-restaurants and a strong performance from Brewing. Basic underlying earnings per share for the period increased by 8.5% to 14.0 pence per share (2015: 12.9 pence per share).

On a statutory basis profit before tax was £80.8 million (2015: £31.3 million) and earnings per share were 12.7 pence per share (2015: 4.1 pence per share).

Operating cash flow continued to improve, increasing 12.6% to £182.8 million, principally driven by higher profits and a reduced level of pension contribution. Our fixed charge cover has again improved by 0.1 times to 2.6 times, demonstrating our increased balance sheet strength.

Cash return on cash capital employed improved to 10.9% (2015: 10.8%) reflecting the positive contribution of the new-build pub-restaurants and the disposal of non-core pubs. This represents a 1.4% improvement in returns since 2009. We remain focused on improving returns and are confident that the implementation of our strategy will continue to increase returns over time.

Central costs in the period were £2.3 million higher than last year, reflecting higher IT depreciation, head office rental costs, and increased investment in our people team.

Destination and Premium

Overview: Larger food-led managed pubs, premium bars and restaurants, accommodation
Key brands: Marston's Two for One, Generous George, Milestone Rotisserie, Milestone Carvery, Pitcher & Piano, Revere
Typical customers: Value seekers or those looking for a premium experience

Key facts 2016

416
pubs and bars
(2015: 397)

11,067
employees

448,000
average pints sold per week

£90.2m
operating profit representing 52% of underlying Group operating profit

Our medium-term strategy

Focus
- Estate development: high quality national estate
- Offers a range of trading formats, brands and rooms
- Consumer focus on value for money

Objectives
- 500 sites by 2019
- Continue to develop principal brands and formats
- Continue to improve service and standards through investment in our pubs and our people

Progress
- Over 150 pub-restaurants opened since 2009
- Food sales make up 58% of sales in Destination
- Like-for-like sales and margin growth in last five years

2016 performance
Total revenue increased 8.0% to £440.8 million reflecting the continued strong performance of our new-build pub-restaurants and growth in like-for-like sales. Underlying operating profit of £90.2 million was up 7.9% (2015: £83.6 million). Average profit per pub increased to £223k, up 2%.

Total like-for-like sales were 2.3% above last year, with like-for-like food sales up by 1.7%, assisted by strong growth in sales of starters, desserts and coffee. In addition, like-for-like room income was up 15.8%. In Destination pubs, food now accounts for 58% of total sales (2015: 57%) and in Premium pubs and bars food is 29% of sales (2015: 28%).

Like-for-like wet sales increased by 2.3%, outperforming the declining UK on-trade drinks market. We continue to see growth in more premium products, with own-brewed premium ale volumes up 2%, premium lager up 17% and wine up 4%.

Operating margins were in line with last year.

Priorities for 2016/17
- Targeting 20 new pub-restaurants, three Premium bars and between 5–10 lodges per annum
- Maintain value offers
- Expand Premium pubs

Group Operating and Financial Review continued

Taverns

Overview: Community pub estate of smaller managed, franchised and tenanted pubs
Key brands: A licensee who connects with their community and knows their customers
Typical customers: Those wanting to drink, socialise and be entertained

Key facts 2016

812
pubs and bars
(2015: 859)

1,347
employees

1.2m
average pints sold per week

£56.0m
operating profit representing 32% of underlying Group operating profit

Our medium-term strategy

Focus

- Great pubs at the heart of their local community
- Commitment to always improving customer experiences
- Offer innovation in drink, food, entertainment and design
- Agreements to suit all, low barriers to entry and working in partnership

Objectives

- Build a stable business through a balance of agreements – managed or franchised
- Outperform the marketplace – clear focus on drinks
- Target licensee stability rate at 90%

Progress

- 550 pubs managed or franchised
- Like-for-like sales growth outperforming the market
- Improvement in licensee stability ratio, now at 72%

2016 performance

Total revenue increased by 2.9% to £221.0 million, with strong franchised growth offsetting the impact of disposals. The quality of the remaining pub estate has improved significantly with average profit per pub up 10% to £67k.

In our managed and franchised pubs like-for-like sales were up 2.7% and operating profits were up 5.7% versus last year, reflecting the continued success of pubs operating under the franchise model. Operating margins are in line with last year.

Operating profit was up 0.2% to £56.0 million despite the impact of disposals, reflecting the strong performance of franchised pubs within our estate.

Operating margin was 0.7% below last year at 25.3%, primarily reflecting the impact of conversion of pubs to the franchise model.

Priorities for 2016/17

- Continuation of franchise conversions
- Build on innovation of consumer offers
- Deliver the best partner and customer experiences

Leased

Overview: Independently-run pubs
Key brands: Exceptional service and high quality offers from skilled entrepreneurs
Typical customers: Those looking for a different and individual offer

Key facts 2016

331	91%	343,000	£24.2m
pubs and bars (2015: 341)	licensee stability rate	average pints sold per week	operating profit representing 14% of underlying Group operating profit

Our medium-term strategy

Focus
- Stable estate run by high quality entrepreneurs
- Flexible agreements, purchasing power and pub experience offers support and choice

Objectives
- Target licensee stability rate of 90%
- Growth through stable relationships

Progress
- Retention rate over 90%
- Rental income growing
- Strong investment returns

2016 performance
Total revenue decreased by 5.4% to £50.7 million reflecting disposals and transfers, and underlying operating profit of £24.2 million was up 1.7% on last year. The performance of the core estate was strong with like-for-like earnings growth of 2%, including rental income growth of 2%. Average profit per pub increased by 3% to £72k and licensee stability remained stable at over 90%. Operating margin of 47.7% was up 3.3%.

Priorities for 2016/17
- Maintain targeted investment to drive growth
- Continue focus on recruitment, training and developing strong relationships

Group Operating and Financial Review continued

Brewing

Overview: Five breweries producing a wide portfolio of cask beers

Key brands: Hobgoblin, Pedigree, Wainwright, Banks's, Ringwood, Jennings, Brakspear

Typical customers: Discerning and knowledgeable drinker out-of-home (pubs, clubs and bars) and at home

Key facts 2016

5	1,155	4.3m	£23.2m
breweries (2015: 5)	employees	average pints brewed per week	operating profit representing 13% of underlying Group operating profit

Our medium-term strategy

Focus

- Three national brands: Pedigree, Hobgoblin and Wainwright
- Strengthening presence in regional markets with Banks's, Jennings, Mansfield, Ringwood and Brakspear
- Premium cask and bottled ale
- Innovation driven by relevant consumer insight

Objectives

- To be the UK's number one ale producer with category leadership in premium cask and bottle
- To develop new brands that are relevant to the current and future consumer
- Continue to drive value from authenticity and provenance from our five regional breweries

Progress

- Number one position in premium bottle and canned ale maintained and extended
- Expansion of craft portfolio with Shipyard now at number two
- Winner of 'Best National Cask Ale Supplier' for the third successive year

2016 performance

Total revenue increased by 14.3% to £193.3 million, reflecting the benefits of the Thwaites' acquisition described on page 9. Underlying operating profit increased by 12.1% to £23.2 million.

Overall ale volumes were up 13% with premium cask ale volumes up 6% and premium bottled ale volumes up 5%. Hobgoblin, our largest brand, continues to grow with sales up 13% on last year, supported by the introduction of Hobgoblin Gold. We have maintained our position as 'category market leader' in both the premium bottled ale and premium cask ale markets.

Operating margin was slightly down on last year at 12.0%, reflecting the impact of the pub supply arrangement with Thwaites which generates a positive profit contribution, albeit at a low margin percentage.

Priorities for 2016/17

- To maintain market leadership in premium cask and bottled ales
- Continue to develop new beers that are relevant to an ever changing consumer
- Complete £5 million investment in canning line

Cash flow, capital expenditure and disposals

Operating cash flow of £182.8 million was 12.6% above last year due to the improved profit performance, lower pension contributions and lower taxation payments.

Capital expenditure was £143.7 million in 2016 (2015: £142.3 million), including £65 million on the construction of 22 pubs and bars and six lodges. We expect that capital expenditure will be around £150 million in 2017, including around £70 million for the construction of at least 20 new pub-restaurants, three Revere bars and five lodges.

During the year we generated £45.9 million of cash from the disposal of assets including £30.9 million of leasing transactions.

Taxation

The underlying rate of taxation of 18.0% in 2016 is below the standard rate of corporation tax of 20% primarily due to credits in respect of deferred tax on property.

The underlying tax rate has decreased by 1.3% from 19.3% in 2015.

Following the agreement of the tax treatment of certain items with HM Revenue & Customs (HMRC), the Group has recognised a non-underlying tax credit of £4.1 million in respect of the additional tax relief claimed by the Group for previous periods, along with a non-underlying charge of £0.5 million in respect of the associated advisory fees. Following this agreement, the Group's corporation tax affairs are now agreed up to and including the year ended 4 October 2014.

In delivering its business strategy, Marston's generates significant tax revenues for the Government. During the year ended 1 October 2016, Marston's total cash tax contribution to the UK Exchequer was £399 million (2015: £379 million) in taxes borne and taxes collected on behalf of our colleagues, customers and suppliers.

Financing

At 1 October 2016 the Group had a £257.5 million bank facility to November 2018, and the amount drawn down at 1 October 2016 was £233.0 million. In addition, we have a £30 million two-year facility for the Thwaites acquisition. These facilities, together with a long-term securitisation of approximately £834 million and the lease financing arrangements described below, provides us with an appropriate level of financing headroom for the medium term. The Group has sufficient headroom on both the banking and securitisation covenants and also has flexibility to transfer pubs between the banking and securitisation groups.

The Group has entered into lease financing arrangements which have a total value of £240.1 million as at 1 October 2016 (2015: £202.2 million). This financing is a form of sale and leaseback agreement whereby the freehold reverts to the Group at the end of the term at nil cost, consistent with our preference for predominantly freehold asset tenure. The agreements range from 35 to 40 years and provide the Group with an extended debt maturity profile at attractive rates of interest. Unlike a traditional sale and leaseback, the associated liability is recognised as debt on the balance sheet due to the reversion of the freehold.

Net debt excluding lease financing of £1,029 million at 1 October 2016 is £14 million below last year. For the period ended 1 October 2016 the ratio of net debt excluding lease financing to underlying EBITDA was 4.8 times (2015: 5.1 times). It remains our intention to reduce this ratio over time, principally through EBITDA growth generated from our new-build investment programme.

Pensions

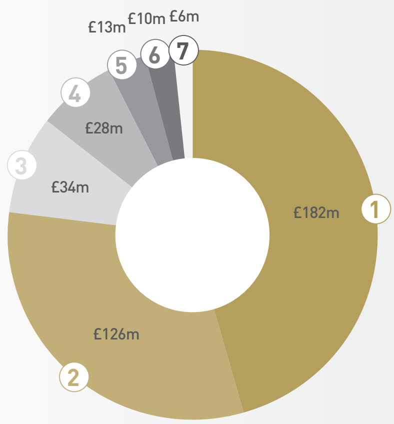
Our final salary pension scheme at the year end showed a deficit of £34.0 million before tax (2015: £15.0 million surplus). This position reflects the impact of deteriorating gilt yields on discount rate assumptions during the course of the last year.

Total tax contribution

£399m

Key

1. Duty
2. VAT
3. Employee payroll taxes
4. Business rates
5. Employer payroll taxes
6. Corporation tax
7. Other



Group Operating and Financial Review continued

Non-underlying items

There is a net non-underlying charge of £7.4 million after tax (2015: £50.5 million). This includes charges of £1.7 million relating to non-core estate disposal and reorganisation costs, £4.4 million in respect of the change in the rate assumptions used in calculating our onerous lease provisions, £3.8 million in respect of relocation, reorganisation and integration costs and £8.4 million in respect of the mark-to-market movement in the fair value of certain interest rate swaps. These are offset by the £1.5 million profit on disposal of a parcel of surplus land for residential development. The revenue of £31.5 million and expenses of £31.4 million in respect of the ongoing management of the pubs from the portfolio disposal in December 2013 have also been included within non-underlying items. Following the agreement of the tax treatment of certain items with HMRC the Group has recognised a non-underlying tax credit of £4.1 million in respect of the additional tax relief claimed by the Group for previous periods, along with a non-underlying charge of £0.5 million in respect of the associated advisory fees. In addition, there is a non-underlying deferred tax credit of £2.4 million in relation to the change in corporation tax rate and a credit of £3.3 million relating to the tax on non-underlying items.

Dividend considerations

The proposed final dividend of 4.7 pence per share provides a total dividend for the year of 7.3 pence per share, and represents a 4.3% increase on 2015. Dividend cover was 1.9 times (2015: 1.8 times).

In light of the Financial Reporting Council's recent report on disclosure in respect of dividend policy and sustainability, we have set out below the key considerations in establishing the dividend proposal.

Dividend policy – Our dividend policy remains to target consistent progressive increases in the dividend at a cover of around 2 times over the medium term. This policy has remained consistent in recent years and is annually reviewed by the Board.

Distributable profit – the parent company balance sheet (page 108) demonstrates sufficient headroom in terms of available distributable profits for both current and future delivery of dividends under the policy stated above.

Debt covenants – the Group has sufficient headroom on its financing covenants for both current and future delivery of dividends.

Viability statement – the dividend policy is underpinned by the viability statement shown on this page.

Subject to the approval at the AGM on 24 January 2017, the final dividend will be paid on 30 January 2017.

Andrew Andrea
Chief Financial and Corporate Development Officer

Viability Statement

The Directors regularly undertake an assessment of the prospects of the Group by reference to its current and historical financial performance, the current financial position, and the principal risks described earlier in the Report. In addition, the Board annually reviews the Group strategy, which incorporates five year financial projections of trading performance, cash flows and financing requirements. In recent years the Group has performed strongly, delivering growth whilst transforming both the pub and beer divisions into businesses well placed to meet future market challenges. In addition, the Group continues to have strong headroom against the financial covenants underpinning the financing structure, with improving fixed charge cover.

The Board has assessed the viability of the Group over a five-year period, which is consistent with their strategy review process. Whilst acknowledging that the principal risks all have the potential to affect future performance, with the mitigation plans in place, none of them are considered likely to threaten the viability of the business over the five-year period. Based on this review, the Directors confirm that they believe that the Group will continue to be operationally and financially viable over the five-year period.

Corporate Responsibility

A renewed approach to Corporate Responsibility (CR)

During 2016 the CR Committee reassessed its strategy to ensure it supports the Group's long-term growth and commercial objectives. The Committee also considered its future approach against a backdrop of new and emerging core trends impacting our customers and employees.

The review included a survey of key stakeholders, which in turn helped us to develop an assessment of our CR priorities that we intend to focus on in the future, seeking to undertake activity above and beyond that of the required legal compliance.

Our priorities:	Our goals:
1 We care about our customers' wellbeing	Food safety, health and safety, healthy options, responsible marketing
2 We invest in our people	Health and safety, employee engagement, training and development
3 We partner with suppliers who share our values	Ethical sourcing
4 We celebrate our local communities	Charitable support, community involvement
5 We reduce our environmental impacts	Waste segregation, water efficiency, CO_2 emissions

Over the next year, targets are to be applied to each of the goals to drive future action in the business, encouraging improvements and demonstrating our commitment to our priority areas.

Vision and strategy

Our approach to CR at Marston's is anchored in supporting long-term growth, commercial objectives and stakeholder requirements. As a result, the CR vision, strategy and goals are aligned to the Group's ambition, purpose and ways of working; while aiming to focus attention on the results of our assessment and key priorities.

The CR priorities as aligned with Marston's strategic objectives are shown below:

	Strategic objectives	CR goals
1	Operating a high quality pub estate	Health and safety, employee engagement, training and development, environmental impact.
2	Targeting pub growth: building pub-restaurants, Premium pubs and further developing Franchise	Health and safety, ethical sourcing.
3	Increased investment in rooms	Health and safety, ethical sourcing, training and development, environmental impact.
4	Offering the best consumer experience: quality, service, value and innovation	Food safety, responsible marketing of alcohol, ethical sourcing, healthy options, employee engagement, training and development.
5	Leadership in the UK beer market	Health and safety, responsible marketing of alcohol, employee engagement, training and development, charitable giving, community engagement, environmental impact.
6	Ensuring people are at the heart of our business	Health and safety, employee engagement, training and development, charitable giving, community engagement.

Corporate Responsibility continued

Bringing CR strategy to life

We care about our customers' wellbeing...

- Providing quality assurance and a range of options is essential if Marston's is to attract and retain custom. We want our customers to enjoy the experience of visiting our pubs and to be assured that we follow stringent health and safety guidelines for their protection. Marston's provides a range of new and fresh menu choices that cater for the diversity of customers' dietary preferences. Our Generous George Little Adventurers menu was voted best kids' menu at this year's Menu Innovation & Development Awards (MIDAS) for the second time.
- Other initiatives include:
  - offering wholemeal and Genius (gluten free) bread as an option for sandwiches.
  - working to reduce salt content in our products; no new lines are launched unless they achieve 2017 salt targets.
  - wherever a main meal is served with vegetables on our main menus it provides at least one of your 5-a-day.
  - Christmas menus include vegan choices.
  - dairy-free options available on our Rotisserie and Grills children's menus.
  - incorporating some of our NGCI menus into the main menu making them more accessible, (rather than being a separate menu available on request).
  - the allergy app allows customers to filter dishes that contain an allergen they wish to avoid.
  - 'Being good?' signs appear on various menus, giving consumers the option to swap sides for healthier options.
  - 500/600 calorie options are offered and highlighted – without compromising on taste!

Bringing CR strategy to life

We invest in our people...

- Marston's puts people at the heart of everything it does – we want our people to feel valued, to have a say in shaping the Group's future and to be happy at work. We know that if our people are happy our customers will have a better experience. The 2016 employee survey showed that Marston's people are both engaged with our strategy and plans, and enabled to carry out their day-to-day duties effectively (see our KPIs on pages 18 to 19). To increase employee engagement and to build on our employees' understanding and connection with our strategy, Marston's has launched a number of new employee communication channels, including 'The Place', our all-employee magazine and app, that recently won a national award from the Institute of Internal Communications.

Celebrating our Talent – Marston's Chef Competition

- Our chefs are at the heart of our pub-restaurants and bars, playing a pivotal role in delighting our customers. This year we celebrated their outstanding skills at our annual Chef Competition. Working their way through a number of heats and seeing off fierce competition, our finalists (pictured above) demonstrated their culinary skills and creativity at River Cottage HQ by producing a delicious array of dishes for our panel of judges. This year's winner was John Pate from the Brickworks in Accrington.

Building our Future – Marston's Apprenticeship Programme in practice

- Will Cork-Dove has been working in a Sales and Service position at the Penny Hedge, Whitby since May 2015. He was recruited into the role as an apprentice at 17 years old and completed his Hospitality Services Level 2 apprenticeship in August 2016. He is now Trainee Shift Lead. Support is provided throughout the apprenticeship programme by regional trainers. With over 12 months' experience in front of house operations, Will has turned his attention to learning about back of house with kitchen training underway. Will has high ambitions to move into a supervisory role and eventually become a General Manager.

Bringing CR strategy to life

We partner with suppliers who share our values…

- Marston's Ways of Working are crucial to its success and we like to collaborate with businesses who share similar values.
- Strong working relationships with our partners can lead to great things. Our work with KK Fine Foods saw our spicy Thai Edamame Bean Burger win the best meat-free/vegetarian product at this year's British Frozen Food Federation Awards. The burger – a tasty mix of carrot, red onion, edamame beans, choy sum, red jalapenos, radishes and Sriracha spices – was created for our Autumn/Winter 2015 Rotisserie and Grill menus. With each menu change we are growing our vegetarian offering and KK Fine Foods is known for its innovation and as a passionate creator of new dishes. The development team are shown above.

- Marston's robust tendering process looks at company management, locations of production facilities, finances, codes of ethics, and accreditations. One of Marston's key suppliers, Leisure Bench, who make most of the furniture in our pub-restaurants and bars, provides annual certification from the Forestry Commission, along with supporting information, to ensure the wood sourced is ethically compliant. Similarly, Marston's pub clothing supplier provides evidence that its products are ethically produced and sourced.

Bringing CR strategy to life

We celebrate our local communities…

- Community engagement is very high on Marston's agenda as our pubs are often at the heart of local communities. Marston's supports communities in various ways, from high profile campaigns such as Help for Heroes, where our employees have raised over £161k, to more local initiatives such as Give Back Week, where our people get involved in community projects throughout the UK. In 2016 we also became a founder patron of 'The Way', a local community project, where young people go to have fun and develop their social skills through peer to peer encouragement.

Bringing CR strategy to life

We reduce our environmental impacts…

- Marston's takes its environmental responsibilities seriously, and is making good progress as the business develops and grows. Through educating and training employees in food waste management, we are reducing the amount sent to landfill. Marston's pub-restaurants and bars are refurbished with environmentally friendly lighting, modernised cooling facilities, energy efficient fridges, and we provide advice and guidance on the careful management of water in our pubs.
- Environmental impact is a high priority when designing lodges. We ensure that insulation levels are above the minimum required by building regulations. Air source heat pumps and ventilation equipment is used to regulate bedroom temperatures using natural ventilation and room guests can adjust temperatures to suit their personal preference. Wash facilities are sourced to minimise water usage. We also have an estate-wide initiative to fit energy saving bulbs and passive infrared sensors that detect movement to optimise lighting usage.

Governance

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Chairman's Introduction

> **"Our governance framework supports the delivery of our strategic priorities and helps to protect the interests of all our stakeholders."**
>
> **Roger Devlin**
> Chairman

Dear Shareholder

Our aim is to make Marston's 'The Place to Be' for our people, our customers and our shareholders and we believe that good governance is a fundamental part of that journey. Our governance framework, set out on the following pages, supports the delivery of our strategic priorities and helps to protect the interests of all our stakeholders.

The 2014 UK Corporate Governance Code (the 'Code') has applied throughout the reporting period under review and I am pleased to confirm that the Board considers it has fully complied with the main principles of the Code.

This review, together with the reports from each of the Nomination, Audit and Remuneration Committees, provides an overview of our key governance activities and practices during the period.

Board effectiveness

This year our Board evaluation was externally facilitated by Independent Audit, a corporate governance consultancy. During the evaluation period, Independent Audit reviewed Board meeting packs, observed a full Board meeting and held individual meetings with each member of the Board and other senior executives. Their report was presented to and discussed in detail at our October Board meeting and the outputs from that report are set out on page 41. The Board is focused on the need to review and continue to develop its effectiveness, in order to support the Group in its ambitions. Progress against the outcomes of last year's internally facilitated evaluation are also reported on page 41. Profiles of each Director, together with information on their experience relevant to the Group, are set out on pages 38 to 39.

Board and Committee succession

We reported last year that Neil Goulden, our Senior Independent Director, had confirmed his intention to retire from the Board with effect from the Annual General Meeting ('AGM') in January 2017. In view of this, the Nomination Committee considered the key roles affected by this and, in September this year, announced that Carolyn Bradley would assume the role of Senior Independent Director and also become a member of the Remuneration Committee following Neil's retirement. Catherine Glickman will take over as Chair of the Remuneration Committee from the same date. During his eight-and-a-half years with the business, Neil has provided valuable insight and wise counsel to the Board. The Board and I thank him for his significant contribution. Further details on the Board's composition are given on page 36.

Remuneration policy

During the year, the Remuneration Committee has been focused on the review of the Remuneration Policy, last put to shareholders at the 2014 AGM. The Committee believes that the current remuneration framework continues to be effective in supporting the delivery of our strategic objectives. As such, only minor changes are recommended to the policy to ensure it is aligned with best practice and provides sufficient flexibility to support succession planning and potential changes to business needs over the coming three years. The revised policy is discussed in detail in the Remuneration Committee's report, on pages 47 to 56 and will be presented to shareholders at the 2017 AGM.

Audit

Following the commencement of the new internal audit co-source provision by Grant Thornton, as reported in last year's Annual Report, the Audit Committee has focused on the development of the internal audit strategy and key deliverables from the internal audit plan for the year. As previously reported, the external audit partner is next due to rotate after the 2017 reporting period and the Company will conduct a full tender of the external audit at that time. Given the length of their tenure, PricewaterhouseCoopers ('PwC') will not be invited to tender. Further details are provided in the Audit Committee Report on pages 45 to 46.

Roger Devlin
Chairman

24 November 2016

UK Corporate Governance Code Compliance Statement

The version of the Corporate Governance Code applicable to the current reporting period is the September 2014 UK Corporate Governance Code (the 'Code'). The Code is available on the Financial Reporting Council's website **(www.frc.org.uk)**.

Marston's PLC was compliant with all relevant provisions of the Code during the reporting period under review.

Governance Report

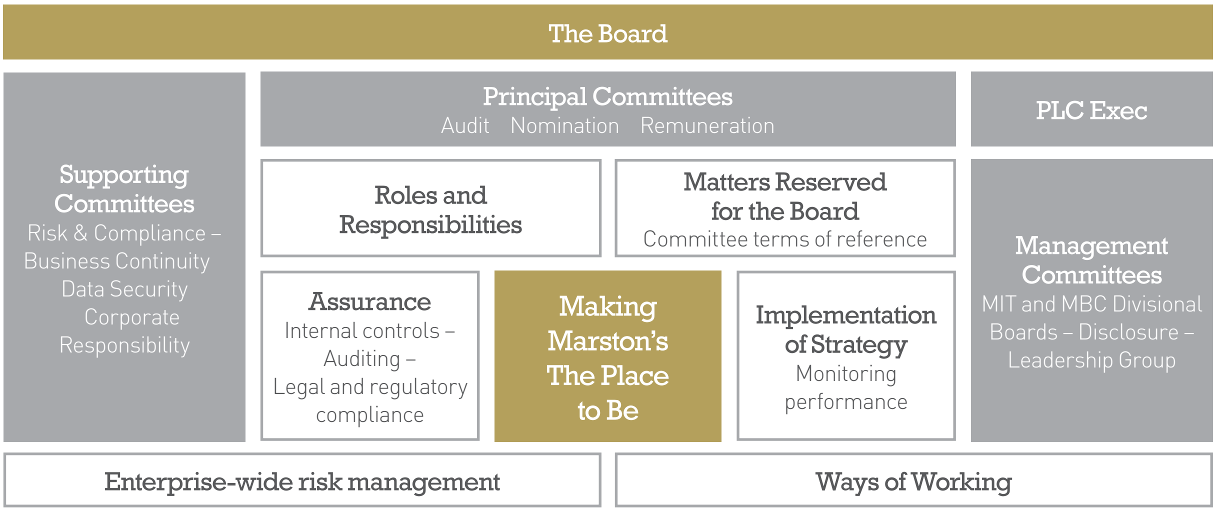
We have used the key themes of the Code to structure this report:

1. Leadership See page 36
2. Effectiveness See page 41
3. Accountability See page 42
4. Remuneration See page 47
5. Shareholder Relations See page 43

Corporate Governance Report

1. Leadership

Governance framework



The Board is collectively responsible to shareholders for the long-term success of the Group. Our governance framework allows the Group to operate within a defined set of prudent and effective controls which set out roles and responsibilities, accountabilities, the assessment and management of risk and enable the delivery of our strategic objectives. The principal decision-making body within the Group is the Board and the schedule of matters reserved for the Board is reviewed annually and includes matters relating to: strategy, major capital expenditure, acquisitions and disposals, capital structure and financial results, internal controls, governance and risk management, Committee membership and terms of reference. The schedule, last reviewed in September 2016, is available on our website. Certain roles and responsibilities have been delegated by the Board to its principal Committees. Each Committee Chairman reports to the Board on decisions and actions taken. The terms of reference for each Committee are reviewed annually to ensure they remain fit for purpose and comply with the provisions of the Code.

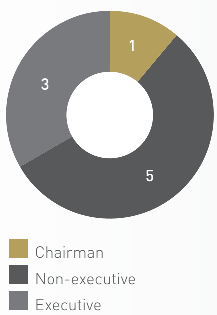
The PLC Exec and other Management Committees oversee the implementation of strategy and monitor performance. The Supporting Committees provide assurance to the Board through the operation of internal controls, auditing and ensuring the Group remains compliant with legal and other regulatory obligations. The framework is supported by the risk management process (see page 20) and our Ways of Working (see page 10).

Board composition

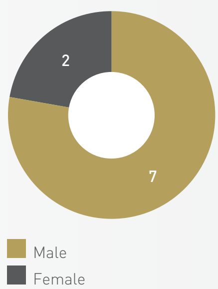
Our Board currently comprises nine Directors. In addition to the Chairman, Roger Devlin, there are five Non-executive Directors and three Executive Directors. Neil Goulden will retire from the Board at the conclusion of the 2017 AGM. He will be succeeded as Senior Independent Director by Carolyn Bradley. Catherine Glickman will become Chairman of the Remuneration Committee. When considering the appointment of a new Non-executive Director, the Nomination Committee considers the additional skills and experience that will enhance the effectiveness of the Board.

We consider all of our Non-executive Directors to be independent and the charts below portray the balance and tenure of the Board as at the date of this report.

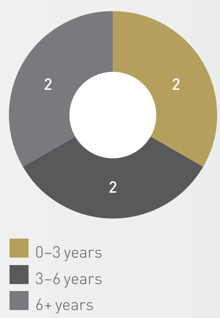
Balance between Executive and Non-executive Directors



Male/female representation on Board



Tenure of Chairman and Non-executive Directors



Roles and responsibilities

There is a clear division of responsibility between the roles of the Chairman and the Chief Executive Officer ('CEO') which are set out in writing and agreed by the Board. The key responsibilities for each Board member are set out below. More information about our Board members and the relevant experience they each bring to the business is set out on the following pages.

Chairman

Roger Devlin is responsible for:

- The operation, leadership and governance of the Board.
- Ensuring the effectiveness of the Board.
- Setting the agenda, style and tone of Board discussions with a particular focus on strategic matters.
- Ensuring each Non-executive Director makes an effective contribution to the Board through debate and discussion with the Executive Directors.
- Ensuring through the Group Secretary that the Directors receive accurate, timely and clear information.

Chief Executive Officer

Ralph Findlay is responsible for:

- The performance of the Group in line with the strategies and objectives established by the Board and under powers delegated by the Board.
- Ensuring the Board is supplied with information relevant to its strategic role.
- Leading the Executive Directors and senior management in dealing with the operational requirements of the business.
- Providing clear and visible leadership in business conduct.
- The effective and ongoing communication with shareholders.

Senior Independent Director

Neil Goulden is responsible for:

- Acting as a 'sounding board' for the Chairman and an intermediary for the other Directors.
- Leading the Non-executive Directors in their annual assessment of the Chairman's performance.
- Making himself available to shareholders, particularly if they have concerns that the normal channels have failed to resolve, or for which such contact would be inappropriate.

Chief Financial and Corporate Development Officer

Andrew Andrea is responsible for:

- Working with the CEO to develop and implement the Group's strategic objectives.
- The financial delivery and performance of the Group.
- Ensuring that the Group remains appropriately funded to pursue the strategic objectives.
- Investor relations activities, and communications with investors, with the CEO.

Other Non-executive Directors

Carolyn Bradley, Nick Backhouse, Catherine Glickman and Robin Rowland are responsible for:

- Constructive challenge on proposals on strategy.
- Contributions to the development of longer-term strategy.
- Meeting with the Chairman, at least annually, without the Executive Directors being present.
- Scrutiny of management performance in the delivery of strategic objectives and monitoring operational and financial performance.

Group Secretary

Anne-Marie Brennan is responsible for:

- Ensuring effective information channels within the Board and its Committee, and between senior management and Non-executive Directors.
- Advising on regulatory compliance and corporate governance.
- Facilitating individual induction programmes for Directors and assisting with their development as required.
- Communications with retail shareholders and organisation of the AGM.
- Chairman of Risk & Compliance Committee and Data Security Committee.

Board of Directors

Chairman

Roger Devlin
Chairman

Board Committees
N*

Independent
Yes (upon appointment)

Length of service
3 years 1 month

Other appointments
Chairman of SIS and Porthaven Nursing Homes

Independent Non-executive Director of the Football Association

Relevant past experience
Previously Non-executive Director of National Express and RPS Group

Previously Chairman of Principal Hayley Group and Corporate Development Director at Hilton International

Executive Directors

Ralph Findlay
Chief Executive Officer (CEO)

Board Committees
N

Independent
No

Length of service
20 years

Appointed to the Board as Finance Director in 1996 becoming CEO in 2001

Qualified Chartered Accountant and Treasurer

Other appointments
Chair of Council and Pro Chancellor at Keele University

Non-executive Director and Chair of Audit Committee at Bovis Homes Group PLC

Relevant past experience
Roles held at Geest Plc and Bass Plc

Andrew Andrea
Chief Financial and Corporate Development Officer (CFO)

Board Committees
–

Independent
No

Length of service
7 years 6 months

Joined the Company in 2002 and appointed to the Board in 2009

Qualified Chartered Accountant

Relevant past experience
Roles held at Guinness Brewing Worldwide, Bass Brewers Limited and Dolland & Aitchison

Peter Dalzell
Managing Director Marston's Inns and Taverns

Board Committees
–

Independent
No

Length of service
4 years

Joined the Company in 1995 and appointed to the Board in 2012

Chairman of MIT Charitable Trust

Other appointments
Member of the BBPA Future Pub Groups

Relevant past experience
Operations Director for Marston's Inns and Taverns

Senior Independent Director

Neil Goulden
Senior Independent Director

Board Committees
A N R*

Independent
Yes

Length of service
8 years 6 months

Other appointments
Chairman of Jackpotjoy Plc

Chairman of Affinity Sutton (Housing) Group

Chair of the Board of Governors at Nottingham Trent University

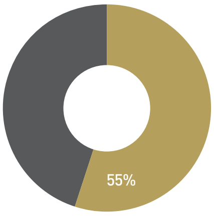
Relevant past experience
Member of The Low Pay Commission

Chairman of The Responsible Gambling Trust

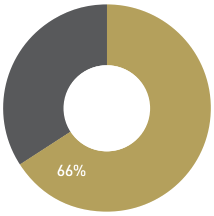
Roles at Gala Coral Group, Compass Group Plc and Chef & Brewer

Skills directly relevant to our business model

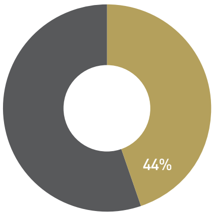
Beer
55% of our Board have experience in beer businesses



Pubs
66% of our Board have pubs and bar experience



Rooms
44% of our Board have experience in hotels and lodges



Other Non-executive Directors

Nick Backhouse
Non-executive Director

Board Committees
A* N

Independent
Yes

Length of service
4 years 8 months

Other appointments
Senior Independent Director of Hollywood Bowl Group plc and Guardian Media Group plc

Fellow of the Institute of Chartered Accountants

Trustee of Chichester Festival Theatre

Relevant past experience
Senior management positions in the pub, leisure and financial sectors

Carolyn Bradley
Non-executive Director

Board Committees
N

Independent
Yes

Length of service
2 years

Other appointments
Non-executive Director at Legal and General Group Plc

Non-executive Director of The Mentoring Foundation

Trustee of Cancer Research UK

Relevant past experience
UK Marketing Director and other roles at Tesco

Trustee of the DrinkAware Trust

Catherine Glickman
Non-executive Director

Board Committees
N R

Independent
Yes

Length of service
1 year 10 months

Other appointments
Group HR Director of Genus Plc

Member of the Institute of Personnel and Development

Relevant past experience
Group HR Director at Tesco

Robin Rowland
Non-executive Director

Board Committees
A N R

Independent
Yes

Length of service
6 years 1 month

Other appointments
Chief Executive of YO! Sushi Limited

Non-executive Director at Caffè Nero Group Limited and Eathos Limited

ALMR Board Director

Relevant past experience
Retail Director roles held at Restaurant Group Plc and Scottish & Newcastle Plc

Group Secretary

Anne-Marie Brennan
Group Secretary

Length of service
12 years

Qualified Chartered Secretary and Chartered Accountant

Other relevant experience of our Board

77%
Food

66%
Operational

44%
Finance

88%
Retail

77%
Leisure

Key

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- * Denotes Committee Chairman

Corporate Governance Report continued

Board agenda and activities during the year

The Board's agenda is a combination of regular business matters and a forward agenda of other specific matters for consideration. The agenda for each meeting is prepared by the Group Secretary and agreed with the Chairman and CEO. This ensures sufficient time is devoted to key business matters at the appropriate time and the agenda remains flexible to accommodate the addition of any specific items for discussion as required.

Standing items and regular reports cover the Group's financial position, risk management, regulatory compliance and consumer insight. Updates on activities across each operating division and performance against targets are reported to the Board in a monthly summary of key business operations. Board papers are circulated in advance of each meeting to ensure that Directors have sufficient time to review them before the meeting. Items considered during the period include:

Strategy	Customer Focus and Business Operations	Leadership and People Development	Governance	Shareholder Focus
Annual strategy day	Digital strategy	Board and other key personnel succession	Report on external Board evaluation	Review of results announcements
Annual plan	Major food and raw materials supplier proposals	People strategy – Ways of Working	Matters Reserved for the Board and delegated authorities	Dividend proposals
Property – capex and development investment parameters	Capital investment in brewing	Talent and succession planning	Terms of reference and membership for all principal Committees	Going concern and viability statement review
Beer company – strategy	Retail systems investment	Employee engagement survey 2016 results	Fair, balanced and understandable review of Annual Report and Accounts	AGM preparation
Financing proposals	Health and safety review	Implementation of National Living Wage	Group risks and risk management	Shareholder feedback and perceptions
Premium Pubs and Bars	Corporate responsibility		Assessment of key business and financial controls	
	Annual insurance renewal		Regulatory and statutory compliance	
	Pubs Code impact and implementation		Pension scheme accounts	

Board and Committee meeting attendance

The Board met nine times during the year, allowing sufficient opportunities to effectively challenge and monitor the Group's progress against its strategic objectives and within the governance framework.

As set out in the governance framework, we operate three principal Committees of the Board to deal with specific issues under the Code, each with its own terms of reference which are regularly reviewed and updated. Reports from each Committee can be found on pages 44 to 62. The table below shows each Director's attendance throughout the year:

Name	Board	Nomination	Audit	Remuneration
Andrew Andrea	9/9	–	–	–
Nick Backhouse	8/9	3/4	3/3	–
Carolyn Bradley	9/9	4/4	–	–
Peter Dalzell	9/9	–	–	–
Roger Devlin	9/9	4/4	–	–
Ralph Findlay	9/9	4/4	–	–
Catherine Glickman	7/9	3/4	–	3/4
Neil Goulden	8/9	3/4	2/3	4/4
Robin Rowland	9/9	4/4	3/3	4/4

2016 Strategy Day – On the agenda

The Board holds an annual strategy day offsite, in addition to regular ongoing strategic discussions. This enables the Board to focus on an in-depth review of strategy, progress and implementation. In 2016, senior managers attended the Strategy Day to present proposals on their areas of responsibility, helping to inform the debate around the continued development of strategy. The Leadership Group also joined the Board for dinner on the evening before, enabling Non-executive Directors to engage, challenge, discuss and debate with those in attendance. The key themes of the Strategy Day comprised:

- General market trends, regulatory challenges, performance and priorities
- Five year financial plan: stretch targets and strategic possibilities
- Development of the Destination pubs offer
- Rooms: intent, offer and operation
- People strategy progress update

2. Effectiveness

Commitment

Significant commitments of the Directors held outside of Marston's are disclosed prior to appointment and on an ongoing basis where there are any changes. Actual and potential conflicts of interest are regularly reviewed. The Board has authority, under the Articles of Association, to authorise potential conflicts of interest and to impose any limits or conditions it sees fit. All of our Directors are required to allocate sufficient time to the Group to discharge their responsibilities effectively and this is reviewed by the Chairman as part of the annual evaluation process.

Evaluation

The Code recommends that an evaluation of the effectiveness of the Board and its Committees is conducted annually and that this process is externally facilitated at least every third year. This year, Independent Audit was appointed to undertake a review of the effectiveness of the Board. The review was broadly based, focusing on the key drivers of effectiveness and comprised a review of Board and Committee meeting packs, observing a Board meeting and individual meetings with each member of the Board and other senior executives. The individual meetings considered matters such as the balance and composition of the Board, the extent of independent challenge and oversight provided by the Non-executive Directors, the support that the Board receives, Board information and supporting processes. It also considered the support provided by the standing Committees of the Board.

Independent Audit presented their findings to the Board who then considered the key points arising:

- The Board noted the work that has been done within the Group on talent management and diversity to retain and promote talented individuals and women into senior positions. It was recognised that this is ongoing and there is more work to do.
- The Board recognises that the hearts and minds of people are critical to the success of the business and that understanding our people better will come from spending more time in the business.
- To encourage and support the achievement of more stretching ambitious plans requires greater constructive challenge within the boardroom. To be effective the challenge should be supportive, structured, rigorous and have purpose.

2015 Board evaluation summary recommendations	Progress achieved	Summary of key actions agreed following 2016 review
• More NED attendance at divisional executive meetings. • Use of informal meetings for NEDs outside the Board timetable. • Extended duration of the Strategy Day. • Future presentation and discussion topics on forward agenda include: IT investment, pricing, rooms and lodges, senior management succession plans. • More shareholder and other stakeholder feedback through presentations from advisers, brokers and Auditors. • Designated mentoring, to support focus on delivery of KPIs.	• NEDs attending divisional board meetings, offering insight and challenge on strategic and operational matters. • NEDs have met informally twice during the year. • The 2016 Strategy Day was extended to allow more time for presentations and discussion. • Forward agenda updated with suggested items and presentations undertaken/planned. • Brokers presented at two meetings during the year. • Catherine Glickman and Carolyn Bradley are providing support and advice to the Group People Director and Commercial Marketing Director, respectively.	The key actions agreed are as follows: • The Board will host dinners bi-annually with the Leadership Group and at such other times as the purpose dictates. • The Non-executive Directors will meet three times per year without the Executive Directors. • The Non-executive Directors will provide more constructive and rigorous challenge that will be formally noted in the minutes for regular review and updates. • Future presentations to the Board will have greater clarity of purpose for all parties. • A more rigorous approach to risk reviews will be adopted to ensure the framework reflects the processes and remains relevant and robust. • A list of internal meetings, agendas and forthcoming events will be circulated to the Board to allow Non-executive Directors an opportunity for greater interaction with the business. • Supporting Board papers will be offered electronically as well as in hard copy.

Corporate Governance Report continued

Training and development
As part of the 2016 Board evaluation, the Chairman conducted individual development reviews with each of the Directors. Part of the Chairman's role is to ensure the effectiveness of the Board and, as such, he takes responsibility for ensuring that Directors continually update their skills, knowledge and familiarity with the Company. Where specific training needs are identified these are incorporated into the Board's forward agenda and personal development plans. The Company provides the resources to meet development requirements for individual Directors as and when required and it will continue to review development initiatives for Directors. During the year, for example, a number of the Non-executive Directors attended external technical seminars run by professional advisers and guidance on the new Market Abuse Regulation and other new legislation was provided by the Group Secretary and the Company's brokers.

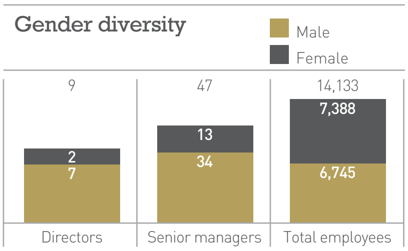
An effective Board must be able to constructively challenge proposals on strategy and contribute to the ongoing development and implementation of strategy. The Non-executive Directors bring a diverse range of skills from their own external experience to the Board and are encouraged to further their knowledge of the Group by spending time with the Executive Directors and other senior managers on visits to a range of pubs, customers and brewery outlets. Non-executive Directors are also encouraged to engage with our people across the business to further enhance their understanding of the business.

Induction programmes are tailored for each individual Director when joining the Board. A comprehensive information pack is compiled to include an explanation of the Group's financing structure, relevant statutory and regulatory guidance notes including, for example, the UK Corporate Governance Code, the Group's Share Dealing Policy and guidance on Directors' duties, together with internal Group policies, structure charts, Matters Reserved for the Board and Committee terms of reference. An induction programme will include site visits and meetings with relevant colleagues and advisers.

The Group Secretary advises the Board on all governance matters. All Directors have access to her advice and services. If necessary, Directors may seek independent professional advice at the Company's expense in the performance of their duties.

Re-election of Directors
All Directors offer themselves for re-election at each Annual General Meeting ('AGM') unless they are retiring. Details of each Director serving on the Board at the date of this Report are set out on pages 38 to 39 and (with the exception of Neil Goulden) shall be set out to shareholders in the papers accompanying the re-election resolutions for the AGM. The Board is of the opinion, supported by the Nomination Committee, that each Director continues to make an effective and valuable contribution and demonstrates commitment to his or her role.

Diversity policy
The Board, through the CEO, takes overall responsibility for diversity and equality below Board level. Catering for the preferences of our many different customers is fundamental to our business and therefore it is essential that we consider diversity in our decision-making process. Our Ways of Working are shared throughout Marston's: we recruit the best people, invest in our people and put people first – whether that's the Marston's team, our customers or our suppliers. We make sure we do the right thing. We have a Whistleblowing Policy, the purpose of which is to ensure that our people feel secure when raising any concerns they may have without any adverse effect on their career and development at Marston's. Further details of Marston's approach to diversity and succession planning can be found on our website at **www.marstons.co.uk.**



Number of employees at 1 October 2016

3. Accountability

Fair, balanced and understandable assessment
It is a requirement of the Code that the Board should consider whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable. To support this assessment, comprehensive reviews are undertaken at regular intervals throughout the year end process by senior management. The preparation of the Annual Report and Accounts is coordinated by the Secretariat team with significant input from the Finance team and support from other contributing colleagues across the Group. Drafts of the Annual Report and Accounts are submitted to the Board meetings prior to publication, to allow sufficient time to review and provide an opportunity for challenge and discussion, ahead of approving the final documents. In addition, the external Auditors review the consistency between the narrative reporting and financial disclosures.

Compliance
Marston's Risk and Compliance Committee, a supporting committee within our governance framework, monitors all areas of legal and regulatory compliance across the Group. The Committee meets quarterly, and includes representatives from across the business, in order to consider any emerging areas of legislation or challenges to existing compliance.

Risks and internal controls
The Group's approach to risk management, systems and internal controls is explained as part of the Strategic Report on pages 20 to 21.

4. Remuneration
The Directors' Remuneration Report is set out on pages 47 to 62. Our Remuneration Committee has reviewed the Remuneration Policy during the year and a revised policy will be subject to a binding vote by shareholders at the 2017 AGM. The report also includes the Annual Report on Remuneration (subject to an advisory vote at the 2017 AGM).

5. Shareholder relations

Our aim is for Marston's to be The Place to Be for shareholders, and engagement with our shareholders is essential to ensure a greater understanding of, and confidence in, the development and implementation of the medium and longer-term strategy of the Group.

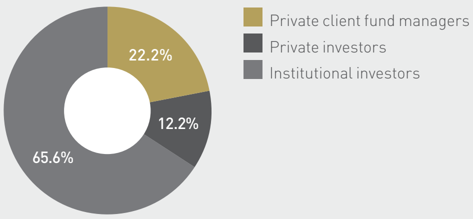
The investor relations programme involves institutional shareholders, fund managers and analysts and is managed by the Executive Directors. The CEO and CFO meet with private client fund managers on a quarterly basis, to discuss strategy, performance, management and governance, within the constraints of information which is already publicly available. During the year, a number of analysts were also invited to the Marston's Brewery in Burton, to learn more about the brewing side of the Group.

Written feedback from analysts and institutional shareholders is received following meetings with Executive Directors and this is reviewed by the Board. This ensures that shareholders' views and any issues of concern are heard by the Board. The Chairman and Senior Independent Director are also available for meetings with the Company's major institutional investors.

The Group Secretary oversees communication with private individual shareholders on behalf of the Board. The investor section of the Company's website is available to all shareholders and provides share price information, results presentations and announcements, financial calendars and general information on the business. The Annual Report and Accounts is a key communication tool providing a comprehensive review of the business, details of our governance arrangements and annual results.

All shareholders have the opportunity to communicate directly with the Board of Directors at the Company's AGM. Prior to the formal business of the AGM, the CEO presents an update on recent trading performance and developments in the business. Shareholders are able to ask questions during the meeting, followed by an opportunity to meet with the Directors of the business on an informal basis. The senior management team also attend the AGM and meet with shareholders before and after the meeting. All of our Directors attend and the Chairman of the Board and each Committee are available to answer shareholder questions during the formal business of the meeting. The voting on all resolutions at the AGM is conducted by way of a poll. This is to allow all shareholders, present in person, by proxy or unable to attend, to vote on all resolutions in proportion to their shareholding. The Company will release the results of voting, including proxy votes on each resolution, on its website on the next business day at **www.marstons.co.uk/investors** and announce them through a Regulatory News Service. Details of the 2017 AGM are set out in the separate Notice of Annual General Meeting.

Analysis of shareholder register by investor type



Our private investors may hold shares directly or through nominee companies (private client fund managers), therefore the percentage of private shareholders is approximately 34%.

Further analysis of the share register can be found in Information for Shareholders on page 121.

Shareholder engagement: City Analyst Day, Marston's Brewery, Burton

- Attended by analysts and advisers
- Hosted by Ralph Findlay, Andrew Andrea and Richard Westwood, Managing Director of Marston's Beer Company ('MBC')
- Aim of the day to increase awareness of MBC and the value of the business
- Markets, brand development and innovation
- Expertise, operating channels and growth opportunities

Shareholder engagement summary: key communication channels

Institutional shareholders and analysts	Private client fund managers	Private shareholders
• Rolling investor relations programme • Bi-annual written feedback received • Chairman and Senior Independent Director available to meet with largest shareholders	• Quarterly meetings with CEO and CFO	• Annual General Meeting with full Board and senior management present • Annual Report and Accounts and website • Group Secretary oversees communication on behalf of the Board

Nomination Committee Report

Committee membership

- Roger Devlin (Chairman)
- Ralph Findlay
- Nick Backhouse
- Carolyn Bradley
- Neil Goulden
- Catherine Glickman
- Robin Rowland

Responsibilities

- Ensure the Board and its Committees have the right balance of skills, knowledge and experience.
- To plan for the orderly succession of Directors to the Board and other senior managers.
- To identify and nominate suitable candidates for Executive and Non-executive Director vacancies having regard to, amongst other factors, the benefits of diversity, including gender diversity.

Attendees

- Other Executive Directors, senior management and external advisers may be invited to attend meetings.

Key activities during the reporting year

- Ensuring that succession planning is aligned with the ongoing leadership requirements of the business.
- Refreshment of Committees and appointment of Senior Independent Director following retirement of Neil Goulden.
- Engaging with search agency and provision of brief for recruitment of new Non-executive Director.
- Reviewing the contribution and tenure of each Director before recommending for re-election by shareholders.
- Considering future succession planning for Executive team and how best to support Executive development needs.

Terms of reference

Full terms of reference of the Committee can be found in the Investors section of the Company's website.
www.marstons.co.uk

Dear Shareholder

This year has seen a period of stability for the Board. As reported last year, Neil Goulden, our Senior Independent Director, confirmed his intention to retire from the Board with effect from the Annual General Meeting ('AGM') in January 2017. During the year, the Nomination Committee considered the key roles affected by this and, as previously announced, Carolyn Bradley will assume the role of Senior Independent Director and also become a member of the Remuneration Committee following Neil's retirement. Catherine Glickman will take over as Chair of the Remuneration Committee from the same date.

The Nomination Committee's role is now to identify suitable candidates to succeed Neil as a Non-executive Director. The Committee has considered the skills and experience required to support the Board and Company both in the continued development of strategy and longer-term succession planning. A key part of the brief is that candidates should ideally be financially qualified.

Diversity policy

Our approach to diversity is unchanged: we continue to take note of the guidance provided and we require any search agency that we engage to have signed up to their industry's Voluntary Code of Conduct addressing gender diversity. We will continue to make appointments on the basis of merit and, as such, have not set a specific target for numbers of female Directors. However, we do recognise the benefits that greater diversity can bring and take into account such factors when considering any particular appointment. Currently, two of Marston's nine Board members are female.

Re-election and evaluation

The Committee considered the time required from each Non-executive Director, their effectiveness and the experience brought to the Board. Noting that Neil Goulden will be retiring from the Board in January 2017, we believe that the tenure of the remaining Board members provides the right balance, together with their broad range of skills and relevant experience.

In accordance with our terms of reference, the Committee has also considered its own effectiveness during the year. This allows the Committee to formally review the way we work and whether our strategy for discharging our duties remains appropriate. The Committee is satisfied that it continues to perform its duties in accordance with its terms of reference.

Having discussed the personal effectiveness and commitment with each Director in individual meetings, I have concluded that the performance of each Board member continues to be effective and I therefore recommend to you the re-election of each Director standing for re-election at the 2017 AGM.

Roger Devlin
Chairman of the Nomination Committee

Audit Committee Report

Committee membership

Nick Backhouse (Chairman)

Neil Goulden

Robin Rowland

Responsibilities

- Reviewing the integrity of the Group's financial statements including the Interim Results and the Annual Report and Accounts.
- Reviewing the effectiveness of the internal controls and risk management system.
- Reviewing the Group's systems for detecting fraud, preventing bribery and allowing employees to raise concerns in a safe and confidential manner.
- Reviewing the effectiveness of the Internal Audit function.
- Overseeing the relationship with the external Auditors, specifically reviewing and approving their fees and the terms of engagement.
- Reviewing and monitoring the external Auditors' objectivity and independence and the effectiveness of the audit process.

Attendees

- The Corporate Risk Director and external Auditors attend each meeting.
- Other individuals, such as the CEO and CFO are usually invited to attend all or part of the Committee's meetings.

Key activities during the reporting year

- Reviewing the main corporate risks and the outcomes from testing the systems and processes for managing and mitigating those risks. The Committee has satisfied itself that the Risk Management Framework provides sufficient assurances.
- Drafting a viability statement that assesses the prospects of the Group over an appropriate period. The Committee considered that the Group's existing five year financial planning horizon makes that time period most appropriate.
- Considering the Annual Report and Accounts and Interim Results prior to review by the Board.
- Following the evaluation of the Internal Audit function in the previous reporting period, development of the internal audit strategy and review of the internal audit plan.
- Review of accounting policies and standards, including the property valuation policy and planning for the new lease accounting standard (effective 2020).

Terms of reference

Full terms of reference of the Committee can be found in the Investors section of the Company's website.
www.marstons.co.uk

Dear Shareholder

As Chairman of the Audit Committee, I am pleased to present the Audit Committee's Report for the period ended 1 October 2016.

The Committee is comprised wholly of Non-executive Directors, all of whom are independent. Each Committee member contributes their own financial and business experience to effectively assess the external and internal audits of the Group and the internal control and risk management systems. The Board is satisfied that both Neil Goulden and I meet the requirements of the Code as having recent and relevant financial experience. The Committee members challenge and debate the reports, statements and findings presented to them.

Throughout the year, we have continued our focus on the integrity of financial reporting and internal controls. The Committee continues to monitor changes in regulation and reviews the potential impact on the Group's financial reporting and assurance processes. The Committee has reviewed the assurance process and risk management framework to ensure that it remains appropriate and provides a robust assessment of the principal risks to the business. The robust assessment is further supported by the Internal Audit function. In response to last year's external evaluation of the Internal Audit function, the Committee has reviewed the proposed internal audit strategy and the detailed audit plan for the next 12 months. The strategy and plan ensures that the Internal Audit function provides independent and objective assurance targeted to help the business achieve its strategic objectives by improving the effectiveness of risk management, control and governance processes.

Having reviewed the external audit process, the Committee believes that PwC continue to provide an effective audit service and recommends their re-appointment to shareholders. As previously disclosed, a formal tender will be conducted during the next 12 months and, given the length of their tenure, PwC will not be invited to tender. We will also maintain our focus on the audit, assurance and risk processes within the business.

During the year, we were notified by PwC that the Financial Reporting Council's 'Audit Quality Review' team would review PwC's audit of the Group's 2015 financial statements, as part of their annual inspection of audit firms. The overall assessment of the audit found there were no significant areas of concern. As Chair of the Audit Committee, I received a copy of the concluding letter and have discussed the detailed findings of the review with our Audit Partner at PwC. The recommendations from the review have been incorporated into the audit of the 2016 financial statements.

Nick Backhouse
Chairman of the Audit Committee

Audit Committee Report continued

Auditors and Internal Audit

The external Auditors attend each meeting, which allows the Committee the opportunity to review and challenge the integrity of the Group's financial reports. The external Auditors also present their audit strategy, findings and conclusions in respect of the Annual Report and Accounts and Interim Results. In addition, at least once a year, the external Auditors meet the Committee without any Executive Director present to provide an opportunity for open dialogue and feedback.

In assessing the work of the external Auditors, the Committee continues to be satisfied with the scope of their work and their effectiveness, and recommends their re-appointment to the Board. The Committee has satisfied itself that the independence and objectivity of the external Auditors, and the safeguards to protect it, remain strong noting the following:

- The external Auditors conduct an annual review of their independence identifying all services provided to the Group and assessing whether the content and scale of such work is a threat to their independence.
- The Committee accepts that some non-audit work is most appropriately undertaken by the external Auditors. The Committee's terms of reference set out what is permissible and where such work is expected to be in excess of a specified amount, the Chairman of the Audit Committee must approve the work. Below that amount, the CFO has authority to approve such work once he is satisfied that the Auditors are the most appropriate providers. In 2015/16 the Group engaged PwC to undertake work on the Group company structure, covenant reporting and the interim review. In total this amounted to £0.3 million. The Group has used other accounting firms for some non-audit work. In each case, consideration is given to the need for value for money, experience and objectivity required in the particular circumstances.
- Following the issue of the EU Audit Directive in June 2016, the policy on non-audit work was reviewed by the Committee in September 2016. The full policy is available on our website but, in summary, from the 2016/17 financial year:
  - Fees for non-audit services provided by the statutory auditor in any year may not exceed 70% of the average fees for the Group statutory audit in the three previous years.
  - The auditor will be prohibited from providing certain non-audit services, including:
    - almost all tax work;
    - internal audit;
    - corporate finance;
    - involvement in management activities, including working capital and cash management and the provision of financial information.
- The audit partner is changed at least once every five years. A new partner was appointed during the 2012/13 financial reporting period and is next due to rotate after the 2016/17 financial year. As previously reported, the Company will conduct a full tender of the external audit during the next 12 months.

Fees paid to the external Auditors are disclosed in note 3 of the Financial Statements on page 84

The Company has complied during the financial year under review, and up to the date of this report, with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

The Corporate Risk Director attends each Committee meeting providing ongoing assurance and regular updates on the Group's main risks and the scope and findings of internal audit. A number of standing items were reviewed by the Committee during the period including the Whistleblowing Policy, matters arising from internal audits and compliance and legal developments.

Significant financial judgements

In recommending the Interim Results and Annual Report and Accounts to the Board for approval, the Committee reviewed in particular the accounting for and disclosure of the following key matters:

- Property valuation. The Committee reviewed the valuation of the property estate and agree with management's view that there are no market indicators, events or impairment triggers that would indicate a material change in the values determined by the external valuation of the entire property portfolio in 2015. The Committee questioned the impact of a business rates rise and were satisfied with management's assertions that it is not a material issue for the Group. The Committee also reviewed the Group's valuation policy and agree that it remains appropriate.
- Non-underlying items. The Committee noted the importance of maintaining appropriate and consistent treatment of items disclosed as non-underlying to provide comparability of performance year on year. The Committee also noted that the amount for non-underlying items was significantly less this year. Taking into account the quality of underlying profits, and in particular the threshold for treatment of property-related matters, the Committee were satisfied that each item classified as non-underlying was appropriate and consistent with prior periods and the Group's accounting policy.

Annual Statement by Remuneration Committee Chairman

Dear Shareholder

On behalf of the Board, I am pleased to present the Remuneration Report for the year ended 1 October 2016 comprising my Annual Statement and summary, the new Directors' Remuneration Policy (on page 49) and the Annual Report on Remuneration (on page 57). The current Remuneration Policy was approved by shareholders at the 2014 AGM to apply for a period of three years. Consequently, the Committee undertook a review of the policy during the year to assess its appropriateness and relevance for the next three years and, as a result, the Committee are proposing a few minor changes which are summarised at the top of page 49. These are designed to ensure that the policy remains aligned with our strategy whilst allowing sufficient flexibility in the event of business changes and succession planning needs. I recommend the new policy to you and, if approved, it will apply from the close of the 2017 AGM.

Approach to remuneration

The Committee's approach to remuneration is to ensure that our Executive Directors' rewards are aligned with the interests of shareholders through the achievement of the Group's strategic objectives. The bonus targets and performance metrics attached to our Long Term Incentive Plan are set at challenging levels and we will continue to adopt a responsible approach when considering the actual payout of awards.

Changes to the Remuneration Policy

The Committee considers that the Group's current remuneration framework continues to be effective in supporting the delivery of our business strategy and the creation of shareholder value. Therefore, the Committee has decided to make only minor changes to the remuneration policy to take account of developments in best practice and to ensure that the policy continues to provide sufficient flexibility over the next three years. In summary the changes are:

- **Shareholding guidelines.** In line with best practice, these will be included in our binding policy, rather than only being referenced in the Annual Report on Remuneration. In addition, the Committee is proposing that the shareholding guideline for the CEO will double to 200% of salary to reflect his higher remuneration package. The guideline for our other Executive Directors will remain at 100% of salary but the Committee will continue to monitor the appropriateness of this level.
- **Long Term Incentive Plan (LTIP).** Whilst the Committee does not have any current intention to increase the normal maximum LTIP grant, which is set at 125% of salary, it has agreed to introduce an overall maximum limit of 150% of salary that may be used to make ongoing grants. This is intended to ensure that there is flexibility in the remuneration policy, should it be required over the next three years, to continue to provide competitive remuneration packages in order to attract and retain Executive Directors of the calibre required, taking into account the size and complexity of the business and potential changes to the business needs. The normal maximum grant of 125% of salary will apply for the 2017 LTIP awards and we will consult with major shareholders should we intend to increase the 125% in future years. In line with best practice and as a result of feedback from our engagement with major shareholders, the Committee has also agreed to introduce a holding period on vested LTIP awards, with effect from the 2017 awards. In total, the performance period and holding period will be five years. To further strengthen alignment with shareholders, dividend equivalents may accrue on vested shares following the end of the performance period and up until the release of the awards (i.e. the point at which the awards become exercisable). At the 2017 AGM, shareholders will be asked to approve the amendments to the LTIP rules to implement these changes. The Committee remains committed to a responsible approach to executive pay and continues to take a principled and prudent approach to setting reward levels.
- **2015/16 performance outcomes.** Whilst the Group did not hit the internal target it set itself for Group profit it did achieve both a 7.1% increase in underlying Group profit versus 2015 (which is above the bonus threshold) and its return on capital target. Based on this achievement, the bonus awarded was 40% of salary which will apply to both employees' and Directors' bonuses. Because the Group did not achieve all of its internal targets for the year the Directors, in considering the wider workforce, have proposed to waive their LTIP entitlement this year. As a result, the Committee has exercised its discretion and withheld the vesting of the 2013 LTIP which will now lapse.
- **Pay review.** In reviewing the salaries paid to Executive Directors, the general economic climate and average increases across the Group, the Committee approved an increase in base salaries of 2%. In recognition of the expansion of Andrew Andrea's role to contribute to Group strategy, oversee new corporate projects and implement a new pub retail system, the Committee approved an additional increase resulting in a total increase of 9.7%.
- **Shareholder engagement.** The Committee remains committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. We were delighted again that the Annual Report on Remuneration received a very strong level of support of over 99% of the votes cast at the 2016 AGM. We welcome feedback from our shareholders as it helps inform our thinking on remuneration matters. As part of the preparation of the 2017 policy that we are proposing to shareholders, the Committee engaged in an open dialogue with major shareholders and institutional investor bodies setting out the changes proposed and the thinking behind the proposals. I hope we can rely on your continuing support at this year's AGM where I will be available to respond to any questions shareholders might have on this report or the activities of the Committee. We are interested in your views and if you wish to contact me directly about the new policy, the report or remuneration matters in general then please email me at **remunerationchair@marstons.co.uk**.

Finally, I should like to take this opportunity to say that it has been a privilege to have served on the Board of Marston's for the last eight years and I will hand over the chairmanship of the Remuneration Committee to Catherine Glickman at the end of the AGM 2017, confident that she will continue to take a responsible approach to executive remuneration that supports the achievement of our strategic objectives and the creation of shareholder value.

Neil Goulden
Chairman of the Remuneration Committee

Remuneration Summary 2016

Alignment of pay principles to strategy

To align the remuneration of the Executive Directors with the Group's strategic objectives and the interests of shareholders, our remuneration principles reflect our strategic priorities. Our key focus remains to ensure that the remuneration arrangements support the sustainable growth of our business and achievement of our strategic objectives. A substantial part of the Executive Directors' rewards are delivered in Company shares to ensure direct alignment with shareholders, and the extent of incentive payouts is wholly dependent on the Group's performance.

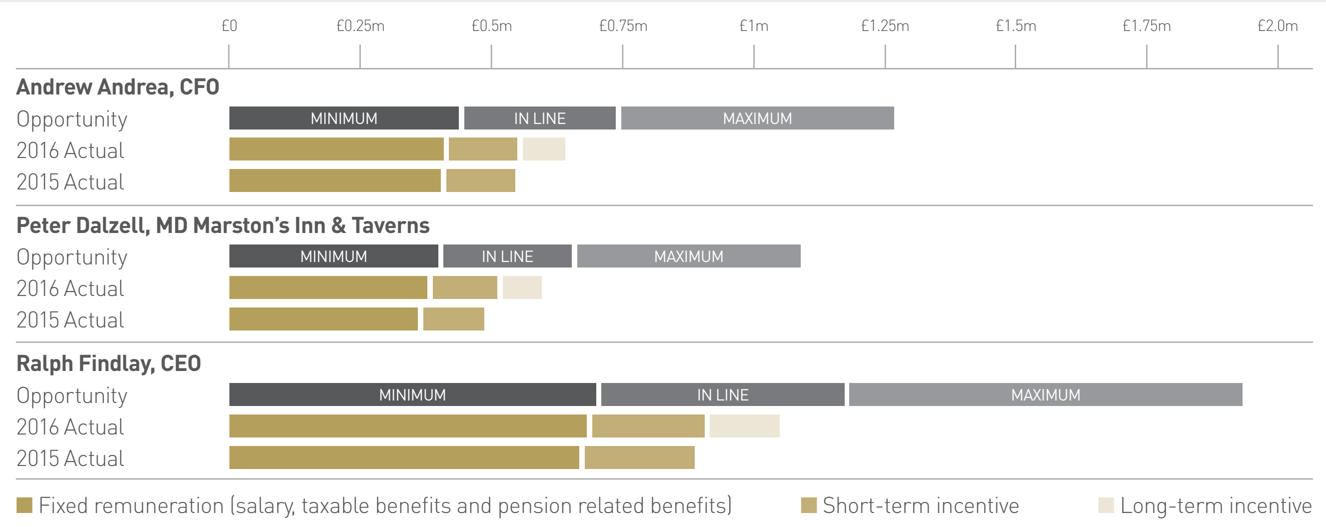
Strategic pillars	Bonus	LTIP
Operating a high quality pub estate	CROCCE	CROCCE
Targeting pub growth: investing in pub-restaurants and Premium pubs, developing Franchise	Profit per pub	FCF
Offering the best consumer experience: quality, service, value and innovation	Drives sales which improve profits and cash flow	
Increased investment in rooms	CROCCE	CROCCE
Leadership in the UK beer market	Drives sales which improve profits and cash flow	
Ensuring people are at the heart of our business	Engaged employees improve customers' experiences	

At a glance – incentive payouts for the year: bonus and LTIP

Bonus for 2015/16	Target	Actual	% of salary	Actual bonus
Underlying Group profit before taxation	£100.0m	£98.0m	25.5%	
Return on capital	10.9%	10.9%	16.7%	
			42.2%	40%
LTIP vesting in 2015			**% LTIP vesting**	**Actual LTIP vesting**
EPS	9.3% – 29.5%	11.4%	41.7%	0%

Maximum total remuneration opportunity and total remuneration received in 2016

The chart below sets out the total remuneration received for the period ended 1 October 2016 for each Executive Director, prepared on the same basis as the single total figure of remuneration table set out on page 58. For comparison purposes, the chart provides an indication of minimum, in line with expectations and maximum total remuneration opportunity, prepared on the same basis and in line with the current Remuneration Policy.



The LTIP vesting for 2016 is estimated, as set out on page 59. As noted on page 60, the estimated LTIP vesting for 2015 did not occur.

Remuneration Policy

This part of the report sets out the Directors' Remuneration Policy which will be subject to a binding vote at the 2017 AGM and take effect from the close of the meeting. The policy is determined by the Company's Remuneration Committee ('the Committee').

The Directors' Remuneration Policy was first approved at the 2014 AGM, and that policy took effect from 5 October 2014. The new policy set out below will, subject to shareholder approval, apply from the close of the 2017 AGM.

No significant changes have been made to the policy approved at the 2014 AGM. However, certain minor amendments have been made to take account of developments since the 2014 AGM and to ensure the policy is appropriate for the Company going forwards. In summary, the changes made to the proposed policy as compared to the policy approved at the 2014 AGM are as set out below.

- Shareholding policy has been included which has been set at 200% of salary for the CEO and 100% of salary for other Directors.
- The maximum annual award which can be made under the LTIP has been increased from 125% to 150%. The actual award for 2017 will remain at 125%.
- LTIP awards for 2017 and future years will be subject to a holding period post-vesting. The performance period and holding period in total will be five years.
- The Committee may award dividend equivalents on vested shares following the end of the performance period up to the date of release (i.e. the date on which the award becomes exercisable).

Aims

The policy is designed to ensure that Executive Directors are provided with sufficient remuneration to motivate each individual with incentives that are aligned to strategy and encourage enhanced performance. The Committee believes that variable pay should only be earned for achievement against stretching targets and will continue to ensure that targets provide an appropriate balance between motivating and rewarding Executive Directors to deliver stretching but sustainable performance, without encouraging excessive risk taking.

Base Salary

Purpose and link to strategy	Core element of fixed remuneration, reflecting the size and scope of the role. Purpose is to recruit and retain Directors of the calibre required for the business.
Operation	Usually reviewed annually and fixed for 12 months commencing 1 October. Whilst Executive Directors are contractually entitled to an annual review of their salary, there is no entitlement to an increase as a result of this review. Salary levels are determined by the Committee taking into account a range of factors including: • role, experience and performance; • underlying Group performance; • alignment with workforce; • prevailing market conditions; and • external benchmarks for similar roles at comparable companies.
Opportunity	Salary increases are reviewed in the context of salary increases across the wider Group. The Committee considers any increase which is out of line with these very carefully and such increases may be awarded where there is a reason to do so taking into account relevant factors. These circumstances may include but are not limited to: • increase in scope and responsibility; • promotional increase to Executive Director; • development and performance in the role (including if a newly appointed Executive Director's salary is positioned below a market rate that it may be increased to a market rate over such period as the Committee considers appropriate); or • a salary falling significantly below market positioning.
Performance metrics	Not applicable, although the individual's contribution and overall performance is one of the considerations in determining the level of any salary increase.

Remuneration Policy continued

Benefits

Purpose and link to strategy	Ensures the overall package is competitive. Participation in the Save As You Earn scheme (SAYE) creates staff alignment with the Group and promotes a sense of ownership.
Operation	Executive Directors receive benefits in line with market practice which include a car allowance, private medical insurance and life assurance. The SAYE is an HMRC tax-qualifying monthly savings scheme facilitating the purchase of shares at a discount. Other benefits may be provided based on the role and individual circumstances. These may include, for example, relocation and travel allowances.
Opportunity	Set at a level which the Committee considers appropriate against the market and provides a sufficient level of benefit based on individual circumstances. SAYE contribution and operation of the SAYE scheme as permitted in accordance with the relevant tax legislation.
Performance metrics	Not applicable.

Annual Bonus and Deferred Bonus Plan

Purpose and link to strategy	Rewards performance against annual targets which support the strategic direction of the Group. Compulsory deferral into shares aligns Executive Directors with shareholder interests and provides a retention element.
Operation	Performance measures and applicable targets are set annually and any payout is determined by the Committee after the period end, based on performance. The Committee has discretion to vary the bonus payout should any formulaic output not reflect the Committee's assessment of overall business performance. Any bonus earned in excess of 40% of the maximum award is usually payable in shares in the Company which will be deferred for a period of three years. Executive Directors can opt to defer a greater proportion if they wish. Deferral of any bonus earned is subject to a de minimis limit of £5,000. A malus provision gives the Committee the right to cancel unvested shares under the Deferred Bonus Plan if an act or omission of the participant contributes to a material misstatement of the Group's financial statements or results in material loss or reputational damage for the Company. A clawback provision allows the Committee to recover any cash bonus awarded (for up to two years) if certain events occur. These events include serious misconduct and a material misstatement of the Group's audited results. As with all Group bonuses, they remain discretionary and can be adjusted or removed at the Committee's discretion. In the case of Executive Directors this discretion lies with the Remuneration Committee. At its discretion, the Committee may award dividend equivalents to reflect dividends that would have been paid over the period from grant to vesting on vested shares under the Deferred Bonus Plan. These dividend equivalents may be paid in cash or in shares and may assume the reinvestment of dividends.
Opportunity	The usual maximum annual bonus opportunity is 100% of base salary.
Performance metrics	Performance measures are determined each year reflecting the business priorities that underpin Group strategy. At least 50% of the award will be based on financial performance measures aligned to the Group's financial key performance indicators, which may include Group profit and return on capital measures. The balance of the bonus opportunity will be based on financial measures and/or the delivery of strategic/individual objectives. **Financial measures** Payments range between 0% and 100% of base salary with up to 50% of the maximum opportunity for each measure payable for on-target performance. For achievement of the maximum performance level 100% of the maximum opportunity will vest. There is usually straight-line vesting between the threshold and target performance levels and between target and maximum performance levels. The Committee has the discretion to vary the vesting schedules by reducing the percentage that vests at each performance level but not by increasing the percentage that vests. **Non-financial measures** Any element of the bonus subject to a non-financial measure will vest between 0% and 100% based on the Committee's assessment of the extent to which the relevant measure has been achieved.

Long Term Incentive Plan (LTIP)

Purpose and link to strategy	Incentivises Executive Directors to deliver against the Group's strategy over the longer term. Long-term performance targets and share-based remuneration support the creation of sustainable shareholder value.
Operation	The Committee makes long term incentive awards under the 2014 LTIP which was approved by shareholders at the 2014 AGM. Under the 2014 LTIP, awards of conditional shares, restricted stock or nil cost options (or similar cash equivalent) can be made with vesting dependent on the achievement of performance conditions, normally over a three year performance period. Vested awards are normally subject to an additional holding period of two years before being released to participants. Awards may vest early on a change of control (or other relevant event) subject to satisfaction of the performance conditions and pro-rating for time to reflect the proportion of the performance period that has elapsed, although the Committee has discretion to increase the extent of vesting having due regard to performance over the period to vesting. As described on page 55, LTIP awards may also vest early in 'good leaver' circumstances. The Committee has the right to reduce any LTIP awards which have not yet vested (i.e. a malus provision) if an act or omission contributes to a material misstatement of the Group's financial statements or results in material loss or reputational damage for the Company. At any time on or after the vesting of an award and prior to the second anniversary of vesting, a clawback provision allows the Committee to reduce the number of shares subject to an award or cancel an un-exercised award or require a cash payment in respect of shares already delivered under an award if certain events occur. These events include serious misconduct and a material misstatement of the Group's audited results. The Committee may at its discretion structure awards as Approved Performance Share Plan (APSP) awards. APSP awards enable the participant and Company to benefit from HMRC approved option tax treatment in respect of part of the award, without increasing the pre-tax value delivered to participants. APSP awards may be structured either as an approved option for the part of the award up to the HMRC limit (currently £30,000) with an unapproved option for the balance and a 'linked award' to fund the exercise price of the approved option, or as an approved option and an LTIP award, with the vesting of the LTIP award scaled back to take account of any gain made on exercise of the approved option. At its discretion, the Committee may award dividend equivalents to reflect dividends that would have been paid on vested awards under the LTIP from the end of the performance period until the date of release (i.e. the date on which the awards become exercisable). These dividend equivalents may be paid in cash or in shares and may assume the reinvestment of dividends.
Opportunity	The normal maximum award size will be up to 150% of base salary in respect of any financial year. Awards for FY17 will be granted at the level of 125% of salary and it is currently intended that awards will continue to be made at this level. In exceptional circumstances the Committee reserves the right to award up to 200% of base salary in respect of any financial year. These limits do not include the value of shares subject to any approved option granted as part of an APSP award.
Performance metrics	The vesting of LTIP awards is subject to the satisfaction of performance targets set by the Committee. The performance measures are reviewed regularly to ensure they remain relevant but will be based on financial measures and/or share price growth related measures, including (but not exclusively): • free cash flow; • return on capital employed; and • relative total shareholder return. The relevant metrics and the respective weightings may vary each year based upon Group strategic priorities. For 2017, the performance measures and weightings will be: • 40% free cash flow; • 40% return on capital employed; and • 20% relative total shareholder return. For the achievement of threshold performance no more than 25% of each respective element of the award will vest. For the achievement of maximum performance 100% of each respective element will vest. There will usually be straight-line vesting between threshold and maximum performance. The Committee will regularly review the performance conditions and targets to ensure they are aligned to Marston's strategy and remain challenging and reflective of commercial expectations. The Committee has the discretion to vary the vesting schedules by reducing the percentage that vests at each performance level but not by increasing the percentage that vests.

Remuneration Policy continued

Retirement benefits

Purpose and link to strategy	Provides market competitive post-employment (or cash equivalent) benefits.
Operation	Executive Directors are eligible to participate in the defined contribution pension scheme (or such other pension plan as may be deemed appropriate) and, if a member before closure of the scheme, the defined benefit scheme. The defined benefit scheme was closed to new entrants from 29 September 1997. Executive Directors who are members of the closed scheme can continue to receive benefits in accordance with the terms of this scheme. In appropriate circumstances, Executive Directors may take a salary supplement instead of contributions into a pension plan.
Opportunity	Ralph Findlay, who was previously a member of the defined benefit scheme has opted to no longer accrue future benefits and instead receives 25% of base salary as a salary supplement in lieu of pension contributions. All the other Executive Directors (including any new appointments) may receive contributions of up to 20% of base salary under the defined contribution pension scheme, an equivalent cash allowance or a combination of the two (up to 20% of base salary). Active members of the defined benefit pension scheme continued to accrue benefits under this scheme until 30 September 2014.
Performance metrics	Not applicable.

Non-executive Director fees

Purpose and link to strategy	Non-executive Director fees are set at a level that reflects market conditions and is sufficient to attract individuals with appropriate knowledge and experience.
Operation	Fees are usually reviewed every two years and amended to reflect market positioning and any change in responsibilities. The Committee recommends the remuneration of the Chairman to the Board. Fees paid to Non-executive Directors are determined and approved by the Board as a whole. The Non-executive Directors do not participate in the annual bonus plan or any of the Group's share incentive plans. Non-executive Directors may be eligible to receive benefits such as the use of secretarial support, travel costs or other benefits that may be appropriate.
Opportunity	Fees are based on the level of fees paid to Non-executive Directors serving on Boards of similar-sized UK-listed companies and the time commitment and contribution expected for the role. Non-executive Directors receive a basic fee and an additional fee for further duties (for example chairmanship of a Committee or Senior Independent Director responsibilities).
Performance metrics	Not applicable.

The Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed:

(i) before the Policy came into effect (and, in the case of the terms of a payment agreed on or after 5 October 2014, were in line with the policy approved at the 2014 AGM); or

(ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company.

For these purposes the term payments includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

Explanation of performance metrics chosen

Performance measures are selected that are aligned to the Group's strategy. Stretching performance targets are set each year for the annual bonus and long term incentive awards. In setting these performance targets the Committee will take into account a number of different reference points which may include the Group's business plans and strategy and the market environment. Where relative total shareholder return is used there will be no payment for performance below median (compared to the comparator group).

The annual bonus performance targets reflect key financial objectives of the Group and reward for delivery against these.

The LTIP performance targets reflect the Group's strategic objectives and therefore the financial and strategic decisions which ultimately determine the success of the Group. The LTIP performance measures are based on financial measures and/or share price growth related measures, including (but not exclusively):

- Cash Return On Cash Capital Employed – this is a key driver of shareholder value and reflects Marston's investment/disposal plans and the balance sheet.
- Free Cash Flow – this reflects the operating cash flow of the business after tax and interest which is available to return to shareholders as dividends; to reinvest to increase returns; or to pay down debt.
- Relative Total Shareholder Return – aligns management's objectives with those of shareholders and is a broad measure of the extent to which Group strategy is considered appropriate by the market as well as the extent to which it is being well implemented.

The Committee retains the discretion to adjust or set different performance measures or targets if events occur (such as a change in strategy, a material acquisition and/or a divestment of a Group business or a change in prevailing market conditions) which cause the Committee to determine that the measures are no longer appropriate and that amendment is required so that they achieve their original purpose.

Awards and options may be adjusted in the event of a variation of share capital in accordance with the rules of the LTIP, DBP and SAYE.

Illustration of application of Remuneration Policy

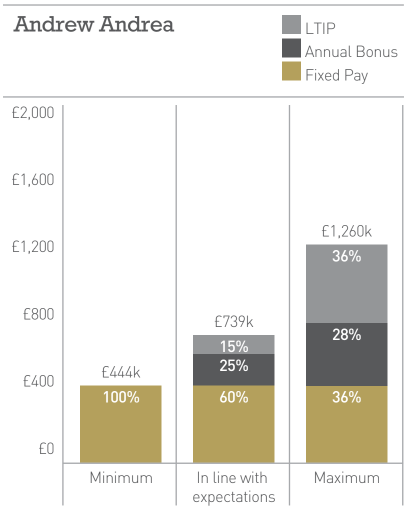
The charts on the following page show the relative split of remuneration between fixed pay (base salary, benefits and pension) and variable pay (annual bonus, deferred bonus plan (DBP) and LTIP) for each Executive Director on the basis of minimum remuneration, remuneration receivable for performance in line with the Company's expectations and maximum remuneration.

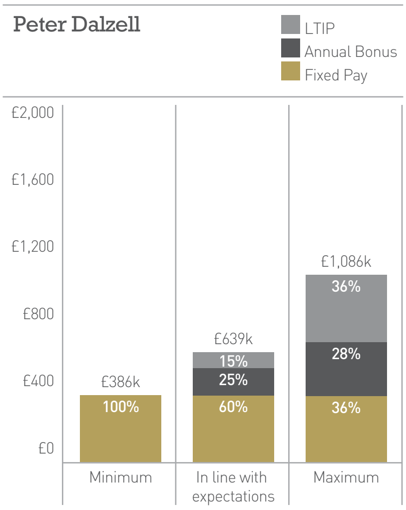
In illustrating the potential reward the following assumptions have been made:

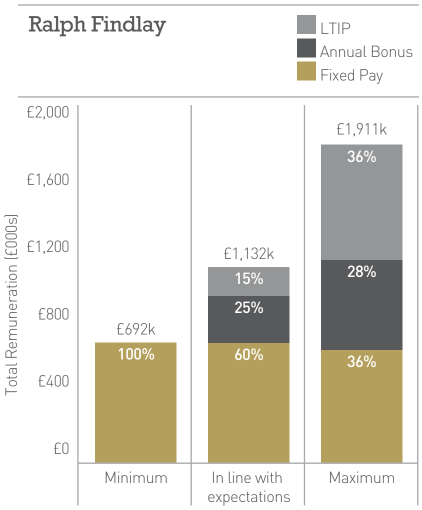
	Fixed pay	**Annual bonus and DBP**	**LTIP**
Minimum performance	Fixed elements of remuneration are base salary, benefits and pension Base salary is the latest known salary (i.e. the salary effective from 1 October 2016) and the value for benefits has been assumed to be equivalent to that included in the single figure calculation on page 58	No bonus	No LTIP vesting
Performance in line with expectations		50% of salary delivered for achieving target performance	25% of maximum award vesting (i.e. 31.25% of salary) for achieving threshold performance across all performance measures
Maximum performance		100% of salary awarded for delivering at or above the highest performance in respect of the annual bonus measures	100% of award vesting (125% of salary) delivered for achieving the most stretching level of performance measures attached to the LTIP awards

Awards under the LTIP and deferred shares vesting under the DBP are included at face value with no share price movement included and ignoring any dividend equivalents that may be awarded.

Remuneration Policy continued







Notes: No percentage split for Minimum bar chart as always 100%

Differences in policy from the wider employee population

The Company aims to provide a remuneration package that is market competitive, complies with any statutory requirements and is applied fairly and equitably across the wider employee population. Where remuneration is not determined by statutory regulation, the Company operates the same core principles as it does for Executive Directors namely;

- we remunerate people in a manner that allows for stability of the business and the opportunity for sustainable long-term growth.
- we seek to remunerate fairly and consistently for each role with due regard to the marketplace, internal consistency and the Group's ability to pay.

With the exception of our pub managers and field-based sales and operations teams, all bonus arrangements within the Group normally have the same structure and payout mechanism as those for Executive Directors.

Participation in the DBP and LTIP is extended to the senior management team at the discretion of the Board and, in line with the policy for Executive Directors, share ownership is encouraged and LTIP participants are expected to build and maintain a minimum level of shareholding. We also encourage long term employee engagement through the offer of SAYE to all employees of the Group who meet a minimum service requirement.

Recruitment Remuneration Policy

Executive Directors

When hiring a new Executive Director, the Committee will typically seek to use the Policy detailed in the table above to determine the Executive Director's ongoing remuneration package. In determining appropriate remuneration, the Committee will take into consideration all relevant factors (including the quantum and nature of remuneration) to ensure the arrangements are in the best interests of Marston's and its shareholders.
To facilitate the hiring of candidates of the appropriate calibre required to implement the Group's strategy, the Committee also retains the discretion to include any other remuneration component or award which is outside the Policy, however, this discretion is subject to the limits and principles referred to below.

- Base salary will be set at a level appropriate to the role and experience of the Executive Director being appointed. This may include agreement on future increases up to a market rate, in line with experience and/or responsibilities and subject to good performance, where it is considered appropriate.
- Pension and benefits will be provided in line with the Policy.
- The Committee will not offer non-performance related incentives (for example a 'guaranteed sign on bonus').
- The circumstances in which other elements may be offered include:
  - an interim appointment being made to fill an Executive Director role on a short-term basis;
  - if exceptional circumstances require that the Chairman or a Non-executive Director takes on an executive function on a short-term basis.
  - if an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or long-term incentive award for that year as there would not be sufficient time to assess performance. Subject to the limit on variable remuneration, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis.
- The Committee may also alter the performance measures, performance period and vesting period and holding period of the annual bonus, DBP or LTIP, if the Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained in the following year's Directors' Remuneration Report.

The Committee may make an award to 'buy-out' incentive arrangements forfeited on leaving a previous employer. In doing so the Committee will take account of relevant factors including the form of award, any performance conditions attached to these awards and the time over which they would have vested. The Committee would seek to incorporate buy-out awards in line with the Company's remuneration framework as far as is practical. The Committee may consider other components for structuring the buy-out, including cash or share awards, restricted stock awards and share options where there is a commercial rationale for doing so.

Appropriate costs and support will be covered if the recruitment requires relocation of the individual.

All recruitment awards will normally be liable to forfeiture or 'clawback' on early departure. For Executive Directors, early departure is defined as being within the first two years of employment.

The maximum level of variable remuneration which may be granted (excluding buy-out arrangements) is 300% of salary. The Committee will ensure that such awards are linked to the achievement of appropriate and challenging performance measures and will be forfeited if performance or continued employment conditions are not met.

Non-executive Directors

Fees payable to a newly-appointed Chairman or Non-executive Director will be in line with the fee policy in place at the time of appointment.

Service contracts and policy on payment for loss of office

Executive Directors' contracts are on a rolling 12 month basis and are subject to 12 months' notice when terminated by the Company and six months' notice when terminated by the Director. The Committee may, in exceptional circumstances, in order to attract and retain suitable executives, offer service contracts with up to an initial 24 month notice period which then reduces to 12 months at the end of this initial period.

The current Non-executive Directors, including the Chairman, do not have a service contract and their appointments, whilst for a term of three years, may be terminated without compensation at any time. All Non-executive Directors have letters of appointment and their appointment and subsequent re-appointment is subject to annual approval by shareholders.

The principles on which the determination of payments of loss of office will be approached are summarised below:

Provision	Treatment upon loss of office
Payment in lieu of notice	Payments to Executive Directors upon termination of their contracts will be equal to base salary plus the value of core benefits for the duration of the notional notice period. They will also be entitled to pension contributions for the duration of the notional notice period or the requisite cash allowance equivalent.
Annual bonus	This will be at the discretion of the Committee on an individual basis and the decision whether or not to award a bonus in full or in part will be dependent upon a number of factors including the circumstances of their departure and their contribution to the business during the bonus period in question. Any bonus amounts paid (as estimated by the Committee) will typically be pro-rated for time in service to termination and will, subject to performance, be paid at the usual time, although the Committee retains discretion to pay the bonus award earlier in appropriate circumstances. Any bonus earned for the year of departure and the preceding year may be paid wholly in cash, with no deferral.
Deferred bonus	Any deferred award under the deferred bonus plan will be determined based on the leaver provisions contained within the deferred bonus plan rules. For participants leaving before the first anniversary of the date of grant deferred awards will lapse unless the participant is considered a 'good leaver'. For a good leaver the deferred award will vest in full. 'Good leavers' are participants who leave as a result of redundancy, death, ill-health, injury or disability, the sale of his employer out of the Group or any other reason at the discretion of the Committee. For a participant leaving after the first anniversary of the date of grant the award will vest in full unless employment is terminated for reasons of misconduct (in which case the award will lapse).
2014 LTIP	Any award under the 2014 LTIP would be determined based on the leaver provisions contained within the 2014 LTIP plan rules. For 'good leavers' unvested LTIP awards will usually be released at the ordinary release date (i.e. following the end of the holding period), although the Committee retains discretion to release awards earlier (for example following the end of the performance period or at the date of cessation) in appropriate circumstances. The vesting of awards is, subject to the performance conditions and, unless the Committee determines otherwise, pro-rating for time to reflect the proportion of the performance period that has elapsed. 'Good leavers' are participants who leave as a result of death, ill-health, injury or disability, the sale of their employer out of the Group or any other reason at the discretion of the Committee. In other circumstances, unvested LTIP awards will lapse upon the cessation of employment. If a participant leaves for any reason (other than summary dismissal) after an award has vested but before it has been released (for example, during a holding period), the award will ordinarily continue to the normal release date when it will be released to the extent it vested. The Committee retains discretion to release awards at the date of cessation in appropriate circumstances.

Remuneration Policy continued

Provision	Treatment upon loss of office
Change of control	Upon a change of control incentive awards will usually vest and be subject to performance conditions and pro-rating for time, to reflect the proportion of the performance period that has elapsed. The Committee retains the discretion to waive pro-rating for time.
Mitigation	Ralph Findlay's service contract is formed under a model which was approved by the Committee in 2001 and there is no reduction in payments for mitigation or for early payment as the Committee has taken the view that as a long-standing employee of the Group, full compensation would be merited in the event of unilateral termination of his employment by the Group. Andrew Andrea and Peter Dalzell's service contracts were formed under a new model approved in 2009 and provide that, subject to formal notice being given by either party, any payment during the notice period will be reduced by any amount earned in that period from alternative employment as a result of being released to work for another employer prior to the conclusion of their notice period.
Other payments	Payments may be made in the event of a loss of office under the SAYE scheme (which is governed by its rules and the applicable tax legislation and does not provide for discretionary treatment). In appropriate circumstances, payments may also be made in respect of accrued holiday pay, outplacement and legal fees and other relevant benefits.

Statement of consideration of employment conditions elsewhere in the Group

Salary, benefits and performance related rewards provided to employees are taken into account when setting policy for Executive Directors' remuneration. Although employees are not actively consulted on Directors' remuneration the Group has regular contact with union bodies on matters of pay and remuneration for employees covered by collective bargaining or consultation arrangements.

In October of each year a paper is submitted to the Committee by the Group People Director summarising the outcome of any annual reviews made to the wider workforce (including head office and supply chain employees but excluding pub based staff as the majority of these employees have their remuneration rate set by statute rather than the market). This paper is taken into account when setting Executive Directors' remuneration effective from the start of October for the following 12 months. In addition, and where relevant, a similar paper is submitted in October covering the decisions taken by the Executive Committee relating to bonus payments for employees within the wider workforce. This is taken into consideration by the Committee when approving bonus awards for Executive Directors.

Statement of consideration of shareholder views

The Committee is committed to open and transparent dialogue with shareholders and welcomes feedback on Executive and Non-executive Directors' remuneration.

Shareholding guidelines

In order to further align the interests of executive Directors with those of shareholders, the Committee applies shareholding guidelines.
These guidelines provide that the Chief Executive is required to hold shares with a value equal to two times' salary and other executive Directors are required to hold shares with a value equal to one time's salary. To achieve these holdings Directors are required to retain any vested shares from the LTIP, net of tax, until the guidelines are satisfied. Shares subject to vested LTIP awards which are in a holding period count towards this guideline (on a net of assumed tax basis).

Annual Report on Remuneration

Committee membership

Neil Goulden (Chairman)

Catherine Glickman

Robin Rowland

Responsibilities

- The Committee is responsible for setting the framework and policy for Executive Directors' remuneration and, within that framework, for determining the remuneration packages for the Executive Directors and the Chairman. The Committee also monitors the level and structure of remuneration for senior management and approves the design and payouts of annual and long-term incentives awards. In addition, they take note of any major changes in employee benefit structures applicable to the wider workforce and they review pension provision and remuneration trends across the Group. The terms of reference of the Committee are reviewed annually by the Committee and then by the Board. The full terms of reference are available on the Group's website. **www.marstons.co.uk/investors**

Attendees

- CEO, Group People Director, external remuneration advisers by invitation.

Advisers

To ensure its decision making is informed and takes account of pay and conditions in the Group as a whole and wider market conditions, the Committee receives advice from a variety of sources. During the year, it considered advice from:

- Deloitte LLP (Deloitte). Appointed by the Committee in 2003, Deloitte is retained as an independent adviser to the Committee as required. Deloitte is a member of the Remuneration Consultants Group and as such voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK. Deloitte was paid £13,300 during the year in respect of advice given to the Committee. Separate teams within Deloitte provided advice on VAT during the year.
- Ralph Findlay, CEO, provided advice in respect of the remuneration of the other Executive Directors but was not in attendance when his own remuneration was discussed.
- The Group Secretary, Anne-Marie Brennan, and the Group People Director, Catherine Taylor, also advised the Committee.

Terms of reference

Full terms of reference of the Committee can be found in the Investors section of the Company's website.
www.marstons.co.uk

Key activities during the reporting year

- Executive Director remuneration – base salary increases of 2%, in line with the wider workforce. Additional base salary increase for Andrew Andrea to reflect his increased responsibilities for contributing to Group Strategy, overseeing corporate projects and delivering a new pub retail system, resulting in an increase of 9.7% in total.
- 2016 bonus proposal and 2013 LTIP award – in return for delivering an increase in underlying profit before tax of 7.1% and achieving the return on capital target of 10.9%, the Executive Directors will receive 40% of their maximum annual bonus entitlement. The Committee has discretion to withhold or reduce awards, having regard to the outturn for the year in which the award vests. As a result of not all internal targets being met this year and, to reaffirm a responsible approach to executive pay, the Committee approved a proposal for the 2013 LTIP to lapse in full.
- Considering and approving the new Remuneration Policy to be proposed to shareholders at the 2017 AGM, following consultation with major shareholders. Consideration of developing practice, the UK Corporate Governance Code and investor feedback.
- Approval of pay awards for the wider workforce, SAYE and LTIP grants.
- Approving a change of practice for Executive Directors to retain fees from external directorships.

Focus for 2016/17

- Review variable pay and the associated performance metrics to ensure they remain challenging and aligned with strategy and shareholder interests.
- Continue to apply a responsible approach to executive pay and incentive award payouts.

Annual Report on Remuneration continued

Executive Directors

Single total figure of remuneration

Period ended 1 October 2016	Salary £	Benefits £	Bonus £	LTIP £	Pension £	Total £
Andrew Andrea	331,000	14,494	132,400	82,251	66,238	626,383
Peter Dalzell	305,000	14,494	122,000	73,170	61,000	575,664
Ralph Findlay	531,000	17,194	212,400	131,809	132,750	1,025,153

Period ended 3 October 2015	Salary £	Benefits £	Bonus £	LTIP* £	Pension £	Total £
Andrew Andrea	325,000	14,438	130,000	0	65,000	534,438
Peter Dalzell	289,000	14,438	115,600	0	57,800	476,838
Ralph Findlay	521,000	17,138	208,400	0	130,250	876,788

*Restated from estimate of 41.7% following Remuneration Committee discretion to withhold the award based on the underlying financial performance of the current year not meeting internal targets. See page 60 for more detail.

Individual elements of remuneration

Fixed pay

Base salary

Base salaries for Executive Directors are reviewed annually by the Remuneration Committee and are set with reference to individual performance, experience and responsibilities within the Group as well as with reference to similar roles in comparable companies. For 2015/16, Ralph Findlay and Andrew Andrea received a 2% salary increase, which was in line with the average salary increases across the Group. Peter Dalzell received an additional 3.5% increase to reflect his span of responsibility, to align his salary with the other Executive Directors and to recognise his contribution to the long-term success of the Group.

For 2016/17, the basic salary increase for Executive Directors is circa 2% in line with the average salary increases across the Group. Andrew Andrea also received a further increase to reflect his additional responsibilities as Chief Financial and Corporate Development Officer, contributing to Group strategy, overseeing corporate projects and delivering a new pubs retail system, taking his total increase to 9.7%. The base salaries for the individual Executive Directors are as set out below:

	2016/17 base salary	2015/16 base salary	Increase
Andrew Andrea	£363,000	£331,000	9.7%
Peter Dalzell	£311,000	£305,000	2.0%
Ralph Findlay	£542,000	£531,000	2.1%

Benefits

The single figure table above shows the taxable value of benefits received in the period and comprises car allowance, private medical insurance and life assurance.

Pension

The pension figures shown in the single figure table above represents the cash value of pension contributions received by the Executive Directors. This includes any salary supplement in lieu of a Company pension contribution.

Pension entitlements:

- Defined contribution scheme. The Group makes contributions into the Group Personal Pension Plan (GPPP) on behalf of Andrew Andrea. A rate of 20% of base salary (partly paid as a GPPP contribution and partly as a taxable cash supplement) is payable in return for a minimum personal contribution of 7.5%. For the period ended 1 October 2016, the Group contribution for Andrew Andrea was £66,238 being £8,890 pension contribution and a salary supplement of £57,348.
- Cash supplement. For the period ended 1 October 2016, Ralph Findlay received a taxable cash supplement of 25% and Peter Dalzell received a cash supplement of 20%, in lieu of pension contributions.
- Defined benefit scheme. Peter Dalzell and Ralph Findlay accrue benefits in the defined benefit scheme which closed to future accrual in 2014. Details are shown in the table below:

	Accrued pension at 30.09.16 £	Accrued pension at 30.09.15 £	Normal retirement age
Peter Dalzell	80,593	80,659	65
Ralph Findlay	109,862	109,969	60

Early retirement can be taken from age 55 provided the Group gives its consent. The accrued pension will then be reduced to take account of its early payment.

On death before retirement, if still employed by Marston's, a spouse's pension is payable equal to one third of the member's pension for Peter Dalzell and 50% for Ralph Findlay plus a lump sum equal to the Director's contributions (including those made via salary sacrifice). On death after retirement the spouse's pension payable is 60% of the member's pre-commutation pension, for both Peter Dalzell and Ralph Findlay.

Variable pay

Annual bonus

With the exception of our pub managers, field-based sales and operations teams, all bonus arrangements within the Group have the same structure and payout mechanism, though the maximum potential award, expressed as a percentage of salary, varies between different employee groups. Payments are calculated based upon achieving or exceeding pre-set targets for both Group profit and return on capital. Sales and operations teams have additional elements within their bonus schemes linked to segmental and individual performance.

Bonuses to Executive Directors and the senior management team are based on performance against pre-set targets for both Group profit (two thirds) and return on capital (one third).

2015/16

Executive Directors could earn a bonus equivalent to 50% of base salary for on-target performance. Above this, the award increases on a linear basis up to a maximum of 100% of base salary. If the target performance is not achieved then there is a linear reduction in the award using the prior period performance as a base. For Executive Directors, the bonus agreement includes the following additional conditions:

- Any bonus earned in excess of 40% of the maximum opportunity is payable in shares which are then deferred for a period of three years;
- Malus and clawback provisions apply and these are detailed in the Policy table.

The Directors consider that the future Group profit and return on capital targets are commercially sensitive matters as they provide competitors with insight into our business plans and expectations and therefore they should remain confidential to the Group. However, the targets and actual performance for 2015/16 are set out below:

2015/16	Threshold	Target	Maximum	Actual	% of salary
Underlying Group profit before taxation	£91.5m	£100.0m	£108.5m	£98.0m	25.5%
Return on capital	10.8%	10.9%	11.0%	10.9%	16.7%
Potential					42.2%
Actual award					40.0%

2016/17

No changes are proposed to the annual bonus scheme for 2016/17 and the Committee will continue to disclose how the bonus payout delivered relates to performance against the targets on a retrospective basis.

Long-term incentives

The value of long-term incentives included in the single figure table on page 58 comprises the value of LTIP awards that vest in respect of the financial period and the value of SAYE options granted in the period.

LTIP

Vesting: LTIP awards granted in 2013/14 were subject to the achievement of the following metrics:

	%	Base	Threshold at 25%	On-target 50% vesting	Maximum 100% vesting
CROCCE	40%	10.8%	Base +0.25%	Base +0.5%	Base +1.0%
FCF	40%	£300m	Base +7.5%	Base +15%	Base +30%
Relative TSR	20%	–	Median	–	Upper quintile

There will be straight-line vesting between the points and no reward below threshold performance.

- CROCCE (Cash Return on Cash Capital Employed) is based on the budget target for 2016. The use of CROCCE removes any potential distortions from subjective decision on depreciation policy and asset revaluation.
- FCF (Free Cash Flow) is set as a three-year cumulative amount (based on the projections for 2014, 2015 and 2016). The operating cash flow of the business is more closely aligned to operating performance than a simple leverage ratio and reflects the cash which is available to reinvest to increase returns, to pay down debt or to pay dividends.
- Relative TSR (Total Shareholder Return compared to the FTSE 250 – excluding investment trusts). The Remuneration Committee believe that a wider comparator group is a more robust and realistic way of measuring how shareholders value the Company. The maximum award has been set at the upper quintile level recognising our commitment to ensuring there are demanding performance targets in place.

The weightings for each metric have been set to balance the direction of focus for management in its day-to-day operations with its ultimate responsibility to shareholders. In order to maintain transparency, the Committee will disclose how the Group has performed against each metric following the end of the performance period.

The extent to which the LTIP awards granted in June 2014 vest will not be determined by the Committee until June 2017 which is the third anniversary of the date of grant. For the purposes of the single figure, the 2014 LTIP is estimated to vest at 21% and the value included in the table has been calculated by multiplying the number of shares in respect of which the 2014 LTIP is estimated to vest by the average share price over the last quarter of the financial period ended 1 October 2016.

Annual Report on Remuneration continued

Granted: LTIP awards granted during 2015/16 were as follows:

	Percentage of salary	Number of shares	Face value at grant*	% of award vesting at threshold	Performance period
Andrew Andrea	125%	278,995	£413,749	25%	Financial periods 2015/16 – 2017/18
Peter Dalzell	125%	257,080	£381,249	25%	
Ralph Findlay	125%	447,572	£663,749	25%	

* Calculated using the mid-market share price at date of grant of £1.483.

The Committee reviewed the base numbers and performance conditions associated with each metric and agreed that they remain appropriate and challenging. The Committee considered the base amounts to be sufficiently stretching without encouraging undue risk and so they remain unchanged. Each award is also subject to a further underlying financial performance condition and will only vest if, in the opinion of the Committee, the prevailing financial performance of the Group in the period of vesting supports it.

Lapsed: in the single total figure of remuneration table for the period ended 3 October 2015 the estimated value of the 2012/13 LTIP award included was based on a vesting of 41.7%, which represented the best estimate at that time. The Group's financial performance for the period was satisfactory but did not achieve all of its internal targets. In considering the wider workforce and the beneficial impact of a Group-wide bonus, the Directors have proposed to waive their LTIP entitlement this year and, as a result, the Committee have exercised their discretion and withheld the LTIP vesting.

Future awards: it is intended to make awards under the LTIP in 2016/17 based on the same performance metrics as 2015/16.

SAYE

For the period ended 3 October 2015 for Peter Dalzell, the long-term incentive value includes the value of SAYE options granted based on the fair value of the options at grant.

For the period ended 1 October 2016 for Andrew Andrea, the long-term incentive value includes the value of SAYE options granted based on the fair value of the options at grant.

Non-executive Directors

Total remuneration (Chairman and Non-executive Directors)

	Base Fee	Committee Chairman	SID	2015/16 Total	2014/15 Total
Roger Devlin	187,500	–	–	187,500	180,000
Nick Backhouse	46,500	7,500	–	54,000	54,000
Carolyn Bradley	46,500	–	–	46,500	46,500
Catherine Glickman[1]	46,500	–	–	46,500	38,750
Neil Goulden	46,500	7,500	5,000	59,000	59,000
Robin Rowland	46,500	–	–	46,500	46,500
Rosalind Cuschieri[2]	–	–	–	–	15,500

[1] Catherine Glickman was appointed as a Non-executive Director on 1 December 2014.

[2] Rosalind Cuschieri stepped down from the Board on 27 January 2015.

Fees

Non-executive Directors' fees, other than the Chairman, are determined by the Board and are reviewed every two years. These fees were last reviewed in 2013/14 and so the Board has reviewed the fees during the period. To reflect not only the responsibilities and duties placed on each Non-executive Director but also the time commitment required, and having regard also to market practice, the Board approved the following fee structure with effect from 1 October 2016:

	2016/17	2015/16
Basic fee	£50,000	£46,500
Additional fee for:		
Chairmanship of the Audit Committee	£7,000	£7,500
Chairmanship of the Remuneration Committee	£6,000	£7,500
Senior Independent Director	£6,000	£5,000

The maximum authority for Non-executive Directors' fees (in aggregate), as outlined in our Articles of Association, is £500,000 a year. To ensure sufficient headroom for the next three years, we propose to increase the maximum authority for Non-executive Directors' fees to £750,000 (in aggregate) at our 2017 AGM.

Interests in ordinary shares

The beneficial interests of the Non-executive Directors and their connected persons in the share capital of the Company are shown below:

	As at 01.10.16	As at 03.10.15
Roger Devlin	150,000	150,000
Nick Backhouse	25,000	25,000
Carolyn Bradley	25,000	25,000
Catherine Glickman	25,000	25,000
Neil Goulden	268,000	268,000
Robin Rowland	52,083	52,083

Payments to past Directors and payment for loss of office

There were no payments made to past Directors during the period, nor were there any payments made for loss of office.

Relative importance of spend on pay

The table below demonstrates the relative importance of the Group's expenditure on total employee pay compared to dividend payments to shareholders.

	2016	2015	% change
Dividend payments	£41.9m	£40.1m	4.5%
Total employee pay	£201.0m	£185.6m	8.3%

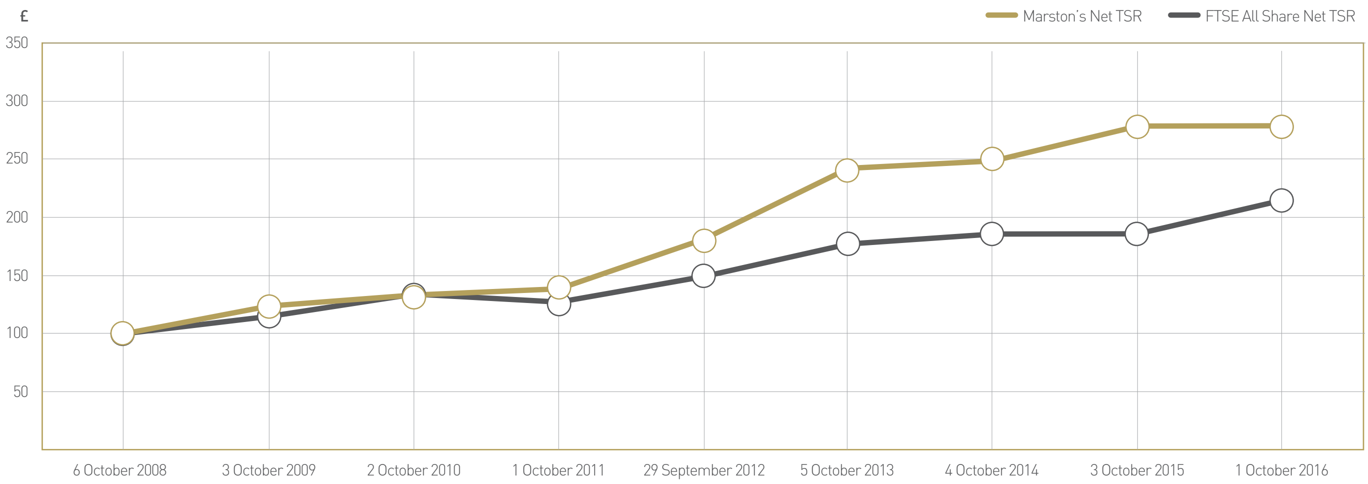
Change in CEO and employee pay

The table below shows the percentage change in the salary, benefits and annual bonus for the CEO between the current and previous financial period, compared to the wider workforce, excluding pub staff. The Committee believes this provides a more appropriate comparison as the majority of pub-based staff have their remuneration rate set by statute rather than the market.

	Salary	Benefits	Annual bonus
CEO	1.9%	0%	0%
Wider workforce	2.0%	0%	0%

Performance graph

This graph shows the value, at 1 October 2016, of £100 invested in the Company on 6 October 2008 compared to the value of £100 invested in the FTSE All Share Index. The FTSE All Share Index has been selected as a comparator because the Company is a member of that index.



CEO remuneration over the same period

	Total remuneration	Annual bonus	LTIP vesting
2015/16	£1,025,153	40%	21%
2014/15	£876,788*	40%	0%*
2013/14	£1,121,294	25%	41.9%
2012/13	£937,312	0%	44.2%
2011/12	£815,690	40%	0%
2010/11	£974,784	46%	0%
2009/10	£826,677	40%	0%
2008/09	£640,190	0%	0%

*Restated to exclude previously estimated LTIP of 41.7% following Remuneration Committee discretion to withhold the award based on the underlying financial performance of the current year not meeting internal targets.

Annual Report on Remuneration continued

External appointments for Executive Directors

During the year, the Committee reviewed its approach to Executive Directors taking on external appointments and the treatment of any fees arising there from. The Committee confirmed the Company's practice of allowing Executive Directors to take up external appointments, subject to approval by the Board, and agreed that allowing the Director to retain any fees received would be more appropriate as being in line with market practice.

Ralph Findlay is a Non-executive Director of Bovis Homes Group PLC and during the year he received fees of £27,000.

Shareholder voting

The following table sets out actual voting outcome in respect of the Directors' Remuneration Report at the Annual General Meeting held on 26 January 2016.

	Votes for	% of vote	Votes against	%	Votes withheld
Approval of the Annual Report on Remuneration	86,080,535	99.34%	568,252	0.66%	4,105,331

The following table sets out the actual voting outcome in respect of the Directors' Remuneration Policy at the Annual General Meeting held on 21 January 2014.

	Votes for	% of vote	Votes against	%	Votes withheld
Approval of the Directors' Remuneration Policy	94,611,659	97.34%	2,588,801	2.66%	3,025,426

Supplementary schedules

Directors' share interests

Shareholding guidelines

The Committee recognises the importance of setting shareholding guidelines for the Executive Directors to work towards: the holdings further align the interests of the Executive Directors with those of our shareholders. Under the new remuneration policy proposed to shareholders at our 2017 AGM, the guideline for the CEO will increase from 100% to 200% of salary to bring it in line with market practice; the expectation for the other Executive Directors will remain at 100% of salary and the Committee will continue to monitor these levels.

As at 1 October 2016, Andrew Andrea held in excess of 100% of base salary, Peter Dalzell held 69% and Ralph Findlay held in excess of 200% of base salary of base salary in shares based on the closing mid-market price of an ordinary share on the last business day of the financial period.

Executive Directors' interests as at 1 October 2016

	Owned outright			
	At 01.10.16	At 03.10.15	Subject to deferral	Subject to performance
Andrew Andrea	262,179	185,125	24,492	1,013,687
Peter Dalzell	144,315	95,509	14,055	910,645
Ralph Findlay	1,104,862	993,303	7,438	1,624,948

Executive Directors' interests in share options as at 1 October 2016

		Grant date	Brought Forward 03.09.15	Granted	Exercised/ Vested	Lapsed	Carried Forward 01.09.16	Exercise Price	Vesting Date
Andrew Andrea	SAYE	2013	7,330	–	7,330	–	0	1.2277	2016
		2014	12,396	–	–	–	12,396	1.21	2019
		2016	–	12,096	–	–	12,096	1.24	2021
	LTIP	2012	314,960	–	131,968	182,992	0		2015
		2013	210,777	–	–	–	210,777		2016
		2014	275,748	–	–	–	275,748		2017
		2015	248,167	–	–	–	248,167		2018
		2016	–	278,995	–	–	278,995		2019
Peter Dalzell	SAYE	2014	7,438	–	–	–	7,438	1.21	2017
		2015	6,617	–	–	–	6,617	1.36	2018
	LTIP	2012	220,472	–	92,377	128,095	0		2015
		2013	187,585	–	–	–	187,585		2016
		2014	245,302	–	–	–	245,302		2017
		2015	220,678	–	–	–	220,678		2018
		2016	–	257,080	–	–	257,080		2019
Ralph Findlay	SAYE	2014	7,438	–	–	–	7,438	1.21	2017
	LTIP	2012	503,937	–	211,149	292,788	0		2015
		2013	337,653	–	–	–	337,653		2016
		2014	441,892	–	–	–	441,892		2017
		2015	397,831	–	–	–	397,831		2018
		2016	–	447,572	–	–	447,572		2019

Other Statutory Information

This section contains additional information which the Directors are required by law and regulation to include within the Annual Report and Accounts. This section along with the information from the Chairman's Statement on page 8 to the Statement of Directors' Responsibilities on page 66 constitutes the Directors' Report in accordance with the Companies Act 2006.

Strategic Report

The Company is required by the Companies Act to include a Strategic Report in this document. The information that fulfils the requirements of the Strategic Report can be found on the inside front cover to page 33, which are incorporated in this report by reference.

Corporate Governance Statement

The Corporate Governance Statement as required by the Financial Conduct Authority's Disclosure and Transparency Rules (DTR) 7.2.1 is set out on page 35 and is incorporated into this report by reference.

Research and development

In-house research and development is undertaken alongside work with the British Beer and Pub Association (BBPA) and Brewing Research International.

Capital structure

Details of the Company's issued share capital and of the movements during the period are shown in note 27 to the financial statements on page 102. The Company has one class of ordinary shares and one class of preference shares. On a poll vote, ordinary and preference shareholders have one vote for every 25 pence of nominal value of ordinary and preference share capital held in relation to all circumstances at general meetings of the Company. The issued nominal value of the ordinary shares and preference shares is 100% of the total issued nominal value of all share capital.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 26 to the financial statements on pages 101 to 102. Where shares are held on behalf of the Company's share schemes, the trustees have waived their right to vote and to dividends.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Under the Articles of Association, the Directors have authority to allot ordinary shares subject to the aggregate set at the 2016 Annual General Meeting (AGM). The Company was also given authority at its 2016 AGM to make market purchases of ordinary shares up to a maximum number of 57,517,267 shares. Similar authority will again be sought from shareholders at the 2017 AGM.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act 2006 and related legislation. The Articles may be amended by special resolution of the shareholders. The powers of the Directors are further described in the Corporate Governance Report on pages 36 to 43.

Directors

Biographies of the Directors currently serving on the Board are set out on pages 38 and 39.

Changes to the Board during the period are set out in the Corporate Governance Report on page 36. Details of Directors' service contracts are set out in the Directors' Remuneration Report on page 55.

In accordance with the requirements of the UK Corporate Governance Code all Directors (other than Neil Goulden who has announced his retirement from the Board in January 2017) will offer themselves for re-election at the AGM on 24 January 2017.

Change of control

There are a number of agreements that take effect after, or terminate upon, a change of control of the Company, such as commercial contracts, bank loan agreements, property lease arrangements and employee share plans. None of these are considered to be significant in terms of their likely impact on the business as a whole. Furthermore, the Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Dividends on ordinary shares

An interim dividend of 2.6 pence per ordinary share was paid on 5 July 2016. The Directors recommend a final dividend of 4.7 pence per ordinary share to be paid on 30 January 2017 to shareholders on the register on 16 December 2016. This would bring the total dividend for 2015/16 to 7.3 pence per ordinary share (2015: 7.0 pence per ordinary share). The payment of the final dividend is subject to shareholder approval at the AGM.

Preference shares

The preference shares carry the right to a fixed cumulative preferential dividend at the rate of 6% per annum payable in June and December. Further details are given in note 17 on page 93.

Other Statutory Information continued

Major interest in Company shares

Notifications of the following voting interests in the Company's ordinary share capital had been received by the Company (in accordance with Chapter 5 of the DTR). The information shown below was correct at the time of disclosure. However, the date received may not have been within the current financial reporting period and the percentages shown (as provided at the time of disclosure) have not been re-calculated based on the issued share capital at the period end. It should also be noted that these holdings may have changed since the Company was notified, however, notification of any change is not required until the next notifiable threshold is crossed.

No further notifications have been received by the Company between 1 October 2016 and 21 November 2016 (being the latest practical date prior to the date of this report).

Ordinary shares of 7.375 pence each

Shareholder	As at 1 October 2016	% of voting rights
The Capital Group Companies, Inc	34,423,328	6.01%
Brewin Dolphin	28,448,600	4.94%
Royal London Asset Management Limited	23,114,123	4.03%

The Company also discloses the following information, obtained from the Register of Members, for the preference shares:

Preference shares

Shareholder	Number	% of preference share voting rights
Fiske Nominees Ltd	34,048	45.39%
Mrs HM Medlock	10,407	13.87%
George Mary Allison Ltd	5,500	7.33%
Mr PF and Dr K Knowles	4,356	5.80%
Mr GAL Southall and Mr N Aston	2,855	3.80%
Mrs H Michels	2,750	3.66%
Mr R Somerville	2,750	3.66%
Hargreave Hale Nominees Ltd	2,700	3.60%

Insurance and indemnities

The Company maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against its Directors and Officers. In accordance with the Company's Articles of Association and to the extent permitted by law, the Company has indemnified each of its Directors and other Officers of the Group against certain liabilities that may be incurred as a result of their position within the Group. These indemnities were in place for the whole of the period ended 1 October 2016 and as at the date of the report. There are no indemnities in place for the benefit of the Auditors.

Employee information

The average number of employees within the Group is shown in note 5 to the financial statements on page 86.

Apart from ensuring that an individual has the ability to carry out a particular role, we do not discriminate in any way. We endeavour to retain employees if they become disabled, making reasonable adjustments to their role and, if necessary, look for redeployment opportunities within the Group. We also ensure that training, career development and promotion opportunities are available to all employees irrespective of gender, race, age or disability.

The Company is committed to keeping employees informed of business performance and our strategy, aiming to drive engagement and ensure employees are enabled. We do this in a variety of ways from presentations of the interim and annual results by senior management, to video and email messages from our CEO. In addition, there are a range of internal communication channels including newsletters, magazines, apps and briefings to keep employees abreast of developments. Employees' views are sought through regular engagement surveys across the Group and action plans are put in place to respond to issues arising. Employees are also encouraged to participate in the Company's Sharesave scheme.

Human rights

Marston's is committed to respecting and upholding human rights within our business and also within our supply chain. However, Marston's does not currently have a separate human rights policy.

Modern slavery statement

Our Modern Slavery Act disclosure will be published on our website **www.marstons.co.uk** within six months of the date of this report.

Environmental policy and mandatory greenhouse gas emissions reporting

Marston's corporate responsibility strategy reflects the responsible behaviour at the heart of our business. The Board recognises that this approach is key to building sustainable growth and reputational value. Our responsible approach defines our corporate behaviour, the perception of our brands and the appreciation for the quality of our products and standard of service.

Each year Marston's publishes a Corporate Responsibility Report providing information on the many aspects of our corporate values, available at **www.marstons.co.uk**.

Environmental impact

Marston's publishes detailed information on energy consumption, water usage and waste in its Corporate Responsibility Report. In recent years we have achieved considerable reductions in energy usage by replacing the lighting in the public areas of our managed and franchised pubs with LED lighting. Water usage has been reduced by installing water management systems in our managed pubs and franchised estate. We continue to aim to increase the percentage of waste being recycled (2016: 81.2%, 2015: 81.0%). Currently 346 of our managed pubs recycle food waste (2015: 336).

This year electricity and gas consumption emissions have decreased which is due to milder weather conditions this year compared to last, but also because of the energy reduction projects carried out at our pubs. Projects this year have included installing more LED lighting in front of house areas (282 sites during the year, 868 sites to date), ambient air to cool our cellars rather than air conditioning (50 sites during the year, 392 to date), voltage optimisation, heating control systems and heat recovery systems.

Fuel Types	**2016** **CO_2e tonnes**	2015 CO_2e tonnes
Electricity and gas	**117,171**	128,611
Petrol and diesel	**11,665**	11,809
Refrigerants – breweries	**65**	62
Refrigerants – pubs	**4,179**	4,393
LPG	**2,511**	2,417

Greenhouse Gas Emissions Intensity Ratio:	**2016**	2015
CO_2e tonnes per £100,000 of turnover	**15.09**	18.41

Notes:

1. We report on all the measured emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.
2. Data collected is in respect of the year ended 31 March 2016, the period for which our carbon emissions are reported under the Carbon Reduction Commitment Energy Efficiency Scheme.

Political donations

Our policy is not to make any donations for political purposes in the UK or to donate to EU political parties or incur EU political expenditure.

Financial instruments

The disclosures required in relation to the use of financial instruments by the Group together with details of our treasury policy and management are set out in note 20 to the financial statements on pages 95 to 97.

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue as Auditors and their re-appointment has been approved by the Audit Committee. Resolutions to re-appoint them and to authorise the Directors to determine their remuneration will be proposed at the 2017 AGM.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group is described on pages 24 to 30. In addition, note 20 to the financial statements on pages 95 to 97 includes the Group's objectives, policies and processes for managing its exposures to interest rate risk, foreign currency risk, counterparty risk, credit risk and liquidity risk. Details of the Group's financial instruments and hedging activities are also provided in note 20.

The Board has a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements set out on pages 73 to 105 and 108 to 118 have been prepared on the going concern basis.

Annual General Meeting

The AGM of the Company will be held at Wolverhampton Wanderers Football Club, Molineux Stadium, Waterloo Road, Wolverhampton WV1 4QR at 12 noon on 24 January 2017. The notice convening the meeting, together with details of the special business to be considered and explanatory notes for each resolution, is distributed separately to shareholders. It is also available at **www.marstons.co.uk**, where a copy can be viewed and downloaded.

By order of the Board

Anne-Marie Brennan
Group Secretary

24 November 2016

Company registration number: 31461

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration 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 the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 the Company and of the profit or loss of the Group 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 accounting estimates that are reasonable and prudent;
- state whether IFRS as adopted by the EU and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Company financial statements respectively;
- 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 Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Each of the Directors, whose names and functions are listed on page 38 to 39 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report together with the Other Statutory Information includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

In accordance with Section 418, Companies Act 2006, Directors' reports shall include a statement, in the case of each Director in office at the date the Directors' Report is approved, that:

(a) so far as the Director is aware, there is no relevant audit information of which the Company's Auditors are unaware; and

(b) he/she has taken all the steps that he/she ought to have taken as a Director in order to make him/herself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

Ralph Findlay
Chief Executive Officer

Andrew Andrea
Chief Financial and Corporate Development Officer

24 November 2016

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Five Year Record

	2012 (Restated) (52 weeks) £m	2013 (Restated) (53 weeks) £m	2014 (52 weeks) £m	2015 (52 weeks) £m	**2016 (52 weeks) £m**
Underlying revenue	719.7	782.9	787.6	845.5	**905.8**
Underlying profit before taxation	86.7	86.1	83.0	91.5	**98.0**
Non-underlying items	(223.3)	(18.6)	(142.2)	(60.2)	**(17.2)**
(Loss)/profit before taxation	(136.6)	67.5	(59.2)	31.3	**80.8**
Taxation*	25.5	(10.6)	8.5	(8.0)	**(7.8)**
(Loss)/profit after taxation	(111.1)	56.9	(50.7)	23.3	**73.0**
Net assets	762.0	841.9	759.0	782.9	**752.1**
(Loss)/earnings per ordinary share	(19.5)p	10.0p	(8.9)p	4.1p	**12.7p**
Non-underlying items	31.7p	2.0p	20.6p	8.8p	**1.3p**
Underlying earnings per ordinary share	12.2p	12.0p	11.7p	12.9p	**14.0p**
Dividend per ordinary share	6.1p	6.4p	6.7p	7.0p	**7.3p**

* Taxation includes the tax on non-underlying items together with non-underlying credits of £2.4 million in 2016, £3.1 million in 2013 and £2.1 million in 2012 in respect of the change in corporation tax rate and a non-underlying credit of £4.1 million in 2016 in respect of the additional tax relief claimed for previous periods following the agreement of the tax treatment of certain items with HM Revenue & Customs.

Independent Auditors' Report to the Members of Marston's PLC

Report on the Group financial statements

Our opinion
In our opinion, Marston's PLC's Group financial statements (the 'financial statements'):

- give a true and fair view of the state of the Group's affairs as at 1 October 2016 and of its profit and cash flows for the 52 week period (the 'period') then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

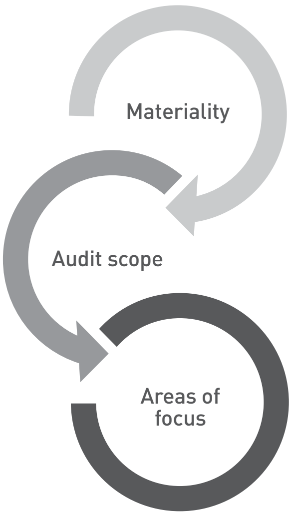
What we have audited
The financial statements, included within the Annual Report and Accounts (the 'Annual Report'), comprise:

- the Group Balance Sheet as at 1 October 2016;
- the Group Income Statement and the Group Statement of Comprehensive Income for the period then ended;
- the Group Cash Flow Statement for the period then ended;
- the Group Statement of Changes in Equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRS as adopted by the European Union, and applicable law.

Our audit approach
Overview



- Overall Group materiality: £4.9 million which represents 5% of profit before tax and non-underlying items

- Audit performed at the level of the consolidated Group

- Valuation of the estate
- Disclosure of items as 'non-underlying'

The scope of our audit and our areas of focus
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Independent Auditors' Report to the Members of Marston's PLC continued

Area of focus	How our audit addressed the area of focus
Valuation of the estate (notes 1, 4, 12 and 15) We focus on the Directors' annual assessment of the carrying value of land and buildings because properties are a significant item on the balance sheet and there are complex and subjective assumptions used in the valuations, including the future expected performance of pubs and multiples applied. A full external valuation of the estate was undertaken during FY15. In FY16 management have undertaken an exercise to identify if there have been any impairment triggers or changes in market conditions including property based transactions both within the market place and the Marston's estate which would indicate changes in property valuation. The absence of any such triggers or changes in market conditions supports the carrying value of the Group's property portfolio as at the balance sheet date.	We have reviewed the Directors' annual assessment and examined their assumptions therein, utilising internal specialists to validate the conclusions reached. We have taken into account the impact of any changes in macroeconomic conditions, individual pub performance and recent market transactions and their associated multiples. We found the assumptions adopted to be appropriate and consistent with our knowledge of the business.
Disclosure of items as 'non-underlying' (notes 1 and 4) The financial statements include certain items which are disclosed as 'non-underlying' such as non-core estate disposal and reorganisation costs, the results arising from the ongoing management of the portfolio of pubs subject to disposal in FY14, movements in the financial assumptions used in determining the onerous lease provisions, relocation, reorganisation and integration costs, movements in the fair value of interest rate swaps, tax relief in respect of prior periods including associated costs and the profit on sale of surplus land for residential development. Management has included these items as non-underlying using the criteria explained in their accounting policy which is disclosed in note 1 to the financial statements. We focused on this area because non-underlying items are not defined by IFRS as adopted by the European Union and it therefore requires judgement by the Directors to identify such items. Consistency in identifying and disclosing items as non-underlying is important to maintain comparability of the current year results with previous periods.	We assessed the appropriateness of the Group's accounting policy and whether those items disclosed as non-underlying were consistent with the accounting policy and the approach taken in previous accounting periods. We found the Group's accounting policy to be appropriate and the classification of items to be consistent with the accounting policy. We also considered an appropriate threshold to apply to non-underlying items based on the financial statement line items that were affected. For example, certain property related items are considered by management to have a higher threshold for disclosure as non-underlying. We concluded that the thresholds adopted are appropriate in the circumstances. We assessed whether other non-recurring items should have been classified as non-underlying and discussed this with the Directors and the Audit Committee. We confirmed that all significant items meeting the criteria in the Group's accounting policy had been identified and that the treatment was consistent year on year.

How we tailored the audit scope
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the industry in which the Group operates, the geographic structure of the Group and the accounting processes and controls.

The Group is structured along four business lines being Destination and Premium, Taverns, Leased and Brewing, supported by Group Services. The Group financial statements are a consolidation of subsidiaries and special purpose entities, principally comprising the Group's operating businesses, property companies, securitisation vehicles, holding companies and an insurance company.

In establishing the overall approach to the Group audit we considered the consolidated trial balance for the Group as a whole and designed our audit testing for each financial statement line item based on the size and nature of the transactions and balances that are aggregated to form that line item and our assessment of the risk of material misstatement. We used our professional judgement to determine the nature and extent of testing required over each line item in the financial statements.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£4.9 million (2015: £4.6 million).
How we determined it	5% of profit before tax and non-underlying items.
Rationale for benchmark applied	We believe that profit before tax and non-underlying items is the primary measure used by the shareholders in assessing the performance of the Group and is a generally accepted auditing benchmark. The exclusion of items classified as non-underlying is consistent with previous years and practice within the sector.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.2 million (2015: £0.2 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern
Under the Listing Rules we are required to review the Directors' statement, set out on page 65, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 reporting
In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

In our opinion:

- the information given in the Corporate Governance Statement set out on pages 35 to 43 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
• information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
• the statement given by the Directors on page 66, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report on pages 45 to 46, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
• the Directors' confirmation on page 20 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the Directors' explanation on page 30 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.
Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.	

Independent Auditors' Report to the Members of Marston's PLC continued

Adequacy of information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate Governance Statement
Under the Companies Act 2006 we are required to report to you if, in our opinion, a Corporate Governance Statement has not been prepared by the Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 66, 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the Company financial statements of Marston's PLC for the 52 week period ended 1 October 2016 and on the information in the Directors' Remuneration Report that is described as having been audited.

Mark Smith (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
24 November 2016

Group Income Statement

For the 52 weeks ended 1 October 2016

		2016			2015		
	Note	Underlying items £m	Non-underlying items £m	Total £m	Underlying items £m	Non-underlying items £m	Total £m
Revenue	2, 3, 4	**905.8**	**31.5**	**937.3**	845.5	33.1	878.6
Operating expenses*	3	**(733.1)**	**(40.3)**	**(773.4)**	(680.1)	(84.7)	(764.8)
Operating profit	2, 4	**172.7**	**(8.8)**	**163.9**	165.4	(51.6)	113.8
Finance costs	6	**(75.2)**	**–**	**(75.2)**	(74.5)	–	(74.5)
Finance income	6	**0.5**	**–**	**0.5**	0.6	–	0.6
Movement in fair value of interest rate swaps	4, 6	**–**	**(8.4)**	**(8.4)**	–	(8.6)	(8.6)
Net finance costs	4, 6	**(74.7)**	**(8.4)**	**(83.1)**	(73.9)	(8.6)	(82.5)
Profit before taxation		**98.0**	**(17.2)**	**80.8**	91.5	(60.2)	31.3
Taxation	4, 7	**(17.6)**	**9.8**	**(7.8)**	(17.7)	9.7	(8.0)
Profit for the period attributable to equity shareholders		**80.4**	**(7.4)**	**73.0**	73.8	(50.5)	23.3
Earnings per share:							
Basic earnings per share	9			**12.7p**			4.1p
Basic underlying earnings per share	9			**14.0p**			12.9p
Diluted earnings per share	9			**12.6p**			4.0p
Diluted underlying earnings per share	9			**13.8p**			12.8p

Group Statement of Comprehensive Income

For the 52 weeks ended 1 October 2016

	2016 £m	2015 £m
Profit for the period	**73.0**	23.3
Items of other comprehensive income that may subsequently be reclassified to profit or loss		
Losses arising on cash flow hedges	**(50.9)**	(56.1)
Transfers to the income statement on cash flow hedges	**11.3**	12.2
Tax on items that may subsequently be reclassified to profit or loss	**2.0**	8.7
	(37.6)	(35.2)
Items of other comprehensive income that will not be reclassified to profit or loss		
Remeasurement of retirement benefits	**(56.3)**	(6.7)
Unrealised surplus on revaluation of properties*	**2.0**	216.5
Reversal of past revaluation surplus*	**–**	(120.6)
Tax on items that will not be reclassified to profit or loss	**27.7**	(17.1)
	(26.6)	72.1
Other comprehensive (expense)/income for the period	**(64.2)**	36.9
Total comprehensive income for the period	**8.8**	60.2

* During the prior period revaluations of the Group's freehold and leasehold properties were undertaken, resulting in a net increase in property values of £57.3 million. An unrealised surplus on revaluation of £216.5 million and a reversal of past revaluation surplus of £120.6 million were recognised in the revaluation reserve, and a net charge of £38.6 million was recognised in the income statement. Further detail is provided in notes 4, 11, 12 and 15 to the financial statements.

Group Cash Flow Statement

For the 52 weeks ended 1 October 2016

	Note	2016 £m	2015 £m
Operating activities			
Underlying operating profit		**172.7**	165.4
Depreciation and amortisation		**40.0**	37.9
Underlying EBITDA		**212.7**	203.3
Non-underlying operating items		**(8.8)**	(51.6)
EBITDA		**203.9**	151.7
Working capital movement	29	**8.9**	10.7
Non-cash movements	29	**(7.9)**	30.0
(Decrease)/increase in provisions and other non-current liabilities		**(4.7)**	0.1
Difference between defined benefit pension contributions paid and amounts charged		**(7.6)**	(14.0)
Income tax paid		**(9.8)**	(16.2)
Net cash inflow from operating activities		**182.8**	162.3
Investing activities			
Interest received		**0.7**	0.7
Sale of property, plant and equipment and assets held for sale		**45.9**	69.6
Purchase of property, plant and equipment and intangible assets		**(143.7)**	(142.3)
Acquisition of business		**–**	(28.8)
Movement in other non-current assets		**1.7**	2.4
Net cash outflow from investing activities		**(95.4)**	(98.4)
Financing activities			
Equity dividends paid	8	**(40.8)**	(38.9)
Interest paid		**(70.3)**	(71.8)
Arrangement costs of bank facilities		**–**	(0.2)
Arrangement costs of other lease related borrowings		**(2.8)**	(2.9)
Purchase of own shares		**(0.1)**	–
Proceeds from sale of own shares		**0.9**	1.5
Repayment of securitised debt		**(26.7)**	(25.4)
Advance of bank borrowings		**13.0**	38.0
Capital element of finance leases repaid		**(0.1)**	(0.1)
Advance of other lease related borrowings		**40.7**	47.0
Net cash outflow from financing activities		**(86.2)**	(52.8)
Net increase in cash and cash equivalents	30	**1.2**	11.1

Group Balance Sheet

As at 1 October 2016

	Note	1 October 2016 £m	3 October 2015 £m
Non-current assets			
Goodwill	10	**227.5**	227.5
Other intangible assets	11	**37.3**	37.6
Property, plant and equipment	12	**2,199.4**	2,122.6
Deferred tax assets	22	**16.7**	3.2
Retirement benefit surplus	25	**–**	15.0
Other non-current assets	13	**10.4**	12.1
		2,491.3	2,418.0
Current assets			
Inventories	14	**28.7**	28.2
Trade and other receivables	16	**85.0**	84.3
Cash and cash equivalents*	30	**185.6**	193.1
		299.3	305.6
Assets held for sale	15	**6.6**	18.0
Current liabilities			
Borrowings*	17	**(176.9)**	(154.0)
Derivative financial instruments	18	**(38.0)**	(25.7)
Trade and other payables	21	**(194.9)**	(185.2)
Current tax liabilities		**(3.6)**	(7.2)
		(413.4)	(372.1)
Non-current liabilities			
Borrowings	17	**(1,278.1)**	(1,284.1)
Derivative financial instruments	18	**(202.7)**	(167.0)
Deferred tax liabilities	22	**(77.5)**	(92.2)
Retirement benefit obligations	25	**(34.0)**	–
Other non-current liabilities	23	**(0.6)**	(1.8)
Provisions for other liabilities and charges	24	**(38.8)**	(41.5)
		(1,631.7)	(1,586.6)
Net assets		**752.1**	782.9
Shareholders' equity			
Equity share capital	27	**44.4**	44.4
Share premium account		**334.0**	334.0
Revaluation reserve		**623.1**	616.0
Capital redemption reserve	28	**6.8**	6.8
Hedging reserve		**(165.7)**	(128.1)
Own shares	28	**(113.7)**	(118.7)
Retained earnings		**23.2**	28.5
Total equity		**752.1**	782.9

The financial statements on pages 73 to 105 were approved by the Board and authorised for issue on 24 November 2016 and are signed on its behalf by:

Ralph Findlay

Chief Executive Officer
24 November 2016

* Cash and cash equivalents includes £120.0 million (2015: £120.0 million) drawn down under the liquidity facility and borrowings includes the corresponding liability (note 30).

Group Statement of Changes in Equity

For the 52 weeks ended 1 October 2016

	Equity share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Own shares £m	Retained earnings £m	Total equity £m
At 4 October 2015	44.4	334.0	616.0	6.8	(128.1)	(118.7)	28.5	782.9
Profit for the period	–	–	–	–	–	–	73.0	73.0
Remeasurement of retirement benefits	–	–	–	–	–	–	(56.3)	(56.3)
Tax on remeasurement of retirement benefits	–	–	–	–	–	–	10.3	10.3
Losses on cash flow hedges	–	–	–	–	(50.9)	–	–	(50.9)
Transfers to the income statement on cash flow hedges	–	–	–	–	11.3	–	–	11.3
Tax on hedging reserve movements	–	–	–	–	2.0	–	–	2.0
Property revaluation	–	–	2.0	–	–	–	–	2.0
Deferred tax on properties	–	–	17.4	–	–	–	–	17.4
Total comprehensive income/(expense)	–	–	19.4	–	(37.6)	–	27.0	8.8
Share-based payments	–	–	–	–	–	–	0.4	0.4
Purchase of own shares	–	–	–	–	–	(0.1)	–	(0.1)
Sale of own shares	–	–	–	–	–	5.1	(4.2)	0.9
Disposal of properties	–	–	(14.1)	–	–	–	14.1	–
Tax on disposal of properties	–	–	2.7	–	–	–	(2.7)	–
Transfer to retained earnings	–	–	(0.9)	–	–	–	0.9	–
Dividends paid	–	–	–	–	–	–	(40.8)	(40.8)
Total transactions with owners	–	–	(12.3)	–	–	5.0	(32.3)	(39.6)
At 1 October 2016	**44.4**	**334.0**	**623.1**	**6.8**	**(165.7)**	**(113.7)**	**23.2**	**752.1**

	Equity share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Own shares £m	Retained earnings £m	Total equity £m
At 5 October 2014	44.4	334.0	545.9	6.8	(92.9)	(126.8)	47.6	759.0
Profit for the period	–	–	–	–	–	–	23.3	23.3
Remeasurement of retirement benefits	–	–	–	–	–	–	(6.7)	(6.7)
Tax on remeasurement of retirement benefits	–	–	–	–	–	–	1.4	1.4
Losses on cash flow hedges	–	–	–	–	(56.1)	–	–	(56.1)
Transfers to the income statement on cash flow hedges	–	–	–	–	12.2	–	–	12.2
Tax on hedging reserve movements	–	–	–	–	8.7	–	–	8.7
Property revaluation	–	–	216.5	–	–	–	–	216.5
Property impairment	–	–	(120.6)	–	–	–	–	(120.6)
Deferred tax on properties	–	–	(18.5)	–	–	–	–	(18.5)
Total comprehensive income/(expense)	–	–	77.4	–	(35.2)	–	18.0	60.2
Share-based payments	–	–	–	–	–	–	0.8	0.8
Tax on share-based payments	–	–	–	–	–	–	0.3	0.3
Sale of own shares	–	–	–	–	–	8.1	(6.6)	1.5
Disposal of properties	–	–	(7.4)	–	–	–	7.4	–
Tax on disposal of properties	–	–	0.9	–	–	–	(0.9)	–
Transfer to retained earnings	–	–	(0.8)	–	–	–	0.8	–
Dividends paid	–	–	–	–	–	–	(38.9)	(38.9)
Total transactions with owners	–	–	(7.3)	–	–	8.1	(37.1)	(36.3)
At 3 October 2015	**44.4**	**334.0**	**616.0**	**6.8**	**(128.1)**	**(118.7)**	**28.5**	**782.9**

Further detail in respect of the Group's equity is provided in notes 27 and 28 to the financial statements.

Notes

For the 52 weeks ended 1 October 2016

1 Accounting policies

Basis of preparation
These consolidated financial statements for the 52 weeks ended 1 October 2016 (2015: 52 weeks ended 3 October 2015) have been prepared in accordance with IFRS and IFRS Interpretations Committee (IFRS IC) and Standing Interpretations Committee interpretations adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain items, principally land and buildings, derivative financial instruments, retirement benefits and share-based payments.

The prior period deferred tax balances that were originally presented on a gross basis in the balance sheet have been represented on a net basis to better reflect the offsetting requirements of IAS 12 'Income Taxes' and to be consistent with the current period presentation.

At the time of approving the financial statements, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

New standards and interpretations
The International Accounting Standards Board (IASB) and IFRS IC have issued the following new or revised standards and interpretations with an effective date for financial periods beginning on or after the dates disclosed below. These standards and interpretations have not yet been adopted by the Group.

IFRS 2	Share-based Payment	
	Amendments to clarify the classification and measurement of share-based payment transactions	1 January 2018
IFRS 4	Insurance Contracts	
	Amendments regarding the interaction of IFRS 4 and IFRS 9	1 January 2018
IFRS 9	Financial Instruments	
	New accounting standard	1 January 2018
IFRS 10	Consolidated Financial Statements	
	Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture	Date deferred
	Amendments regarding the application of the consolidation exception	1 January 2016
IFRS 11	Joint Arrangements	
	Amendments regarding the accounting for acquisitions of an interest in a joint operation	1 January 2016
IFRS 12	Disclosure of Interests in Other Entities	
	Amendments regarding the application of the consolidation exception	1 January 2016
IFRS 14	Regulatory Deferral Accounts	
	New accounting standard	1 January 2016
IFRS 15	Revenue from Contracts with Customers	
	New accounting standard	1 January 2018
IFRS 16	Leases	
	New accounting standard	1 January 2019
IAS 1	Presentation of Financial Statements	
	Amendments resulting from the disclosure initiative	1 January 2016
IAS 7	Statement of Cash Flows	
	Amendments as a result of the disclosure initiative	1 January 2017
IAS 12	Income Taxes	
	Amendments regarding the recognition of deferred tax assets for unrealised losses	1 January 2017
IAS 16	Property, Plant and Equipment	
	Amendments regarding the clarification of acceptable methods of depreciation and amortisation	1 January 2016
	Amendments bringing bearer plants into the scope of IAS 16	1 January 2016
IAS 27	Separate Financial Statements	
	Amendments reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements	1 January 2016
IAS 28	Investments in Associates and Joint Ventures	
	Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture	Date deferred
	Amendments regarding the application of the consolidation exception	1 January 2016
IAS 38	Intangible Assets	
	Amendments regarding the clarification of acceptable methods of depreciation and amortisation	1 January 2016
IAS 41	Agriculture	
	Amendments bringing bearer plants into the scope of IAS 16	1 January 2016

The IASB have also issued a number of minor amendments to standards as part of their Annual Improvements to IFRS.

The Directors are considering the impact of the adoption of the above new standards and amendments on the Group. In particular, the adoption of IFRS 16 'Leases' is expected to have a significant impact on both the Group's balance sheet and income statement. For leases where it is the lessee the Group will be required to recognise assets and liabilities in the balance sheet in the majority of cases and recognise depreciation and finance costs in the income statement.

Basis of consolidation
The consolidated financial statements incorporate the audited financial statements of Marston's PLC and all of its subsidiary undertakings. The results of new subsidiary undertakings are included in the Group accounts from the date on which control transferred to the Group or, in the case of disposals, up to the effective date of disposal. Transactions between Group companies are eliminated on consolidation.

Notes continued

For the 52 weeks ended 1 October 2016

1 Accounting policies (continued)

The Group has applied the purchase method in accounting for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the consideration paid and deferred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition costs are expensed as incurred. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the identifiable net assets of the subsidiary acquired, the difference is recognised immediately in the income statement.

The consolidated financial statements incorporate the results of Marston's Issuer PLC and its parent company, Marston's Issuer Parent Limited. Marston's Issuer PLC was set up with the sole purpose of issuing debt secured on assets owned by the Group. Wilmington Trust SP Services (London) Limited holds the shares of Marston's Issuer Parent Limited under a declaration of trust for charitable purposes. The rights provided to the Group through the securitisation give the Group power over these companies and the ability to use that power to affect its exposure to variable returns from them. As such the Directors of Marston's PLC consider that these companies are controlled by the Group, as defined in IFRS 10 'Consolidated Financial Statements', and hence for the purpose of the consolidated financial statements they have been treated as subsidiary undertakings.

Revenue and other operating income
Revenue represents the value of goods (principally drink and food) and services (principally accommodation, gaming machines and third party brewing, packaging and distribution) supplied to customers, and rent receivable from licensed properties. Revenue from drink, food, accommodation, brewing, packaging and distribution is recognised at the point at which the goods or services are provided. Gaming machine income is recognised as earned. Rental income is recognised in the period to which it relates. Revenue is recorded net of discounts, intra group transactions, VAT and excise duty relating to the brewing and packaging of certain products. Other operating income mainly comprises rent receivable from unlicensed properties, which is recognised in the period to which it relates.

Operating segments
For segment reporting purposes the Group is considered to have five distinguishable operating segments, being Destination and Premium, Taverns, Leased, Brewing and Group Services. This mirrors the Group's internal reporting structure, and reflects the different distribution channels, customer profiles and nature of products and services provided within each segment. An element of Group Services' costs is allocated to each of the trading segments.

The operating segments set out in note 2 are consistent with the internal reporting provided to the chief operating decision maker. For the purposes of IFRS 8 'Operating Segments' the chief operating decision maker has been identified as the Executive Directors.

Acquired businesses are treated as separate reporting segments, where material, until they have been fully integrated with the Group's operating segments.

Non-underlying items
In order to illustrate the underlying trading performance of the Group, presentation has been made of performance measures excluding those items which it is considered would distort the comparability of the Group's results. These non-underlying items comprise exceptional items and other adjusting items.

Exceptional items are defined as those items that, by virtue of their nature, size or expected frequency, warrant separate additional disclosure in the financial statements in order to fully understand the underlying performance of the Group. As management of the freehold and leasehold property estate is an essential and significant area of the business, the threshold for classification of property related items as exceptional is higher than other items.

Other adjusting items comprise the revenue and expenses in respect of the ongoing management of the portfolio of pubs disposed of in the period ended 4 October 2014. Following their disposal these pubs no longer form part of the Group's core activities and the Group does not have the ability to make strategic decisions in respect of them. As such it is considered appropriate to exclude the results of these pubs from the Group's underlying results.

Intangible assets
Intangible assets are carried at cost less accumulated amortisation and any impairment losses. Intangible assets arising on an acquisition are recognised separately from goodwill if the fair value of these assets can be identified separately and measured reliably.

Amortisation is calculated on a straight-line basis over the estimated useful life of the intangible asset. Where the useful life of the asset is considered to be indefinite no annual amortisation is provided but the asset is subject to annual impairment reviews. Impairment reviews are carried out more frequently if events or changes in circumstances indicate that the carrying value of an asset may be impaired. Any impairment of carrying value is charged to the income statement.

The useful lives of the Group's intangible assets are:

Acquired brands	Indefinite
Lease premiums	Life of the lease
Computer software	3 to 15 years
Development costs	10 years

Research and development expenditure
All expenditure on the research phase of an internal project is expensed as incurred.

Development costs are recognised as an intangible asset when the following conditions are met:

- It is technically feasible to complete the intangible asset so that it will be available for use;
- Management intends to complete the asset and use or sell it;
- There is an ability to use or sell the asset;
- It can be demonstrated how the asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the asset are available; and
- The expenditure attributable to the asset during its development can be reliably measured.

1 Accounting policies (continued)

Other development expenditure that does not meet these criteria is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Goodwill
Goodwill arising on acquisitions is capitalised and represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets and liabilities acquired. Goodwill is not amortised but instead is reviewed for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Any impairment is recognised immediately in the income statement.

For the purposes of impairment testing, goodwill is allocated to cash generating units that are consistent with the Group's operating segments.

Property, plant and equipment
- Freehold and leasehold properties are initially stated at cost and subsequently at valuation. Plant and machinery and fixtures, fittings, tools and equipment are stated at cost.
- Depreciation is charged to the income statement on a straight-line basis to provide for the cost of the assets less their residual value over their useful lives.
- Freehold and long leasehold buildings are depreciated to their residual value over 50 years.
- Short leasehold properties are depreciated over the life of the lease.
- Plant and machinery and fixtures, fittings, tools and equipment are depreciated over periods ranging from 3 to 15 years.
- Own labour and interest costs directly attributable to capital projects are capitalised.
- Land is not depreciated.

Residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date.

Properties are revalued by qualified valuers on a sufficiently regular basis using open market value so that the carrying value of an asset does not differ significantly from its fair value at the balance sheet date. Substantially all of the Group's properties have been externally valued in accordance with the Royal Institution of Chartered Surveyors' Red Book. These valuations are performed directly by reference to observable prices in an active market or recent market transactions on arm's length terms. Internal valuations are performed on the same basis.

The estate is reviewed for indication of impairment at each reporting date, using a process focusing on areas of risk and business performance throughout the portfolio to identify any exposure.

Impairment losses are charged to the revaluation reserve to the extent that a previous gain has been recorded, and thereafter to the income statement. Surpluses on revaluation are recognised in the revaluation reserve, except to the extent that they reverse previously charged impairment losses, in which case the reversal is recorded in the income statement.

Disposals of property, plant and equipment
Profit/loss on disposal of property, plant and equipment represents net sale proceeds less the carrying value of the assets. Any element of the revaluation reserve relating to the property disposed of is transferred to retained earnings at the date of sale.

Impairment
If there are indications of impairment or reversal of impairment, an assessment is made of the recoverable amount. An impairment loss is recognised where the recoverable amount is lower than the carrying value of assets, including goodwill. The recoverable amount is the higher of value in use and fair value less costs to sell.

Where there is an indication that any previously recognised impairment losses no longer exist or have decreased, a reversal of the loss is made if there has been a change in the estimates used to determine the recoverable amounts since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount only up to the carrying amount that would have resulted, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior periods. The reversal is recognised in the income statement unless the asset is carried at revalued amount. The reversal of an impairment loss on a revalued asset is recognised in other comprehensive income and increases the revaluation surplus for that asset. However, to the extent that an impairment loss on the same revalued asset was previously recognised in the income statement, the reversal of that impairment loss is recognised in the income statement. The depreciation charge is adjusted in future periods to allocate the asset's revised carrying value, less any residual value, on a systematic basis over its remaining useful life. There is no reversal of impairment losses relating to goodwill.

Acquired brands are reviewed for impairment on a portfolio basis.

Leases
Leases are classified as finance leases if the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The cost of assets held under finance leases is included within property, plant and equipment and depreciation is charged in accordance with the accounting policy for each class of asset concerned. The corresponding capital obligations under these leases are shown as liabilities. The finance charge element of rentals is charged to the income statement and classified within finance costs as incurred.

Rental costs under operating leases, including lease incentives, are charged to the income statement on a straight-line basis over the term of the lease. Similarly, income receivable under operating leases is credited to the income statement on a straight-line basis over the term of the lease.

Obligations arising from sale and leaseback arrangements with repurchase options that do not fall within the scope of IAS 17 'Leases' are classified as other lease related borrowings and accounted for in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

Notes continued

For the 52 weeks ended 1 October 2016

1 Accounting policies (continued)

Inventories
Inventories are stated at the lower of cost and net realisable value. Raw materials are valued on a 'first in, first out' basis, with the exception of hops which are valued at average cost. Finished goods and work in progress include direct materials, labour and a proportion of attributable overheads.

Assets held for sale
Assets, typically properties and related fixtures and fittings, are categorised as held for sale when the value of the asset will be recovered through a sale transaction rather than continuing use. This condition is met when the sale is highly probable, the asset is available for immediate sale in its present condition and is being actively marketed. In addition, the Group must be committed to the sale and completion should be expected to occur within one year from the date of classification. Assets held for sale are valued at the lower of carrying value and fair value less costs to sell, and are no longer depreciated.

Financial instruments
The Group classifies its financial assets in one of the following two categories: at fair value through profit or loss and loans and receivables. The Group classifies its financial liabilities in one of the following two categories: at fair value through profit or loss and other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of the Group's financial instruments at initial recognition.

Financial instruments at fair value through profit or loss
Derivatives are categorised as financial instruments at fair value through profit or loss unless they are designated as part of a hedging relationship. The Group holds no other financial instruments at fair value through profit or loss.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's loans and receivables comprise trade receivables, other receivables, trade loans and cash and cash equivalents in the balance sheet. Loans and receivables are carried at amortised cost using the effective interest method.

Other financial liabilities
Non-derivative financial liabilities are classified as other financial liabilities. The Group's other financial liabilities comprise borrowings, trade payables and other payables. Other financial liabilities are carried at amortised cost using the effective interest method.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The Group assesses whether there is objective evidence that a financial asset is impaired at each balance sheet date.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

Derivative financial instruments
The only derivative financial instruments that the Group enters into are interest rate swaps. The purpose of these transactions is to manage the interest rate risk arising from the Group's operations and its sources of finance.

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured at their fair value at each balance sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within exceptional finance income or costs.

Gains or losses arising from changes in the fair value of derivatives which are not designated as part of a hedging relationship are presented in the income statement within exceptional finance income or costs in the period in which they arise.

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. The fair values of derivatives which are not designated as part of a hedging relationship are classified as current assets or liabilities. Accrued interest is recognised separately in current assets or liabilities as appropriate.

At the inception of a hedging transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking the hedging transaction. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within exceptional finance income or costs.

Amounts that have been recognised in other comprehensive income in respect of cash flow hedges are reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flow affects profit or loss.

1 Accounting policies (continued)

Trade receivables and other receivables
Trade receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. A provision for impairment of trade receivables and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade or other receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within other net operating charges. When a trade or other receivable is uncollectable, it is written off against the allowance account for trade or other receivables. Subsequent recoveries of amounts previously written off are credited against other net operating charges in the income statement.

Trade loans
In common with other major brewers, the Group makes trade loans to publicans who purchase the Group's beer. These trade loans are classified as other non-current assets in the balance sheet and are recognised initially at fair value and subsequently at amortised cost less provision for impairment. Significant trade loans are secured against the property of the loan recipient.

Cash and cash equivalents
Cash and cash equivalents include cash in hand and deposits on call with banks. Bank overdrafts are shown within borrowings in current liabilities. For the purpose of the cash flow statement, cash and cash equivalents are as defined above, net of outstanding bank overdrafts.

Borrowings
Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Preference shares are classified as liabilities. The dividends on these preference shares are recognised in the income statement as finance costs.

Borrowing costs are recognised as an expense in the period in which they are incurred, except for interest costs incurred on the financing of major projects, which are capitalised until the time that the projects are available for use.

Trade payables and other payables
Trade payables and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Employee benefits
Pension costs for the Group's defined benefit pension plan are determined by the Projected Unit Credit Method, with actuarial calculations being carried out at each period end date. Costs are recognised in the income statement within operating expenses and net finance costs. The current service cost, past service cost and gains or losses arising from settlements are included within operating expenses. The net interest on the net defined benefit asset/liability and the administrative expenses paid from plan assets are included within net finance costs.

Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are recognised in full in the period in which they occur in the statement of comprehensive income. The return on plan assets, excluding amounts included in the net interest on the net defined benefit asset/liability, is also recognised in other comprehensive income.

The asset/liability recognised in the balance sheet for the defined benefit pension plan is the fair value of plan assets less the present value of the defined benefit obligation. Where the fair value of plan assets exceeds the present value of the defined benefit obligation, the Group recognises an asset at the lower of the fair value of plan assets less the present value of the defined benefit obligation, and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Pension costs for the Group's defined contribution pension plans are charged to the income statement in the period in which they arise.

Post-retirement medical benefits are accounted for in an identical way to the Group's defined benefit pension plan.

Key management personnel
Key management personnel are those who have authority and responsibility for planning, directing and controlling the activities of the Group. In the case of Marston's PLC, the Directors of the Group are considered to be the only key management personnel.

Current and deferred tax
The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date and is measured at the amount expected to be paid to or recovered from the tax authorities.

Deferred tax is provided in full, using the liability method, on all differences that have originated but not reversed by the balance sheet date, and which give rise to an obligation to pay more or less tax in the future. Differences are defined as the differences between the carrying value of assets and liabilities and their tax base.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the assets can be utilised.

Deferred tax is calculated using tax rates that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Notes continued

For the 52 weeks ended 1 October 2016

1 Accounting policies (continued)

Provisions
Provisions are recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

When valuations of leasehold properties (based on future estimated income streams) give rise to a deficit as a result of onerous lease conditions they are recognised as provisions. These provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The key assumptions used in the discounted cash flow calculations are the discount rates, inflation rates and market rents and vacant periods of the properties.

Other contractual property costs are also recorded as provisions as appropriate.

Share-based payments
The fair value of share-based remuneration at the date of grant is calculated using the Black-Scholes option-pricing model and charged to the income statement on a straight-line basis over the vesting period of the award. The charge to the income statement takes account of the estimated number of shares that will vest.

Non-vesting conditions are taken into account when determining the fair value of the Group's share-based payments, and all cancellations of share-based payments, whether by the Group or by employees, are accounted for in an identical manner with any costs unrecognised at the date of cancellation being immediately accelerated.

Own shares
Own shares comprise treasury shares, and shares held on trust for employee share schemes, which are used for the granting of shares to applicable employees. Own shares are recognised at cost as a deduction from shareholders' equity. Subsequent consideration received for the sale of such shares is also recognised in equity, with any difference between the sale proceeds and the original cost being taken to equity. No income or expense is recognised in the performance statements on own share transactions.

Dividends
Dividends proposed by the Board but unpaid at the period end are recognised in the financial statements when they have been approved by the shareholders. Interim dividends are recognised when paid.

Transactions and balance sheet items in a foreign currency
Transactions in a foreign currency are translated to sterling using the exchange rate at the date of the transaction. Monetary receivables and payables are remeasured at closing day rates at each balance sheet date. Exchange gains or losses that arise from such remeasurement and on settlement of the transaction are recognised in the income statement. Translation differences for non-monetary assets valued at fair value through profit or loss are reported as part of the fair value gain or loss. Gains or losses on disposal of non-monetary assets are recognised in the income statement.

Key assumptions and significant judgements
IFRS requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The Group's key assumptions and significant judgements are in respect of property, plant and equipment, impairment, retirement benefits, financial instruments, property lease provisions, lease classification and non-underlying items. Details of these assumptions and judgements are provided in the relevant accounting policy and detailed note to the financial statements as set out below:

Property, plant and equipment
- Valuation of properties (see accounting policy).
- Assets' useful lives and residual values (see accounting policy).

Impairment
- Assumptions made in the value in use calculation, in particular the pre-tax discount rate applied to cash flow projections and the growth rate used to extrapolate projected cash flows beyond one year budgets (notes 10 and 11).

Retirement benefits
- Actuarial assumptions in respect of the defined benefit pension plan, which include discount rates, rates of increase in pensions, inflation rates and life expectancies (note 25).
- Recognition of a retirement benefit surplus (see accounting policy).

Financial instruments
- Valuation of financial instruments that are not traded in an active market (note 20).

Property lease provisions
- Assumptions made in the discounted cash flow calculations, in particular the market rents, vacant periods, inflation rates and discount rates (see accounting policy).

Lease classification
- Judgements in respect of whether a lease has transferred substantially all the risks and rewards of ownership to the lessee, in particular whether the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset and whether the lease term is for the major part of the economic life of the asset (see accounting policy).

Non-underlying items
- Determination of items to be classed as non-underlying (see accounting policy).

2 Segment reporting

For segment reporting purposes the Group is considered to have five distinguishable operating segments as follows:

Segment	Revenue
Destination and Premium	Food and drink sales, accommodation and gaming machine income
Taverns	Food and drink sales, rent from licensed properties, accommodation and gaming machine income
Leased	Drink sales, rent from licensed properties and gaming machine income
Brewing	Drink sales and third party brewing, packaging and distribution
Group Services	N/A

Transfer prices between operating segments are on an arm's length basis.

Underlying revenue by segment	2016 £m	2015 £m
Destination and Premium	**440.8**	408.1
Taverns	**221.0**	214.7
Leased	**50.7**	53.6
Brewing	**193.3**	169.1
Group Services	**–**	–
Underlying revenue	**905.8**	845.5
Non-underlying items	**31.5**	33.1
Revenue	**937.3**	878.6

Underlying operating profit by segment	2016 £m	2015 £m
Destination and Premium	**90.2**	83.6
Taverns	**56.0**	55.9
Leased	**24.2**	23.8
Brewing	**23.2**	20.7
Group Services	**(20.9)**	(18.6)
Underlying operating profit	**172.7**	165.4
Non-underlying operating items	**(8.8)**	(51.6)
Operating profit	**163.9**	113.8
Net finance costs	**(83.1)**	(82.5)
Profit before taxation	**80.8**	31.3

	Additions to non-current assets*		Depreciation and amortisation	
Other segment information	2016 £m	2015 £m	2016 £m	2015 £m
Destination and Premium	**102.2**	96.1	**16.1**	16.2
Taverns	**21.6**	22.3	**7.5**	7.1
Leased	**4.8**	5.5	**1.6**	1.8
Brewing	**10.5**	12.0	**10.2**	8.7
Group Services	**8.1**	8.9	**4.6**	4.1
Total	**147.2**	144.8	**40.0**	37.9

* Excludes amounts relating to goodwill, deferred tax, retirement benefits and financial instruments.

Geographical areas
Revenue generated outside the United Kingdom during the period was £3.9 million (2015: £3.3 million).

3 Revenue and operating expenses

Revenue	2016 £m	2015 £m
Goods	**874.2**	814.7
Services	**63.1**	63.9
	937.3	878.6

Revenue from services includes rent receivable from licensed properties of £19.1 million (2015: £20.5 million).

Notes continued

For the 52 weeks ended 1 October 2016

3 Revenue and operating expenses (continued)

Operating expenses	2016 £m	2015 £m
Change in stocks of finished goods and work in progress	**(0.3)**	(1.1)
Own work capitalised	**(4.9)**	(4.3)
Other operating income	**(8.0)**	(8.1)
Raw materials, consumables and excise duties	**324.9**	301.7
Depreciation of property, plant and equipment	**38.3**	36.3
Amortisation of intangible assets	**1.7**	1.6
Employee costs	**203.5**	187.6
Hire of plant and machinery	**0.8**	1.0
Other operating lease rentals	**22.4**	21.4
Income from other non-current assets	**(0.2)**	(0.2)
Impairment of freehold and leasehold properties	**–**	38.6
Other net operating charges	**195.2**	190.3
	773.4	764.8

The amounts included in the line items above which have been classed as non-underlying are as follows:

	2016 £m	2015 £m
Other operating income	**(0.1)**	(0.2)
Raw materials, consumables and excise duties	**9.9**	10.8
Employee costs	**2.5**	2.0
Other operating lease rentals	**9.2**	10.9
Impairment of freehold and leasehold properties	**–**	38.6
Other net operating charges	**18.8**	22.6
	40.3	84.7

PricewaterhouseCoopers LLP fees:	2016 £m	2015 £m
Fees payable to the Company's Auditors for the audit of the Company's annual accounts	**0.1**	0.2
Fees payable to the Company's Auditors for other services to the Group:		
The audit of the Company's subsidiaries	**0.1**	0.1
Audit related assurance services	**0.1**	0.1
Other non-audit services	**0.1**	–
	0.4	0.4

4 Non-underlying items

	2016 £m	2015 £m
Exceptional operating items		
Non-core estate disposal and reorganisation costs	**1.7**	2.5
Impact of change in rate assumptions used for onerous lease provisions	**4.4**	4.9
Relocation, reorganisation and integration costs	**3.8**	2.6
Impairment of freehold and leasehold properties	**–**	39.0
Profit on sale of surplus land for residential development	**(1.5)**	–
Tax advisory fees	**0.5**	–
	8.9	49.0
Other adjusting operating items		
Results in respect of the ongoing management of pubs in the portfolio disposal	**(0.1)**	2.6
	(0.1)	2.6
Non-underlying operating items	**8.8**	51.6
Exceptional non-operating items		
Movement in fair value of interest rate swaps	**8.4**	8.6
	8.4	8.6
Total non-underlying items	**17.2**	60.2

Non-core estate disposal and reorganisation costs
During the period ended 5 October 2013 the Group commenced a restructuring of its pub estate and operating segments. Costs in respect of this restructuring were incurred in both the current and prior period.

Impact of change in rate assumptions used for onerous lease provisions
The update of the discount and inflation rate assumptions used in the calculation of the Group's onerous property lease provisions at the current period end resulted in an increase of £4.4 million (2015: £4.9 million) in the total provision.

4 Non-underlying items (continued)

Relocation, reorganisation and integration costs
During the current and prior period a redevelopment of the Group's head office building in Wolverhampton was undertaken along with a reorganisation of certain head office functions. Costs of £0.5 million (2015: £1.6 million) were incurred in respect of temporarily relocating to alternative premises nearby during the period of redevelopment and in undertaking the reorganisation.

The Group also incurred reorganisation and integration costs of £3.3 million (2015: £1.0 million) as a result of the acquisition of the trading operations of Daniel Thwaites PLC's beer division in the prior period.

Profit on sale of surplus land for residential development
During the current period the Group sold a parcel of surplus land for residential development for £9.5 million realising a profit of £1.5 million on disposal.

Portfolio disposal of pubs
During the period ended 4 October 2014 the Group disposed of a portfolio of 202 pubs and subsequently entered into a four year lease and five year management agreement in respect thereof. The Group no longer has strategic control of these pubs and they do not form part of its core activities. As such the results in respect of the ongoing operation and management of these pubs post disposal have been classified as a non-underlying item, comprised as follows:

	2016 £m	2015 £m
Revenue	**31.5**	33.1
Operating expenses	**(31.4)**	(35.7)
	0.1	(2.6)

Movement in fair value of interest rate swaps
The Group's interest rate swaps are revalued to fair value at each balance sheet date. The movement in fair value of interest rate swaps which are not designated as part of a hedging relationship, and the ineffective portion of the movement in fair value of interest rate swaps which are accounted for as hedging instruments are both recognised in the income statement. The net loss of £8.4 million (2015: £8.6 million) is shown as an exceptional item.

Impact of taxation
The current tax credit relating to the above non-underlying items amounts to £1.7 million (2015: £1.9 million). The deferred tax credit relating to the above non-underlying items amounts to £1.6 million (2015: £7.8 million). In addition, there is a non-underlying deferred tax credit of £2.4 million (2015: £nil) in relation to the change in corporation tax rate (note 7).

During the current period the Group agreed the tax treatment of certain items with HM Revenue & Customs. The tax credit of £4.1 million in respect of the additional tax relief claimed for previous periods has been classified as a non-underlying item along with the associated advisory fees of £0.5 million.

Prior period non-underlying items
At 1 February 2015 the Group's freehold and leasehold properties were revalued by independent chartered surveyors on an open market value basis. The resulting revaluation adjustments were recognised in the revaluation reserve or income statement as appropriate. The amount recognised in the income statement comprised:

	2015 £m
Impairment of other intangible assets (note 11)	0.1
Reversal of impairment of other intangible assets (note 11)	(0.2)
Impairment of property, plant and equipment (note 12)	60.1
Reversal of impairment of property, plant and equipment (note 12)	(26.3)
Impairment of assets held for sale (note 15)	5.0
Reversal of impairment of assets held for sale (note 15)	(0.1)
Valuation fees	0.4
	39.0

5 Employees

Employee costs	2016 £m	2015 £m
Wages and salaries	**181.8**	167.1
Social security costs	**13.6**	12.5
Pension costs	**6.8**	6.3
Share-based payments	**0.4**	0.8
Termination costs	**0.9**	0.9
	203.5	187.6

A non-underlying charge of £2.5 million (2015: £2.0 million) is included in employee costs.

Notes continued

For the 52 weeks ended 1 October 2016

5 Employees (continued)

Average monthly number of employees	**2016 Number**	2015 Number
Bar staff	**11,125**	10,830
Management, administration and production	**2,376**	2,270

Key management personnel

Directors' emoluments are set out in the Directors' Remuneration Report on pages 47 to 62. The total cost to the Group of the Directors' remuneration for the period was £2.8 million (2015: £3.0 million), including employers' national insurance, pension costs and share-based payments.

6 Finance costs and income

Finance costs	**2016 £m**	2015 £m
Unsecured bank borrowings	**12.2**	11.7
Securitised debt	**47.8**	49.2
Finance leases	**1.1**	1.1
Other lease related borrowings	**12.6**	10.7
Net finance cost in respect of retirement benefits	**0.2**	0.1
Other interest payable	**1.3**	1.7
Total finance costs	**75.2**	74.5
Finance income		
Deposit and other interest receivable	**(0.5)**	(0.6)
Total finance income	**(0.5)**	(0.6)
Movement in fair value of interest rate swaps		
Gain on movement in fair value of interest rate swaps	**(3.9)**	–
Loss on movement in fair value of interest rate swaps	**12.3**	8.6
	8.4	8.6
Net finance costs	**83.1**	82.5

7 Taxation

Income statement	**2016 £m**	2015 £m
Current tax		
Current period	**14.1**	14.2
Adjustments in respect of prior periods	**(0.6)**	0.1
Credit in respect of tax on non-underlying items	**(1.7)**	(1.9)
Non-underlying credit in relation to additional relief for prior periods	**(3.7)**	–
	8.1	12.4
Deferred tax		
Current period	**4.2**	3.5
Adjustments in respect of prior periods	**(0.1)**	(0.1)
Credit in respect of tax on non-underlying items	**(1.6)**	(7.8)
Non-underlying credit in relation to the change in tax rate	**(2.4)**	–
Non-underlying credit in relation to additional relief for prior periods	**(0.4)**	–
	(0.3)	(4.4)
Taxation charge reported in the income statement	**7.8**	8.0

Statement of comprehensive income	**2016 £m**	2015 £m
Remeasurement of retirement benefits	**(10.3)**	(1.4)
Impairment and revaluation of properties	**(17.4)**	18.5
Hedging reserve movements	**(2.0)**	(8.7)
Taxation (credit)/charge reported in the statement of comprehensive income	**(29.7)**	8.4

A deferred tax credit of £8.4 million (2015: £nil) relating to the change in corporation tax rate has been recognised in the statement of comprehensive income and is included in the above amounts.

Recognised directly in equity	**2016 £m**	2015 £m
Tax on share-based payments	**–**	(0.3)
Taxation credit recognised directly in equity	**–**	(0.3)

7 Taxation (continued)

The actual tax rate for the period is lower (2015: higher) than the standard rate of corporation tax of 20% (2015: 20.5%). The differences are explained below:

Tax reconciliation	**2016 £m**	2015 £m
Profit before tax	**80.8**	31.3
Profit before tax multiplied by the corporation tax rate of 20% (2015: 20.5%)	**16.2**	6.4
Effect of:		
Adjustments in respect of prior periods	**(0.7)**	–
Non-underlying credit in relation to additional relief for prior periods	**(4.1)**	–
Net deferred tax (credit)/charge in respect of land and buildings	**(1.1)**	1.2
Costs not deductible for tax purposes	**0.4**	0.9
Other amounts upon which tax relief is available	**(0.5)**	(0.6)
Impact of difference between deferred and current tax rates	**–**	0.1
Impact of change in tax rate	**(2.4)**	–
Current period taxation charge	**7.8**	8.0

The March 2013 Budget announced that the standard rate of corporation tax would change from 21% to 20% with effect from 1 April 2015. This change was enacted in the Finance Act 2013 in July 2013. As such the Group's profits for the prior period were taxed at an effective rate of 20.5%.

The July 2015 Budget announced that the standard rate of corporation tax would change from 20% to 19% with effect from 1 April 2017 and then from 19% to 18% with effect from 1 April 2020. The March 2016 Budget announced that the standard rate of corporation tax would now change from 19% to 17% with effect from 1 April 2020. These changes were substantively enacted in the Finance Act 2015 in October 2015 and the Finance Act 2016 in September 2016 respectively and as such a non-underlying deferred tax credit of £2.4 million has been recognised in the income statement in the current period.

8 Ordinary dividends on equity shares

Paid in the period	**2016 £m**	2015 £m
Final dividend for 2015 of 4.5p per share (2014: 4.3p)	**25.9**	24.6
Interim dividend for 2016 of 2.6p per share (2015: 2.5p)	**14.9**	14.3
	40.8	38.9

A final dividend for 2016 of 4.7p per share amounting to £27.0 million has been proposed for approval at the Annual General Meeting, but has not been reflected in the financial statements.

This dividend will be paid on 30 January 2017 to those shareholders on the register at close of business on 16 December 2016.

9 Earnings per ordinary share

Basic earnings per share are calculated by dividing the profit attributable to equity shareholders by the weighted average number of ordinary shares in issue during the period, excluding treasury shares and those held on trust for employee share schemes.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the weighted average market price of the Company's shares during the period.

Underlying earnings per share figures are presented to exclude the effect of exceptional and other adjusting items. The Directors consider that the supplementary figures are a useful indicator of performance.

	2016		2015	
	Earnings £m	**Per share amount p**	Earnings £m	Per share amount p
Basic earnings per share	**73.0**	**12.7**	23.3	4.1
Diluted earnings per share	**73.0**	**12.6**	23.3	4.0
Underlying earnings per share figures				
Basic underlying earnings per share	**80.4**	**14.0**	73.8	12.9
Diluted underlying earnings per share	**80.4**	**13.8**	73.8	12.8

	2016 m	2015 m
Basic weighted average number of shares	**574.6**	572.2
Dilutive options	**6.0**	6.1
Diluted weighted average number of shares	**580.6**	578.3

Notes continued

For the 52 weeks ended 1 October 2016

10 Goodwill

	£m
Cost	
At 4 October 2015 and 1 October 2016	**228.6**
Aggregate impairment	
At 4 October 2015 and 1 October 2016	**1.1**
Net book amount at 3 October 2015	227.5
Net book amount at 1 October 2016	**227.5**

	£m
Cost	
At 5 October 2014	225.3
Additions	3.3
At 3 October 2015	**228.6**
Aggregate impairment	
At 5 October 2014 and 3 October 2015	**1.1**
Net book amount at 4 October 2014	224.2
Net book amount at 3 October 2015	**227.5**

Additions in the prior period related to the acquisition of the trading operations of Daniel Thwaites PLC's beer division (note 35).

Impairment testing of goodwill
Goodwill has been allocated across the operating segments, and the value of the recoverable amounts allocated to those segments has been estimated and compared to the carrying amounts. Recoverable amounts are determined based on the higher of value in use and fair value less costs to sell.

The carrying amount of goodwill has been allocated £87.5 million (2015: £87.5 million) to Destination and Premium, £86.6 million (2015: £86.6 million) to Taverns, £26.5 million (2015: £26.5 million) to Leased and £26.9 million (2015: £26.9 million) to Brewing. Goodwill has been allocated to operating segments based on the extent to which the benefits of acquisitions flow to that segment.

The key assumptions used in determining value in use are the pre-tax discount rate applied to the cash flow projections of 5.5% (2015: 6.0%) and the growth rate used to extrapolate the projected cash flows beyond the one year budgets of 2.0% (2015: 2.0%) in line with an expected long-term growth rate which is below the long-term average growth rate for the industry. Risk factors are considered to be similar in each of the Group's operating segments. Other commercial assumptions relate to market growth, market share and net selling prices. These assumptions are based on historic trends adjusted for management estimates of future prospects. These estimates take account of economic forecasts, marketing plans, political factors and assessments of competitors' strategy.

The above impairment tests demonstrated that the Group had substantial levels of headroom and as such no impairment of goodwill was required in the current or prior period.

11 Other intangible assets

	Acquired brands £m	Lease premiums £m	Computer software £m	Development costs £m	Total £m
Cost					
At 4 October 2015	32.1	1.7	10.3	0.1	44.2
Additions	–	–	1.4	–	1.4
Net transfers to assets held for sale and disposals	–	(0.2)	(0.6)	–	(0.8)
At 1 October 2016	**32.1**	**1.5**	**11.1**	**0.1**	**44.8**
Amortisation					
At 4 October 2015	–	1.1	5.5	–	6.6
Charge for the period	–	–	1.6	0.1	1.7
Net transfers to assets held for sale and disposals	–	(0.2)	(0.6)	–	(0.8)
At 1 October 2016	**–**	**0.9**	**6.5**	**0.1**	**7.5**
Net book amount at 3 October 2015	32.1	0.6	4.8	0.1	37.6
Net book amount at 1 October 2016	**32.1**	**0.6**	**4.6**	**–**	**37.3**

Acquired brands are initially recognised at their fair value on acquisition. Given the anticipated level of investment in acquired brands, and there being no legal or regulatory limits to their useful lives, they are regarded as having indefinite useful lives and no annual amortisation is provided.

Lease premiums classified as intangible assets are those acquired with new subsidiaries.

	Acquired brands £m	Lease premiums £m	Computer software £m	Development costs £m	Total £m
Cost					
At 5 October 2014	19.3	1.7	9.3	0.1	30.4
Additions	–	–	1.2	–	1.2
Acquisitions	12.8	–	–	–	12.8
Net transfers to assets held for sale and disposals	–	–	(0.2)	–	(0.2)
At 3 October 2015	**32.1**	**1.7**	**10.3**	**0.1**	**44.2**
Amortisation					
At 5 October 2014	–	1.2	4.1	–	5.3
Charge for the period	–	–	1.6	–	1.6
Impairment	–	(0.1)	–	–	(0.1)
Net transfers to assets held for sale and disposals	–	–	(0.2)	–	(0.2)
At 3 October 2015	**–**	**1.1**	**5.5**	**–**	**6.6**
Net book amount at 4 October 2014	19.3	0.5	5.2	0.1	25.1
Net book amount at 3 October 2015	**32.1**	**0.6**	**4.8**	**0.1**	**37.6**

During the prior period there was an impairment of other intangible assets of £0.1 million and a reversal of past impairment of £0.2 million.

The Thwaites portfolio of brands was acquired in the prior period (note 35).

The carrying value of acquired brands is split as follows:

	2016 £m	2015 £m
Wychwood	**13.6**	13.6
Jennings	**2.8**	2.8
Ringwood	**2.9**	2.9
Thwaites	**12.8**	12.8
	32.1	32.1

Acquired brands relate to Brewing.

Impairment testing of acquired brands

The carrying values of acquired brands are subject to annual impairment reviews on a value in use basis. The recoverable amount of each brand is calculated based on anticipated future income generated by that brand. The key assumptions used in the impairment testing of brands are a pre-tax discount rate of 5.5% (2015: 6.0%) and a long-term growth rate used to extrapolate cash flows beyond the cash flow projection period of one year of 2.0% (2015: 2.0%) in line with an expected long-term growth rate which is below the long-term average growth rate for the industry. These assumptions are based on historic trends adjusted for management estimates of future prospects, and take account of economic forecasts, marketing plans, political factors and assessments of competitors' strategy.

The above impairment tests demonstrated that the Group had sufficient levels of headroom and as such no impairment of acquired brands was required in the current or prior period.

Notes continued

For the 52 weeks ended 1 October 2016

12 Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or valuation				
At 4 October 2015	1,948.5	60.0	302.0	2,310.5
Additions	98.2	5.5	42.1	145.8
Net transfers to assets held for sale and disposals	(29.9)	(3.6)	(23.8)	(57.3)
Revaluation	2.0	–	–	2.0
At 1 October 2016	**2,018.8**	**61.9**	**320.3**	**2,401.0**
Depreciation				
At 4 October 2015	1.5	27.2	159.2	187.9
Charge for the period	3.0	5.3	30.0	38.3
Net transfers to assets held for sale and disposals	–	(3.2)	(21.4)	(24.6)
At 1 October 2016	**4.5**	**29.3**	**167.8**	**201.6**
Net book amount at 3 October 2015	1,947.0	32.8	142.8	2,122.6
Net book amount at 1 October 2016	**2,014.3**	**32.6**	**152.5**	**2,199.4**

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or valuation				
At 5 October 2014	1,826.9	53.7	293.3	2,173.9
Additions	102.4	6.1	35.1	143.6
Acquisitions	2.0	2.0	2.1	6.1
Net transfers to assets held for sale and disposals	(41.2)	(1.8)	(28.5)	(71.5)
Revaluation	58.4	–	–	58.4
At 3 October 2015	**1,948.5**	**60.0**	**302.0**	**2,310.5**
Depreciation				
At 5 October 2014	3.7	24.3	155.9	183.9
Charge for the period	2.2	4.7	29.4	36.3
Net transfers to assets held for sale and disposals	–	(1.8)	(26.8)	(28.6)
Revaluation/impairment	(4.4)	–	0.7	(3.7)
At 3 October 2015	**1.5**	**27.2**	**159.2**	**187.9**
Net book amount at 4 October 2014	1,823.2	29.4	137.4	1,990.0
Net book amount at 3 October 2015	**1,947.0**	**32.8**	**142.8**	**2,122.6**

The net book amount of land and buildings is split as follows:

	2016 £m	2015 £m
Freehold properties	**1,715.9**	1,662.1
Leasehold properties over 50 years unexpired	**244.6**	237.8
Leasehold properties under 50 years unexpired	**53.8**	47.1
	2,014.3	1,947.0

Cost or valuation of land and buildings comprises:

	2016 £m	2015 £m
Valuation	**1,937.0**	1,902.9
At cost	**81.8**	45.6
	2,018.8	1,948.5

If the freehold and leasehold properties had not been revalued, the historical cost net book amount would be £1,442.7 million (2015: £1,450.6 million).

Cost at 1 October 2016 includes £17.3 million (2015: £25.4 million) of assets in the course of construction.

Interest costs of £0.8 million (2015: £1.3 million) were capitalised in respect of the financing of major projects.

The net profit on disposal of property, plant and equipment, intangible assets and assets held for sale was £8.1 million (2015: £9.2 million). A profit on disposal of £7.6 million (2015: £10.6 million) is included within the Group's underlying results.

Capital expenditure authorised and committed at the period end but not provided for in the financial statements was £6.5 million (2015: £11.4 million).

12 Property, plant and equipment (continued)

The net book amount of land and buildings held under finance leases at 1 October 2016 was £28.4 million (2015: £28.0 million). The net book amount of land and buildings held as part of sale and leaseback arrangements that do not fall within the scope of IAS 17 'Leases' was £291.2 million (2015: £251.1 million).

Revaluation/impairment
During the current and prior period various properties were reviewed for impairment and/or material changes in value. These valuation adjustments were recognised in the revaluation reserve or the income statement as appropriate.

At 1 February 2015 independent chartered surveyors revalued the Group's freehold and leasehold properties on an open market value basis. These valuations were incorporated into the financial statements and the resulting revaluation adjustments were recognised in the revaluation reserve or income statement as appropriate.

The impact of the revaluations/impairments described above is as follows:

	2016 £m	2015 £m
Income statement:		
Revaluation loss charged as an impairment	–	(60.1)
Reversal of past impairment	–	26.3
	–	(33.8)
Revaluation reserve:		
Unrealised revaluation surplus	2.0	216.5
Reversal of past revaluation surplus	–	(120.6)
	2.0	95.9
Net increase in shareholders' equity/property, plant and equipment	2.0	62.1

Fair value of land and buildings
IFRS 13 'Fair Value Measurement' requires fair value measurements to be recognised using a fair value hierarchy that reflects the significance of the inputs used in the measurements, according to the following levels:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 – inputs for the asset or liability that are not based on observable market data.

The table below shows the level in the fair value hierarchy into which the fair value measurements of land and buildings have been categorised:

	2016				2015			
Recurring fair value measurements	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Land and buildings:								
Specialised brewery properties	–	–	25.3	25.3	–	–	25.0	25.0
Other land and buildings	–	1,989.0	–	1,989.0	–	1,922.0	–	1,922.0
	–	1,989.0	25.3	2,014.3	–	1,922.0	25.0	1,947.0

There were no transfers between Levels 1, 2 and 3 fair value measurements during the current or prior period.

The Level 2 fair values of land and buildings have been obtained using a market approach, primarily using earnings multiples derived from prices in observed transactions involving comparable businesses.

The Level 3 fair values of the specialised brewery properties have been obtained using a cost approach. These breweries represent properties that are rarely, if ever, sold in the market, except by way of a sale of the business of which they are part, due to the uniqueness arising from their specialised nature, design and configuration. As such the valuation of these properties has been performed using the depreciated replacement cost approach, which values the properties at the current cost of replacing them with their modern equivalents less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

The significant unobservable inputs to the Level 3 fair value measurements are:

	Sensitivity of fair value to unobservable inputs
Current cost of modern equivalent asset	The higher the cost the higher the fair value
Amount of adjustment for physical deterioration/obsolescence	The higher the adjustment the lower the fair value

Level 3 recurring fair value measurements	2016 £m	2015 £m
At beginning of the period	25.0	23.7
Additions	0.6	0.4
Revaluation	–	1.2
Depreciation charge for the period	(0.3)	(0.3)
At end of the period	25.3	25.0

The Group's properties are revalued by external independent qualified valuers at least once in each rolling three year period. The last external valuation of the Group's freehold and leasehold properties was performed as at 1 February 2015. The Group has an internal team of qualified valuers and at each reporting date the estate is reviewed for any indication of significant changes in value. Where this is the case internal valuations are performed on a basis consistent with those performed externally.

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13 Other non-current assets

Trade loans	2016 £m	2015 £m
At beginning of the period	**12.1**	11.5
Additions	**2.0**	2.1
Acquisitions	**–**	3.0
Disposals, repayments and impairments	**(3.7)**	(4.5)
At end of the period	**10.4**	12.1

Other non-current assets are shown net of a provision of £2.3 million (2015: £2.4 million).

14 Inventories

	2016 £m	2015 £m
Raw materials and consumables	**7.0**	6.8
Work in progress	**0.6**	0.5
Finished goods	**21.1**	20.9
	28.7	28.2

15 Assets held for sale

	2016 £m	2015 £m
Properties	**6.6**	18.0

In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', properties categorised as held for sale have been written down to their fair value less costs to sell. This is a non-recurring fair value measurement falling within Level 2 of the fair value hierarchy. These Level 2 fair values have been obtained using a market approach, and are derived from sales prices in recent transactions involving comparable properties.

During the current and prior period, all properties classed as held for sale were reviewed for impairment or reversal of impairment. This review identified an impairment of £nil (2015: £5.0 million) and a reversal of past impairment of £nil (2015: £0.1 million) which have been recognised in the income statement.

16 Trade and other receivables

	2016 £m	2015 £m
Trade receivables	**41.1**	41.2
Prepayments and accrued income	**25.7**	29.3
Other receivables	**18.2**	13.8
	85.0	84.3

Trade receivables are shown net of a provision of £1.3 million (2015: £1.3 million). Other receivables are shown net of a provision of £2.5 million (2015: £2.7 million).

The ageing analysis of trade receivables is as follows:

	2016 £m	2015 £m
Neither past due nor impaired	**31.4**	32.8
30 days or less	**5.1**	2.9
31 to 60 days	**1.7**	1.9
Greater than 60 days	**2.9**	3.6
	41.1	41.2

Included within other receivables is an amount of £6.1 million (2015: £6.3 million), net of provision, which relates to amounts due from tenants of licensed properties. A significant proportion of this balance is greater than 60 days old.

All of the Group's trade receivables are denominated in pounds sterling.

Included within trade receivables are balances which are past due at the balance sheet date but have not been provided for, as these are considered to be recoverable. These balances relate to established customers for whom there is no recent history of default. Trade receivables that are less than three months past due are not generally considered impaired unless there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

At 1 October 2016 the value of collateral held in the form of cash deposits was £7.8 million (2015: £7.8 million).

17 Borrowings

Current	2016 £m	2015 £m
Unsecured bank borrowings	**29.2**	7.8
Securitised debt	**27.8**	26.2
Finance leases	**0.1**	0.1
Other lease related borrowings	**(0.2)**	(0.1)
Other borrowings	**120.0**	120.0
	176.9	154.0

Non-current	2016 £m	2015 £m
Unsecured bank borrowings	**232.0**	248.2
Securitised debt	**805.8**	833.6
Finance leases	**20.5**	20.6
Other lease related borrowings	**219.7**	181.6
Preference shares	**0.1**	0.1
	1,278.1	1,284.1

Other lease related borrowings represent amounts due under sale and leaseback arrangements that do not fall within the scope of IAS 17 'Leases'. The Group has an option to repurchase each leased property for a nominal amount at the end of the lease. The leases have terms of 35 to 40 years and rents which are linked to RPI, subject to a cap and collar.

Other borrowings represent amounts drawn down under the securitisation's liquidity facility. During the period ended 4 October 2014 the facility's provider, the Royal Bank of Scotland Group plc, had its short-term credit rating downgraded below the minimum prescribed in the facility agreement and as such the Group exercised its entitlement to draw the full amount of the facility and hold it in a designated bank account. The corresponding balance of £120.0 million (2015: £120.0 million) held in this bank account is included within cash and cash equivalents.

The Group has 75,000 (2015: 75,000) preference shares of £1 each in issue at the balance sheet date. The preference shares carry the right to a fixed cumulative preferential dividend at the rate of 6% per annum (they are also entitled to a non-cumulative dividend of 1% per annum provided that dividends of not less than £24,000 have been paid on the ordinary shares in that year). They participate in the event of a winding-up and on a return of capital and carry the right to attend and vote at general meetings of the Company, carrying four votes per share.

All of the Group's borrowings are denominated in pounds sterling. There were no instances of default, including covenant terms, in either the current or prior period.

Maturity of borrowings

The maturity profile of the carrying amount of the Group's borrowings at the period end was as follows:

	2016			2015		
Due:	Gross borrowings £m	Unamortised issue costs £m	Net borrowings £m	Gross borrowings £m	Unamortised issue costs £m	Net borrowings £m
Within one year	**178.5**	**(1.6)**	**176.9**	155.5	(1.5)	154.0
In more than one year but less than two years	**30.2**	**(1.5)**	**28.7**	58.5	(1.6)	56.9
In more than two years but less than five years	**334.0**	**(2.3)**	**331.7**	315.6	(2.9)	312.7
In more than five years	**936.3**	**(18.6)**	**917.7**	931.2	(16.7)	914.5
	1,479.0	**(24.0)**	**1,455.0**	1,460.8	(22.7)	1,438.1

Fair value of borrowings

The carrying amount and the fair value of the Group's borrowings are as follows:

	Carrying amount		Fair value	
	2016 £m	2015 £m	2016 £m	2015 £m
Unsecured bank borrowings	**263.0**	258.7	**263.0**	258.7
Securitised debt	**839.5**	866.2	**845.9**	892.2
Finance leases	**20.6**	20.7	**20.6**	20.7
Other lease related borrowings	**235.8**	195.1	**235.8**	195.1
Other borrowings	**120.0**	120.0	**120.0**	120.0
Preference shares	**0.1**	0.1	**0.1**	0.1
	1,479.0	1,460.8	**1,485.4**	1,486.8

The fair value of the Group's securitised debt is based on quoted market prices and is within Level 1 of the fair value hierarchy. The fair values of all of the Group's other borrowings approximate to their carrying amounts and are within Level 2 of the fair value hierarchy.

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18 Derivative financial instruments

Interest rate swaps	2016 £m	2015 £m
Current liabilities	**(38.0)**	(25.7)
Non-current liabilities	**(202.7)**	(167.0)
	(240.7)	(192.7)

Details of the Group's interest rate swaps are provided in note 20.

19 Securitised debt

On 9 August 2005 £805.0 million of secured loan notes were issued in connection with the securitisation of 1,592 of the Group's pubs held in Marston's Pubs Limited. On 22 November 2007, a further £330.0 million of secured loan notes (tranches A4 and AB1) were issued in connection with the securitisation of an additional 437 of the Group's pubs, also held in Marston's Pubs Limited. The loan notes are secured over the properties and their future income streams and were issued by Marston's Issuer PLC, a special purpose entity. On 15 January 2014 all of the AB1 notes were repurchased by the Group at par and immediately cancelled.

During the period ended 1 October 2016, 49 (2015: 106) of the securitised pubs were sold to third parties, no pubs (2015: 3) were sold to other members of the Group and 4 pubs (2015: none) were acquired from third parties. The carrying amount of the securitised pubs at 1 October 2016 was £1,251.8 million (2015: £1,230.8 million).

The securitisation is governed by various covenants, warranties and events of default, many of which apply to Marston's Pubs Limited. These include covenants regarding the maintenance and disposal of securitised properties and restrictions on the ability to move cash to other companies within the Group.

The tranches of securitised debt have the following principal terms:

Tranche	2016 £m	2015 £m	Interest	Principal repayment period – by instalments	Expected average life	Expected maturity date
A1	**79.5**	97.8	Floating	2016 to 2020	4 years	2020
A2	**214.0**	214.0	Fixed/floating	2020 to 2027	11 years	2027
A3	**200.0**	200.0	Fixed/floating	2027 to 2032	16 years	2032
A4	**191.0**	199.4	Floating	2016 to 2031	15 years	2031
B	**155.0**	155.0	Fixed/floating	2032 to 2035	19 years	2035
	839.5	866.2				

The interest payable on each tranche is as follows:

Tranche	Before step up	After step up	Step up date
A1	3 month LIBOR + 0.55%	3 month LIBOR + 1.375%	July 2012
A2	5.1576%	3 month LIBOR + 1.32%	July 2019
A3	5.1774%	3 month LIBOR + 1.45%	April 2027
A4	3 month LIBOR + 0.65%	3 month LIBOR + 1.625%	October 2012
B	5.6410%	3 month LIBOR + 2.55%	July 2019

All floating rate notes are hedged in full by the Group using interest rate swaps whereby all interest payments are swapped to fixed interest payable.

At 1 October 2016 Marston's Pubs Limited held cash of £48.1 million (2015: £55.2 million), which was governed by certain restrictions under the covenants associated with the securitisation. In addition, Marston's Issuer PLC held cash of £120.1 million (2015: £120.2 million), principally in respect of the amounts drawn down under the liquidity facility.

20 Financial instruments

Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

At 1 October 2016	Loans and receivables £m	Total £m
Assets as per the balance sheet		
Trade receivables (before provision)	42.4	42.4
Other receivables (before provision)	20.7	20.7
Trade loans (before provision)	12.7	12.7
Cash and cash equivalents	185.6	185.6
	261.4	**261.4**

At 1 October 2016	Derivatives used for hedging £m	Liabilities at fair value through profit or loss £m	Other financial liabilities £m	Total £m
Liabilities as per the balance sheet				
Derivative financial instruments	202.7	38.0	–	240.7
Borrowings	–	–	1,455.0	1,455.0
Trade payables	–	–	88.2	88.2
Other payables	–	–	15.4	15.4
	202.7	**38.0**	**1,558.6**	**1,799.3**

At 3 October 2015	Loans and receivables £m	Total £m
Assets as per the balance sheet		
Trade receivables (before provision)	42.5	42.5
Other receivables (before provision)	16.5	16.5
Trade loans (before provision)	14.5	14.5
Cash and cash equivalents	193.1	193.1
	266.6	**266.6**

At 3 October 2015	Derivatives used for hedging £m	Liabilities at fair value through profit or loss £m	Other financial liabilities £m	Total £m
Liabilities as per the balance sheet				
Derivative financial instruments	167.0	25.7	–	192.7
Borrowings	–	–	1,438.1	1,438.1
Trade payables	–	–	88.1	88.1
Other payables	–	–	16.0	16.0
	167.0	**25.7**	**1,542.2**	**1,734.9**

Fair values of financial instruments

The only financial instruments which the Group holds at fair value are derivative financial instruments, which are classified as at fair value through profit or loss or derivatives used for hedging.

IFRS 13 'Fair Value Measurement' requires fair value measurements to be recognised using a fair value hierarchy that reflects the significance of the inputs used in the measurements, according to the following levels:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 – inputs for the asset or liability that are not based on observable market data.

The table below shows the level in the fair value hierarchy into which fair value measurements have been categorised:

	2016				2015			
Liabilities as per the balance sheet	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative financial instruments	**–**	**240.7**	**–**	**240.7**	–	192.7	–	192.7

There were no transfers between Levels 1, 2 and 3 fair value measurements during the current or prior period.

Notes continued

For the 52 weeks ended 1 October 2016

20 Financial instruments (continued)

The Level 2 fair values of derivative financial instruments have been obtained using a market approach and reflect the estimated amount the Group would expect to pay or receive on termination of the instruments. The Group utilises valuations from counterparties who use a variety of assumptions based on market conditions existing at each balance sheet date.

The fair values of all non-derivative financial instruments are equal to their book values, with the exception of borrowings (note 17). The carrying amount less impairment provision of trade receivables, other receivables and trade loans, and the carrying amount of trade payables and other payables, are assumed to approximate their fair values.

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk and foreign currency risk), counterparty risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks. The Board provides principles for overall risk management, as well as policies covering specific areas, such as interest rate risk, credit risk, investment of excess liquidity and use of derivative and non-derivative financial instruments.

Interest rate risk:

The Group's income and operating cash flows are substantially independent of changes in market interest rates, and as such the Group's interest rate risk arises from its borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on the income statement of a defined interest rate shift. The scenarios are run only for liabilities that represent the major interest-bearing positions.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises borrowings at floating rates and often swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional amounts.

If interest rates had been 0.5% higher/lower during the period ended 1 October 2016, with all other variables held constant, post-tax profit for the period would have been £0.6 million (2015: £0.4 million) lower/higher as a result of higher/lower interest expense.

Interest rate swaps designated as part of a hedging arrangement

The Group uses interest rate swaps to fix the interest rate payable on the floating rate tranches of its securitised debt (note 19). The notional principal amounts of these interest rate swap contracts at 1 October 2016 totalled £270.5 million (2015: £297.2 million). These interest rate swaps, including borrowing margins, fix interest at 6.2% and 6.1%. The movement in fair value recognised in other comprehensive income in the period was a loss of £39.6 million (2015: £43.9 million). The movement in fair value recognised in the income statement in the period was a gain of £3.9 million (2015: loss of £2.4 million).

Interest rate swaps not designated as part of a hedging arrangement

On 22 March 2012 the Group entered into two forward starting interest rate swaps of £60.0 million each to fix the interest rate payable on the Group's unsecured bank borrowings. These interest rate swaps previously fixed interest at 3.0% until 28 April 2016 and at 4.5% thereafter and were due to terminate on 28 April 2023. In the current period the termination date of the swaps was extended to 30 April 2025 and the terms were amended to fix interest at 3.0% until 30 April 2018 and 4.5% and 4.6% thereafter. In total, the fair value of the two swaps at inception was £(18.9) million. The movement in fair value recognised in the income statement in the period was a loss of £12.3 million (2015: £6.2 million).

The interest rate risk profile, after taking account of derivative financial instruments, is as follows:

	2016			2015		
	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Total £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Total £m
Borrowings	**519.4**	**959.6**	**1,479.0**	474.5	986.3	1,460.8

The weighted average interest rate of the fixed rate financial borrowings was 5.3% (2015: 5.3%) and the weighted average period for which the rate is fixed was 13 years (2015: 14 years).

Foreign currency risk:

The Group buys and sells goods denominated in non-sterling currencies, principally US dollars and euros. As a result, movements in exchange rates can affect the value of the Group's income and expenditure. The Group's exposure in this area is not considered to be significant.

Counterparty risk:

The Group's counterparty risk in respect of its cash and cash equivalents is mitigated by the use of various banking institutions for its deposits.

There is no significant concentration of counterparty risk in respect of the Group's pension assets, as these are held with a range of institutions.

20 Financial instruments (continued)

Credit risk:
Credit risk is managed on a Group basis. Credit risk arises from credit exposure to customers, including outstanding receivables and committed transactions. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, an assessment is made of the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual credit limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of and adherence to credit limits is regularly monitored.

A provision for impairment of trade receivables, other receivables and trade loans has been estimated by management and is based on prior experience and known factors at the balance sheet date after taking into account collateral held in the form of cash deposits and fixtures and fittings. Receivables are written off against the provision for impairment when management considers that the debt is no longer recoverable.

The Group has no significant concentration of credit risk in respect of its customers. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable.

Liquidity risk:
The Group applies a prudent liquidity risk management policy, which involves maintaining sufficient cash, ensuring the availability of funding through an adequate amount of committed credit facilities and having the ability to close out market positions. Due to the dynamic nature of the underlying business, Group Treasury maintains the availability of committed credit lines to ensure that the Group has flexibility in funding.

Management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn borrowing facilities and cash and cash equivalents) on the basis of expected cash flow. In addition, the Group's liquidity management policy involves maintaining debt financing plans, projecting cash flows and considering the level of liquid assets necessary to meet these, and monitoring balance sheet liquidity ratios against internal and external regulatory requirements. The Group's borrowing covenants are subject to regular review.

The tables below analyse the Group's financial liabilities and non-settled derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

At 1 October 2016	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
Borrowings	240.2	89.0	480.8	1,601.4	2,411.4
Derivative financial instruments	14.2	15.3	74.7	172.0	276.2
Trade payables	88.2	–	–	–	88.2
Other payables	15.4	–	–	–	15.4
	358.0	**104.3**	**555.5**	**1,773.4**	**2,791.2**

At 3 October 2015	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
Borrowings	212.6	116.6	471.1	1,582.3	2,382.6
Derivative financial instruments	15.3	14.2	47.5	139.5	216.5
Trade payables	88.1	–	–	–	88.1
Other payables	16.0	–	–	–	16.0
	332.0	**130.8**	**518.6**	**1,721.8**	**2,703.2**

21 Trade and other payables

	2016 £m	2015 £m
Trade payables	**88.2**	88.1
Other taxes and social security	**28.1**	24.4
Accruals and deferred income	**63.2**	56.7
Other payables	**15.4**	16.0
	194.9	185.2

22 Deferred tax

Deferred tax is calculated on temporary differences between tax bases of assets and liabilities and their carrying amounts under the liability method using a tax rate of 17% (2015: 20%). The movement on the deferred tax accounts is shown below:

Net deferred tax liability	2016 £m	2015 £m
At beginning of the period	**89.0**	82.2
Credited to the income statement	**(0.3)**	(4.4)
(Credited)/charged to equity:		
Impairment and revaluation of properties	**(17.4)**	18.5
Hedging reserve	**(2.0)**	(8.7)
Retirement benefits	**(8.7)**	1.4
Share-based payments	**0.2**	–
At end of the period	**60.8**	89.0

Recognised in the balance sheet	2016 £m	2015 £m
Deferred tax liabilities (after offsetting)	**77.5**	92.2
Deferred tax assets (after offsetting)	**(16.7)**	(3.2)
	60.8	89.0

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12 'Income Taxes') during the period are shown below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. Deferred tax assets have been recognised in respect of all tax losses and other temporary differences where it is probable that these assets will be recovered.

Deferred tax liabilities	Pensions £m	Accelerated capital allowances £m	Revaluation of properties £m	Rolled over capital gains £m	Other £m	Total £m
At 4 October 2015	3.0	30.3	115.4	3.3	4.8	156.8
(Credited)/charged to the income statement	–	(2.4)	(0.9)	1.1	(1.1)	(3.3)
Credited to equity	(3.0)	–	(17.4)	–	–	(20.4)
At 1 October 2016	**–**	**27.9**	**97.1**	**4.4**	**3.7**	**133.1**

Deferred tax assets	Pensions £m	Tax losses £m	Hedging reserve £m	Other £m	Total £m
At 4 October 2015	–	(30.4)	(32.0)	(5.4)	(67.8)
Charged to the income statement	–	3.0	–	–	3.0
(Credited)/charged to equity	(5.7)	–	(2.0)	0.2	(7.5)
At 1 October 2016	**(5.7)**	**(27.4)**	**(34.0)**	**(5.2)**	**(72.3)**

Net deferred tax liability	
At 3 October 2015	89.0
At 1 October 2016	**60.8**

Deferred tax liabilities	Pensions £m	Accelerated capital allowances £m	Revaluation of properties £m	Rolled over capital gains £m	Other £m	Total £m
At 5 October 2014	1.6	29.8	95.6	1.3	3.0	131.3
Charged to the income statement	–	0.5	1.3	2.0	1.8	5.6
Charged to equity	1.4	–	18.5	–	–	19.9
At 3 October 2015	**3.0**	**30.3**	**115.4**	**3.3**	**4.8**	**156.8**

Deferred tax assets	Tax losses £m	Hedging reserve £m	Other £m	Total £m
At 5 October 2014	(24.1)	(23.3)	(1.7)	(49.1)
Credited to the income statement	(6.3)	–	(3.7)	(10.0)
Credited to equity	–	(8.7)	–	(8.7)
At 3 October 2015	**(30.4)**	**(32.0)**	**(5.4)**	**(67.8)**

Net deferred tax liability	
At 4 October 2014	82.2
At 3 October 2015	**89.0**

23 Other non-current liabilities

	2016 £m	2015 £m
Other liabilities	**0.6**	1.8

24 Provisions for other liabilities and charges

Property leases	2016 £m	2015 £m
At beginning of the period	**41.5**	39.1
Released in the period	**(3.4)**	(6.3)
Provided in the period	**5.5**	13.5
Unwinding of discount	**0.9**	1.2
Utilised in the period	**(5.7)**	(6.0)
At end of the period	**38.8**	41.5

When valuations of leasehold properties (based on future estimated income streams) give rise to a deficit as a result of onerous lease conditions they are recognised as liabilities in provisions. Other contractual property costs are also recorded as provisions as appropriate.

Payments are expected to continue on these properties for periods of 1 to 76 years (2015: 1 to 77 years).

The £4.4 million increase (2015: £4.9 million) in the provision as a result of updating the discount and inflation rate assumptions used in the calculation has been classified as a non-underlying item (note 4).

25 Retirement benefits

During the period the Group contributed to a funded defined benefit pension plan and a number of defined contribution pension plans.

Defined contribution plans
Pension costs for defined contribution plans are as follows:

	2016 £m	2015 £m
Defined contribution plans	**6.8**	6.3

Defined benefit plan
The Marston's PLC Pension and Life Assurance Scheme is a final salary pension plan which provides benefits to members in the form of a guaranteed level of pension payable for life. The plan closed to future accrual on 30 September 2014 and the link to future salary increases was also removed.

The plan operates under the UK regulatory framework and is governed by a board of Trustees composed of plan participants and representatives of the Group. The Trustees make investment decisions and set the required contribution rates based on independent actuarial advice.

The key risks to which the plan exposes the Group are as follows:

- Volatility of plan assets
- Changes in bond yields
- Inflation risk
- Changes in life expectancy

The movements in the fair value of plan assets and the present value of the defined benefit obligation during the period were:

	Fair value of plan assets		Present value of defined benefit obligation		Net (deficit)/ surplus	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
At beginning of the period	**482.7**	453.6	**(467.7)**	(445.8)	**15.0**	7.8
Interest income/(expense)	**17.5**	18.0	**(16.8)**	(17.4)	**0.7**	0.6
Remeasurements:						
Return on plan assets (excluding interest income)	**59.3**	19.6	**–**	–	**59.3**	19.6
Effect of changes in demographic assumptions	**–**	–	**–**	5.5	**–**	5.5
Effect of changes in financial assumptions	**–**	–	**(115.7)**	(20.4)	**(115.7)**	(20.4)
Effect of experience adjustments	**–**	–	**–**	(11.4)	**–**	(11.4)
Cash flows:						
Employer contributions	**7.6**	14.0	**–**	–	**7.6**	14.0
Administrative expenses paid from plan assets	**(0.9)**	(0.7)	**–**	–	**(0.9)**	(0.7)
Benefits paid	**(22.8)**	(21.8)	**22.8**	21.8	**–**	–
At end of the period	**543.4**	482.7	**(577.4)**	(467.7)	**(34.0)**	15.0

Notes continued

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25 Retirement benefits (continued)

Pension costs recognised in the income statement
A charge of £0.2 million (2015: £0.1 million) comprising the net interest on the net defined benefit asset/liability and the administrative expenses paid from plan assets is included within net finance costs (note 6).

An updated actuarial valuation of the plan was performed by Mercer as at 1 October 2016 for the purposes of IAS 19 'Employee Benefits'. The principal assumptions made by the actuaries were:

	2016	2015
Discount rate	2.3%	3.7%
Rate of increase in pensions – 5% LPI	2.9%	2.9%
Rate of increase in pensions – 2.5% LPI	2.1%	2.1%
Inflation assumption (RPI)	2.9%	3.0%
Inflation assumption (CPI)	1.9%	2.0%
Employed deferred revaluation	1.9%	2.0%
Life expectancy for deferred members from age 65 (years)		
Male	23.4	23.3
Female	25.9	25.8
Life expectancy for current pensioners from age 65 (years)		
Male	21.7	21.6
Female	24.0	23.9

Mortality assumptions are based on standard tables adjusted for plan experience and with an allowance for future improvement in life expectancy.

The sensitivity of the defined benefit obligation to changes in the principal actuarial assumptions is:

	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.25%	Decrease by 4.3%	Increase by 4.6%
Inflation assumption	0.25%	Increase by 2.6%	Decrease by 2.2%
Life expectancy	One year	Increase by 3.8%	Decrease by 3.8%

The above sensitivity analyses have been determined by changing one assumption while holding all other assumptions constant. This is unlikely to be the case in practice as changes in some of the assumptions could be correlated. When calculating the above sensitivities the same method has been applied as when calculating the net defined benefit asset/liability in the balance sheet i.e. the present value of the defined benefit obligation calculated using the Projected Unit Credit Method.

Plan assets are comprised as follows:

	2016 £m	2015 £m
Equities/Properties	149.5	139.8
Bonds/Gilts	201.8	272.9
Cash/Other	13.0	21.2
Buy-in policy (matching annuities)	179.1	48.8
	543.4	482.7

The actual return on plan assets was a gain of £76.8 million (2015: £37.6 million).

A proportion of the defined benefit obligation has been secured by a buy-in policy and as such this proportion of liabilities is matched by annuities.

The Trustees of the plan hold a range of assets and are aiming to better align the cash flows from these to those of the plan. They are also working with the Group to de-risk their portfolio further. To this end changes to the allocation of assets have occurred during the current period.

The Group is aiming to eliminate the plan's funding deficit in the medium term. A schedule of contributions was agreed as part of the 30 September 2014 triennial valuation and contributions of £0.5 million per month are payable until 30 September 2018 as well as contributions in respect of the plan's expenses. These contributions may continue until 2030 depending on the plan's funding position. The Group has also agreed to pledge additional security for six years from 2015. The next triennial valuation will be performed as at 30 September 2017.

The employer contributions expected to be paid during the financial period ending 30 September 2017 amount to £7.6 million.

The weighted average duration of the defined benefit obligation is 18 years.

Post-retirement medical benefits
A gain of £0.1 million (2015: £nil) in respect of the remeasurement of post-retirement medical benefits has been included in the statement of comprehensive income.

26 Share-based payments

During the period there were three classes of equity-settled employee share incentive plans outstanding:

(a) Save As You Earn (SAYE). Under this scheme employees enter into a savings contract for a period of three to seven years and options are granted on commencement of the contract, exercisable using the amount saved under the contract at the time it terminates. Options under the scheme are granted at a discount of 20% to the market price of the shares at the time of the invitation and are not subject to performance conditions. Exercise of options is subject to continued employment.

(b) Deferred bonus. Under this scheme nil cost options are granted to eligible employees in lieu of a cash bonus. Exercise of options is subject to continued employment.

(c) Long Term Incentive Plan (LTIP). Under this scheme nil cost options are granted that will only vest provided the participant satisfies the minimum shareholding requirement and performance conditions relating to earnings per share, return on capital, free cash flow and relative total shareholder return, as set out in the Directors' Remuneration Report on pages 59 to 60, are met.

In 2010, HM Revenue & Customs (HMRC) approved an Approved Performance Share Plan (APSP) to enable participants in the LTIP to benefit from UK tax efficiencies. As such, awards made in 2010 and subsequent years may comprise an HMRC approved option (in respect of the first £30,000 worth of an award) and an unapproved LTIP award for amounts in excess of this HMRC limit. A further share award (a linked award) is also provided to enable participants to fund the exercise of the approved option. This linked award is satisfied by way of shares held on trust but these additional shares are not generally delivered to the participant. Under these rules the LTIP options are still issued at nil cost to the employee.

The tables below summarise the outstanding share options.

	Number of shares		Weighted average exercise price	
SAYE:	**2016 m**	2015 m	**2016 p**	2015 p
Outstanding at beginning of the period	**6.4**	6.5	**120.9**	102.1
Granted	**2.2**	2.4	**124.0**	136.0
Exercised	**(0.9)**	(1.9)	**105.1**	78.2
Expired	**(0.9)**	(0.6)	**125.8**	117.3
Outstanding at end of the period	**6.8**	6.4	**123.3**	120.9
Exercisable at end of the period	**0.1**	0.2	**109.2**	82.3
Range of exercise prices	**76.1p to 136.0p**	76.1p to 136.0p		
Weighted average remaining contractual life (years)	**2.8**	3.1		

	Number of shares		Weighted average exercise price	
Deferred bonus:	**2016 m**	2015 m	**2016 p**	2015 p
Outstanding at beginning of the period	**–**	–	**–**	–
Granted	**0.1**	–	**–**	–
Outstanding at end of the period	**0.1**	–	**–**	–
Exercisable at end of the period	**–**	–		
Exercise price	**–**	–		

	Number of shares		Weighted average exercise price	
LTIP:	**2016 m**	2015 m	**2016 p**	2015 p
Outstanding at beginning of the period	**6.0**	4.6	**–**	–
Granted	**2.0**	1.6	**–**	–
Exercised	**(0.7)**	–	**–**	–
Expired	**(1.0)**	(0.2)	**–**	–
Outstanding at end of the period	**6.3**	6.0	**–**	–
Exercisable at end of the period	**–**	–		
Exercise price	**–**	–		

LTIP and deferred bonus options are exercisable no later than the tenth anniversary of the date of grant.

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26 Share-based payments (continued)

The fair values of the SAYE, deferred bonus and LTIP rights are calculated at the date of grant using the Black-Scholes option-pricing model. The significant inputs into the model for all schemes unless otherwise stated were:

	2016	2015
Dividend yield %	**4.4 to 4.7**	4.6
Expected volatility %	**19.4 to 20.2**	18.4 to 20.0
Risk-free interest rate %	**0.6 to 0.8**	1.0 to 1.4
Expected life of rights		
SAYE	**3 to 5 years**	3 to 5 years
Deferred bonus	**1 year**	N/A
LTIP	**3 years**	3 years

The expected volatility is based on historical volatility over the expected life of the rights.

The weighted average fair value of options granted during the period in relation to the SAYE was 15.6p (2015: 15.2p). The fair value of options granted during the period in relation to the deferred bonus scheme was 143.3p. The fair value of options granted during the period in relation to the LTIP was 128.9p (2015: 142.6p).

The weighted average share price for options exercised over the period was 158.7p (2015: 151.1p). The total charge for the period relating to employee share-based payment plans was £0.4 million (2015: £0.8 million), all of which related to equity-settled share-based payment transactions. After tax, the total charge was £0.3 million (2015: £0.7 million).

27 Equity share capital

	2016		2015	
Allotted, called up and fully paid	**Number m**	**Value £m**	Number m	Value £m
Ordinary shares of 7.375p each:				
At beginning and end of the period	**602.8**	**44.4**	602.8	44.4

28 Other components of equity

The capital redemption reserve of £6.8 million (2015: £6.8 million) arose on share buybacks.

Own shares represent the carrying value of the investment in treasury shares and shares held on trust for employee share schemes (including executive share option schemes) as set out in the table below. The trustees of the schemes are Banks's Brewery Insurance Limited, a wholly-owned subsidiary of Marston's PLC, and Computershare Trustees (C.I.) Limited.

	2016		2015	
	Number m	**Value £m**	Number m	Value £m
Shares held on trust for employee share schemes	**0.6**	**1.2**	1.2	2.7
Treasury shares	**26.8**	**112.5**	27.7	116.0
	27.4	**113.7**	28.9	118.7

The market value of own shares held is £40.2 million (2015: £44.2 million). Shares held on trust for employee share schemes represent 0.1% (2015: 0.2%) of issued share capital. Treasury shares held represent 4.4% (2015: 4.6%) of issued share capital.

Dividends on own shares have been waived.

Capital management
The Group considers its capital to comprise total equity (as disclosed on the face of the Group balance sheet) and net debt (note 30). In managing its capital the primary objective is to ensure that the Group is able to continue to operate as a going concern and to maximise return to shareholders through a combination of capital growth and distributions. The Group seeks to maintain a ratio of debt to equity that both balances risks and returns at an acceptable level and retains sufficient funds to comply with lending covenants, achieve working capital targets and meet investment requirements. The Board reviews the Group's dividend policy and funding requirements at least once a year.

29 Working capital and non-cash movements

Working capital movement	2016 £m	2015 £m
Increase in inventories	**(0.5)**	(2.3)
Decrease/(increase) in trade and other receivables	**4.4**	(12.4)
Increase in trade and other payables	**5.0**	25.4
	8.9	10.7

Non-cash movements	2016 £m	2015 £m
Income from other non-current assets	**(0.2)**	(0.2)
Movements in respect of property, plant and equipment, assets held for sale and intangible assets	**(8.1)**	29.4
Share-based payments	**0.4**	0.8
	(7.9)	30.0

Further details of movements in respect of property, plant and equipment, assets held for sale and intangible assets are given in notes 4, 11, 12 and 15.

30 Net debt

Analysis of net debt	2016 £m	Cash flow £m	Non-cash movements and deferred issue costs £m	2015 £m
Cash and cash equivalents				
Cash at bank and in hand	**185.6**	(7.5)	–	193.1
Bank overdrafts	**–**	8.7	–	(8.7)
	185.6	1.2	–	184.4
Debt due within one year				
Unsecured bank borrowings	**(29.2)**	–	(30.1)	0.9
Securitised debt	**(27.8)**	26.7	(28.3)	(26.2)
Finance leases	**(0.1)**	0.1	(0.1)	(0.1)
Other lease related borrowings	**0.2**	–	0.1	0.1
Other borrowings	**(120.0)**	–	–	(120.0)
	(176.9)	26.8	(58.4)	(145.3)
Debt due after one year				
Unsecured bank borrowings	**(232.0)**	(13.0)	29.2	(248.2)
Securitised debt	**(805.8)**	–	27.8	(833.6)
Finance leases	**(20.5)**	–	0.1	(20.6)
Other lease related borrowings	**(219.7)**	(40.7)	2.6	(181.6)
Preference shares	**(0.1)**	–	–	(0.1)
	(1,278.1)	(53.7)	59.7	(1,284.1)
Net debt	**(1,269.4)**	(25.7)	1.3	(1,245.0)

Other borrowings represent amounts drawn down under the securitisation's liquidity facility. During the period ended 4 October 2014 the facility's provider, the Royal Bank of Scotland Group plc, had its short-term credit rating downgraded below the minimum prescribed in the facility agreement and as such the Group exercised its entitlement to draw the full amount of the facility and hold it in a designated bank account. The corresponding balance of £120.0 million (2015: £120.0 million) held in this bank account is included within cash and cash equivalents. The amounts drawn down can only be used for the purpose of meeting the securitisation's debt service obligations should there ever be insufficient funds available from operations to meet such payments. As such these amounts are considered to be restricted cash.

Included within cash and cash equivalents is an amount of £0.6 million (2015: £1.6 million) relating to a letter of credit with Royal Sun Alliance Insurance, an amount of £1.5 million (2015: £1.0 million) relating to a letter of credit with Aviva, and an amount of £7.8 million (2015: £7.8 million) relating to collateral held in the form of cash deposits. These amounts are also considered to be restricted cash.

In addition, any other cash held in connection with the securitised business is governed by certain restrictions under the covenants associated with the securitisation (note 19).

Notes continued

For the 52 weeks ended 1 October 2016

30 Net debt (continued)

Reconciliation of net cash flow to movement in net debt	2016 £m	2015 £m
Increase in cash and cash equivalents in the period	**1.2**	11.1
Cash inflow from movement in debt	**(26.9)**	(59.5)
Change in debt resulting from cash flows	**(25.7)**	(48.4)
Non-cash movements and deferred issue costs	**1.3**	1.6
Movement in net debt in the period	**(24.4)**	(46.8)
Net debt at beginning of the period	**(1,245.0)**	(1,198.2)
Net debt at end of the period	**(1,269.4)**	(1,245.0)

Reconciliation of net debt before lease financing to net debt	2016 £m	2015 £m
Cash and cash equivalents	**185.6**	193.1
Unsecured bank borrowings (including bank overdrafts)	**(261.2)**	(256.0)
Securitised debt	**(833.6)**	(859.8)
Other borrowings	**(120.0)**	(120.0)
Preference shares	**(0.1)**	(0.1)
Net debt before lease financing	**(1,029.3)**	(1,042.8)
Finance leases	**(20.6)**	(20.7)
Other lease related borrowings	**(219.5)**	(181.5)
Net debt	**(1,269.4)**	(1,245.0)

31 Operating leases

The Group as lessee

The Group leases various properties and equipment under non-cancellable operating leases. The leases have various terms, escalation clauses and renewal rights. Future minimum lease rentals payable under non-cancellable operating leases are as follows:

	2016		2015	
Due:	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	**25.3**	**0.4**	27.2	0.6
In more than one year but less than five years	**64.4**	**0.3**	73.3	0.4
In more than five years	**273.9**	**–**	258.2	–
	363.6	**0.7**	358.7	1.0

The Group as lessor

The Group leases a proportion of its licensed estate and other unlicensed properties to tenants. The majority of lease agreements have terms of 21 years or less and are classified as operating leases. Future minimum lease rentals receivable under non-cancellable operating leases are as follows:

	2016		2015	
Due:	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	**21.1**	**–**	23.8	–
In more than one year but less than five years	**67.7**	**–**	73.6	–
In more than five years	**92.7**	**–**	104.7	–
	181.5	**–**	202.1	–

32 Finance leases

The Group leases a number of properties under finance leases. The leases have various terms, escalation clauses and renewal rights. Future minimum lease payments under finance leases are as follows:

Due:	2016 £m	2015 £m
Within one year	**1.2**	1.2
In more than one year but less than five years	**5.1**	5.0
In more than five years	**37.6**	38.9
	43.9	45.1
Future finance charges	**(23.3)**	(24.4)
Present value of finance lease obligations	**20.6**	20.7

The present value of finance lease obligations is as follows:

Due:	2016 £m	2015 £m
Within one year	**0.1**	0.1
In more than one year but less than five years	**0.7**	0.6
In more than five years	**19.8**	20.0
Present value of finance lease obligations	**20.6**	20.7

33 Subsidiary undertakings

Details of the Group's subsidiary undertakings are provided in note 6 to the Company financial statements.

34 Contingent liabilities and financial commitments

On 9 August 2005 the Group entered into a Tax Deed of Covenant, which was amended on 22 November 2007, the primary objective of which was to ensure that the Group did not trigger a de-grouping liability comprising Capital Gains Tax (CGT) and Stamp Duty Land Tax (SDLT). This would arise in the event of Marston's Pubs Limited being sold outside the Group, within six years of the relevant asset transfer date for CGT purposes, and within three years of the relevant asset transfer date for SDLT purposes. Due to the passage of time and changes in the statutory rate of corporation tax, the total potential de-grouping liability now stands at £3.6 million (2015: £6.8 million), of which £3.1 million (2015: £6.3 million) relates to CGT and £0.5 million (2015: £0.5 million) relates to SDLT.

The Group has issued a letter of credit in favour of Royal Sun Alliance Insurance totalling £0.6 million (2015: £1.6 million) and a letter of credit in favour of Aviva totalling £1.5 million (2015: £1.0 million) to secure reinsurance contracts. The letters of credit are secured on fixed deposits for the same amount.

The Group has also entered into a Deed of Guarantee with the Trustees of the Marston's PLC Pension and Life Assurance Scheme ('the Scheme') whereby it guarantees to the Trustees the ongoing obligations of the Group to contribute to the Scheme, and the obligations of the Group to contribute to the Scheme in the event of a debt becoming due under section 75 of the Pensions Act 1995 on the occurrence of either a Group company entering liquidation or the Scheme winding up.

35 Thwaites acquisition

On 17 April 2015, the Group acquired the trading operations of Daniel Thwaites PLC's beer division, including the two leading beer brands Wainwright and Lancaster Bomber. The provisional fair values of the assets acquired and liabilities assumed stated in the accounts for the 52 weeks ended 3 October 2015 are now confirmed, with no adjustments made to those previously published.

Independent Auditors' Report to the Members of Marston's PLC

Report on the Company financial statements

Our opinion
In our opinion, Marston's PLC's Company financial statements (the 'financial statements'):

- give a true and fair view of the state of the Company's affairs as at 1 October 2016;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited
The financial statements, included within the Annual Report and Accounts (the 'Annual Report'), comprise:

- the Company Balance Sheet as at 1 October 2016;
- the Company Statement of Changes in Equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information

Companies Act 2006 reporting
In our opinion, the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting
Under International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)') we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' Remuneration Report – Companies Act 2006 opinion
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 66, 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the Group financial statements of Marston's PLC for the 52 week period ended 1 October 2016.

Mark Smith (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
24 November 2016

Company Balance Sheet

As at 1 October 2016

	Note	1 October 2016 £m	3 October 2015 £m
Fixed assets			
Tangible assets	5	**349.3**	358.6
Investments	6	**260.9**	260.9
		610.2	619.5
Current assets			
Debtors			
Amounts falling due within one year	7	**566.3**	548.7
Amounts falling due after more than one year	7	**818.7**	743.3
Cash at bank		**12.9**	13.1
		1,397.9	1,305.1
Creditors Amounts falling due within one year	8	**(819.8)**	(764.0)
Net current assets		**578.1**	541.1
Total assets less current liabilities		**1,188.3**	1,160.6
Creditors Amounts falling due after more than one year	8	**(122.8)**	(125.3)
Provisions for liabilities and charges	9	**(29.9)**	(35.8)
Net assets		**1,035.6**	999.5
Capital and reserves			
Equity share capital	13	**44.4**	44.4
Share premium account	14	**334.0**	334.0
Revaluation reserve	14	**77.7**	81.7
Capital redemption reserve	14	**6.8**	6.8
Own shares	14	**(113.7)**	(118.7)
Profit and loss reserves		**686.4**	651.3
Total equity		**1,035.6**	999.5

The financial statements on pages 108 to 118 were approved by the Board and authorised for issue on 24 November 2016 and are signed on its behalf by:

Ralph Findlay
Chief Executive Officer
24 November 2016

Company registration number: 31461

Company Statement of Changes in Equity

For the 52 weeks ended 1 October 2016

	Equity share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Own shares £m	Profit and loss reserves £m	Total equity £m
At 4 October 2015	44.4	334.0	81.7	6.8	(118.7)	651.3	999.5
Profit for the financial period	–	–	–	–	–	72.8	72.8
Deferred tax on properties	–	–	2.9	–	–	–	2.9
Total comprehensive income	–	–	2.9	–	–	72.8	75.7
Share-based payments	–	–	–	–	–	0.4	0.4
Purchase of own shares	–	–	–	–	(0.1)	–	(0.1)
Sale of own shares	–	–	–	–	5.1	(4.2)	0.9
Disposal of properties	–	–	(7.7)	–	–	7.7	–
Tax on disposal of properties	–	–	1.6	–	–	(1.6)	–
Transfer to profit and loss reserves	–	–	(0.8)	–	–	0.8	–
Dividends paid	–	–	–	–	–	(40.8)	(40.8)
Total transactions with owners	–	–	(6.9)	–	5.0	(37.7)	(39.6)
At 1 October 2016	**44.4**	**334.0**	**77.7**	**6.8**	**(113.7)**	**686.4**	**1,035.6**

	Equity share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Own shares £m	Profit and loss reserves £m	Total equity £m
At 5 October 2014	44.4	334.0	49.6	6.8	(126.8)	631.8	939.8
Profit for the financial period	–	–	–	–	–	61.0	61.0
Revaluation of properties	–	–	43.4	–	–	–	43.4
Deferred tax on properties	–	–	(8.1)	–	–	–	(8.1)
Total comprehensive income	–	–	35.3	–	–	61.0	96.3
Share-based payments	–	–	–	–	–	0.8	0.8
Sale of own shares	–	–	–	–	8.1	(6.6)	1.5
Disposal of properties	–	–	(3.0)	–	–	3.0	–
Tax on disposal of properties	–	–	0.4	–	–	(0.4)	–
Transfer to profit and loss reserves	–	–	(0.6)	–	–	0.6	–
Dividends paid	–	–	–	–	–	(38.9)	(38.9)
Total transactions with owners	–	–	(3.2)	–	8.1	(41.5)	(36.6)
At 3 October 2015	**44.4**	**334.0**	**81.7**	**6.8**	**(118.7)**	**651.3**	**999.5**

Notes

For the 52 weeks ended 1 October 2016

1 Accounting policies

Company information
Marston's PLC is a public company limited by shares incorporated in England and Wales and domiciled in the UK. The registered office is Marston's House, Brewery Road, Wolverhampton, WV1 4JT.

Basis of preparation
These financial statements have been prepared in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102) and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the Company. Monetary amounts in these financial statements are rounded to the nearest £0.1 million.

The financial statements have been prepared under the historical cost convention modified to include the revaluation of freehold and leasehold properties and the holding of certain financial instruments at fair value. The principal accounting policies adopted are set out below.

These financial statements for the period ended 1 October 2016 are the first financial statements of Marston's PLC prepared in accordance with FRS 102. The date of transition to FRS 102 was 5 October 2014. An explanation of how transition to FRS 102 has affected the reported financial position and financial performance is given in note 16.

The Company is a qualifying entity for the purposes of FRS 102, as it prepares publicly available consolidated financial statements, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group. The Company has therefore taken advantage of the exemptions from the following disclosure requirements in FRS 102:

- Section 4 'Statement of Financial Position' – Reconciliation of the opening and closing number of shares;
- Section 7 'Statement of Cash Flows' – Presentation of a statement of cash flows and related notes and disclosures;
- Section 11 'Basic Financial Instruments' – Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument not measured at fair value through profit or loss, and information that enables users to evaluate the significance of financial instruments;
- Section 33 'Related Party Disclosures' – Compensation for key management personnel.

These financial statements present information about the Company as an individual entity and not about its group.

As permitted by section 408(3) of the Companies Act 2006, no profit and loss account has been presented for the Company.

At the time of approving the financial statements, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Turnover and other operating income
Turnover represents rent receivable from licensed properties, which is recognised in the period to which it relates. Other operating income mainly comprises rent receivable from unlicensed properties.

Current and deferred tax
The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the accounts because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

Fixed assets
- Freehold and leasehold properties are stated at valuation or at cost. Fixtures, fittings, plant and equipment are stated at cost.
- Depreciation is charged to the profit and loss account on a straight-line basis to provide for the cost of the assets less their residual value over their useful lives.
- Freehold and long leasehold buildings are depreciated to their residual value over 50 years.
- Short leasehold properties are depreciated over the life of the lease.
- Fixtures, fittings, plant and equipment are depreciated over periods ranging from 3 to 15 years.
- Interest costs directly attributable to capital projects are capitalised.
- Land is not depreciated.

Properties are revalued by qualified valuers at least once in each rolling three year period, on an open market value basis. Substantially all of the Company's properties have been externally valued in accordance with the Royal Institution of Chartered Surveyors' Red Book. These valuations are performed directly by reference to observable prices in an active market or recent market transactions on arm's length terms. Internal valuations are performed on the same basis.

1 Accounting policies (continued)

When a valuation is below current carrying value, the asset concerned is reviewed for impairment. Impairment losses are charged to the revaluation reserve to the extent that a previous gain has been recorded, and thereafter to the profit and loss account. Surpluses on revaluation are recognised in the revaluation reserve, except to the extent they reverse previously charged impairment losses, in which case the reversal is recorded in the profit and loss account.

Disposals of fixed assets
Profit/loss on disposal of fixed assets represents net sale proceeds less carrying value of the assets. Any element of the revaluation reserve relating to the fixed assets disposed of is transferred to profit and loss reserves at the date of sale.

Financial instruments
The Company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the balance sheet when the Company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets
Basic financial assets, which comprise amounts owed by Group undertakings, other debtors and cash and cash equivalents, are initially measured at the transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method.

Other financial assets
Derivatives, including interest rate swaps, are not basic financial assets and are accounted for as set out below.

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the Company transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Basic financial liabilities
Basic financial liabilities, comprising amounts owed to Group undertakings, other creditors and borrowings, are initially recognised at the transaction price and subsequently carried at amortised cost, using the effective interest method.

Other financial liabilities
Derivatives, including interest rate swaps, are not basic financial liabilities and are accounted for as set out below.

Financial liabilities are derecognised when the Company's contractual obligations expire or are discharged or cancelled.

Derivatives
The Company uses derivative financial instruments to hedge the Group's exposure to fluctuations in interest rates. Derivative financial instruments are initially recognised in the balance sheet at fair value and are subsequently remeasured to their fair value at each balance sheet date. The Company has not designated any derivative financial instruments as hedging instruments and as such any gains or losses on remeasurement are recognised in the profit and loss account immediately.

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability.

Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at the lower of the asset's fair value at the date of inception of the lease and the present value of the minimum lease payments. The related liability is included in the balance sheet as a finance lease obligation. Lease payments are treated as consisting of capital and interest elements. The interest is charged to the profit and loss account so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals payable under operating leases, including any lease incentives received, are charged to the profit and loss account on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Notes continued

For the 52 weeks ended 1 October 2016

1 Accounting policies (continued)

Lease premiums received are recognised on a straight-line basis over the life of the lease.

Obligations arising from sale and leaseback arrangements with repurchase options that do not fall within the scope of Section 20 'Leases' of FRS 102 are classified as other lease related borrowings and accounted for as secured loans on an amortised cost basis.

Investments in subsidiaries
Interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

Provisions
Provisions are recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value, using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. When a provision is measured at present value the unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

When valuations of leasehold properties (based on future estimated income streams) give rise to a deficit as a result of onerous lease conditions they are recognised as provisions. Other contractual property costs are also recorded as provisions as appropriate.

Dividends
Dividends proposed by the Board but unpaid at the period end are recognised in the financial statements when they have been approved by the shareholders. Interim dividends are recognised when paid.

Preference shares
Preference shares are treated as borrowings, and dividends payable on those preference shares are charged as interest in the profit and loss account.

Group undertakings
There is an intra group funding agreement in place between the Company and certain other members of the Group. This agreement stipulates that all balances outstanding on any intercompany loan account between these companies which exceed £1 are interest bearing at a prescribed rate.

There is a 12.5% subordinated loan due to the Company from Marston's Pubs Limited and a deep discount bond owed by the Company to Banks's Brewery Insurance Limited. No interest is payable on any other amounts owed by/to Group companies who are not party to the intra group funding agreement.

All amounts owed by/to Group undertakings are unsecured and, with the exception of the subordinated loan and deep discount bond, repayable on demand.

2 Judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Critical judgements
The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Lease classification
In determining whether a lease is classified as an operating lease or finance lease, judgements are required in respect of whether the lease has transferred substantially all the risks and rewards of ownership of the leased asset to the lessee, in particular whether the present value of the minimum lease payments amounts to at least substantially all of the fair value of the asset and whether the lease term is for the major part of the economic life of the asset.

Key sources of estimation uncertainty
The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Tangible fixed assets
The Company carries its freehold and leasehold properties at fair value. These properties are valued by external or internal valuers on an open market value basis, primarily using earnings multiples derived from prices in observed transactions involving comparable businesses. The estimation of the fair values requires a combination of assumptions, including future earnings and appropriate multiples.

2 Judgements and key sources of estimation uncertainty (continued)

The useful lives and residual values of the Company's tangible fixed assets are estimated based on current property market trends, technological advancement, physical condition of the assets and expected future investment. These are reviewed annually and amended when necessary to reflect current estimates. The annual depreciation charge is sensitive to changes in both the useful lives and residual values of the assets.

The carrying amount of tangible fixed assets is shown in note 5 and the useful lives are shown in note 1.

Property lease provisions
The amount provided in respect of onerous property leases is dependent on a number of assumptions including market rents, vacant periods, inflation rates and discount rates. The assumptions made reflect historical experience and current trends and rates.

The amount provided for onerous property leases is shown in note 9.

Valuation of interest rate swaps
The Company's interest rate swaps are held at fair value. The valuations are obtained from counterparties who use a variety of assumptions based on market conditions existing at each balance sheet date. The fair values are highly sensitive to the inputs to the valuations, such as discount rates and yield curves.

The carrying amount of the interest rate swaps is shown in note 10.

3 Auditors' remuneration

Fees payable to the Company's Auditors for the audit of the Company's annual accounts are disclosed in note 3 to the Group financial statements. Fees paid to the Company's Auditors for non-audit services to the Company itself are not required to be disclosed as the Group financial statements disclose such fees on a consolidated basis.

4 Employees

The average monthly number of people employed by the Company during the period excluding Directors was nil (2015: nil).

5 Tangible fixed assets

	Land and buildings £m	Fixtures, fittings, plant and equipment £m	Total £m
Cost or valuation			
At 4 October 2015	343.8	26.6	370.4
Additions	8.9	2.7	11.6
Disposals	(16.6)	(0.3)	(16.9)
At 1 October 2016	**336.1**	**29.0**	**365.1**
Depreciation			
At 4 October 2015	1.1	10.7	11.8
Charge for the period	1.9	2.4	4.3
Disposals	–	(0.3)	(0.3)
At 1 October 2016	**3.0**	**12.8**	**15.8**
Net book amount at 3 October 2015	342.7	15.9	358.6
Net book amount at 1 October 2016	**333.1**	**16.2**	**349.3**

The net book amount of land and buildings is split as follows:

	2016 £m	2015 £m
Freehold properties	**235.0**	245.3
Leasehold properties over 50 years unexpired	**75.8**	74.7
Leasehold properties under 50 years unexpired	**22.3**	22.7
	333.1	342.7

If the land and buildings had not been revalued, the historical cost net book amount would be £242.1 million (2015: £243.2 million).

Interest costs of £0.1 million (2015: £0.1 million) were capitalised in respect of the financing of major projects.

Capital expenditure authorised and committed at the period end but not provided for in the financial statements was £0.4 million (2015: £1.8 million).

The net book amount of land and buildings held under finance leases at 1 October 2016 was £28.4 million (2015: £28.0 million). The net book amount of land and buildings held as part of sale and leaseback arrangements that do not fall within the scope of Section 20 'Leases' of FRS 102 was £135.5 million (2015: £134.6 million).

Notes continued

For the 52 weeks ended 1 October 2016

5 Tangible fixed assets (continued)

Revaluation/impairment
At 1 February 2015 independent chartered surveyors revalued the Company's freehold and leasehold properties on an open market value basis. These valuations were incorporated into the financial statements and the resulting revaluation adjustments were recognised in the revaluation reserve or profit and loss account as appropriate.

The impact of the revaluations/impairments described above is as follows:

	2016 £m	2015 £m
Profit and loss account:		
Revaluation loss charged as an impairment	–	(12.5)
Reversal of past impairment	–	3.5
	–	(9.0)
Revaluation reserve:		
Unrealised revaluation surplus	–	52.2
Reversal of past revaluation surplus	–	(8.8)
	–	43.4
Net increase in shareholders' equity/tangible fixed assets	–	34.4

6 Fixed asset investments

	Subsidiary undertakings £m
Cost	
At 4 October 2015	317.3
Capital contribution in respect of equity-settled share-based payments	0.4
At 1 October 2016	**317.7**
Impairments	
At 4 October 2015	56.4
Charged in the period	0.4
At 1 October 2016	**56.8**
Net book amount at 3 October 2015	260.9
Net book amount at 1 October 2016	**260.9**

6 Fixed asset investments (continued)

These financial statements are separate company financial statements for Marston's PLC.

The Company had the following subsidiary undertakings at 1 October 2016:

	Country of incorporation	Nature of business	Class of share	Proportion of shares held directly by Marston's PLC	Proportion of shares held by the Group
Marston's Estates Limited	England and Wales	Property management	Ordinary 25p	100%	100%
Marston's Operating Limited	England and Wales	Pub retailer and brewer	Ordinary £1	–	100%
Marston's Property Developments Limited	England and Wales	Property developer	Ordinary £1	100%	100%
Marston's Pubs Limited	England and Wales	Pub retailer	Ordinary £1	–	100%
Marston's Pubs Parent Limited	England and Wales	Holding company	Ordinary £1	100%	100%
Marston's Telecoms Limited	England and Wales	Telecommunications	Ordinary £1	100%	100%
Marston's Trading Limited	England and Wales	Pub retailer and brewer	Ordinary £5	100%	100%
Banks's Brewery Insurance Limited	Guernsey	Insurance	Ordinary £1	100%	100%
Marston's Acquisitions Limited	England and Wales	Acquisition company	Ordinary 25p	100%	100%
			Preference £1	100%	100%
Marston's Issuer PLC	England and Wales	Financing company	Ordinary £1	–	–
Marston's Issuer Parent Limited	England and Wales	Holding company	Ordinary £1	–	–
Bluu Limited	England and Wales	Dormant	Ordinary £1	–	100%
Brasserie Restaurants Limited	England and Wales	Dormant	Ordinary £1	–	100%
Celtic Inns Holdings Limited	England and Wales	Dormant	Ordinary 1p	100%	100%
Celtic Inns Limited	England and Wales	Dormant	Ordinary £1	–	100%
Eldridge, Pope & Co., Limited	England	Dormant	Ordinary 50p	–	100%
English Country Inns Limited	England and Wales	Dormant	Ordinary 50p	100%	100%
EP Investments 2004 Limited	England and Wales	Dormant	Ordinary 1p	–	100%
Fairdeed Limited	England and Wales	Dormant	'A' Ordinary £1	–	100%
Fayolle Limited	England and Wales	Dormant	Ordinary £1	–	100%
John Marston's Taverners Limited	England and Wales	Dormant	Ordinary £1	–	100%
Lambert Parker & Gaines Limited	England and Wales	Dormant	Ordinary £1	–	100%
Mansfield Brewery Limited	England	Dormant	Ordinary 25p	–	100%
Mansfield Brewery Properties Limited	England and Wales	Dormant	Ordinary £1	100%	100%
Mansfield Brewery Trading Limited	England and Wales	Dormant	Ordinary £1	–	100%
Marston, Thompson & Evershed Limited	England and Wales	Dormant	Ordinary 25p	–	100%
Osprey Inns Limited	England and Wales	Dormant	Ordinary £1	–	100%
Pitcher and Piano Limited	England and Wales	Dormant	Ordinary £1	–	100%
Porter Black (2003) Limited	England and Wales	Dormant	Ordinary £1	–	100%
QP Bars Limited	England and Wales	Dormant	Ordinary £1	–	100%
Refresh Group Limited	England and Wales	Dormant	Ordinary 1p	–	100%
Refresh UK Limited	England and Wales	Dormant	Ordinary 10p	–	100%
Ringwood Brewery Limited	England and Wales	Dormant	Ordinary £1	–	100%
S.K. Williams Limited	England	Dormant	Ordinary £1	–	100%
SDA Limited	England and Wales	Dormant	Ordinary £1	–	100%
Sherwood Forest Properties Limited	England and Wales	Dormant	Ordinary £1	–	100%
Sovereign Inns Limited	England and Wales	Dormant	Ordinary £1	–	100%
The Gray Ox Limited	England and Wales	Dormant	Ordinary £1	–	100%
The Wychwood Brewery Company Limited	England and Wales	Dormant	Ordinary £1	–	100%
W&DB (Finance) PLC	England and Wales	Dormant	Ordinary £1	100%	100%
W. & D. plc	England and Wales	Dormant	Ordinary £1	100%	100%
Wizard Inns Limited	England and Wales	Dormant	'A' Ordinary 1p	100%	100%
			Deferred 1p	100%	100%
Wychwood Holdings Limited	England and Wales	Dormant	'A' Ordinary 1p	–	100%
			'B' Ordinary 1p	–	100%

All subsidiaries have been included in the consolidated financial statements.

Although the Group does not hold any shares in Marston's Issuer PLC and its parent company, Marston's Issuer Parent Limited, these companies are treated as subsidiary undertakings for the purpose of the consolidated financial statements as it is considered that they are controlled by the Group. Marston's Issuer PLC was set up with the sole purpose of issuing debt secured on the assets of Marston's Pubs Limited. Wilmington Trust SP Services (London) Limited holds the shares of Marston's Issuer Parent Limited under a declaration of trust for charitable purposes.

Notes continued

For the 52 weeks ended 1 October 2016

7 Debtors

Amounts falling due within one year	2016 £m	2015 £m
Amounts owed by Group undertakings	**520.6**	522.2
Derivative financial instruments	**38.0**	25.7
Other debtors	**7.7**	0.8
	566.3	548.7

Amounts falling due after more than one year	2016 £m	2015 £m
12.5% subordinated loan owed by Group undertaking	**818.7**	743.3

8 Creditors

Amounts falling due within one year	2016 £m	2015 £m
Amounts owed to Group undertakings	**738.2**	700.4
Finance leases	**0.1**	0.1
Other lease related borrowings	**(0.1)**	(0.1)
Corporation tax	**36.2**	31.0
Derivative financial instruments	**38.0**	25.7
Accruals and deferred income	**6.5**	5.8
Other creditors	**0.9**	1.1
	819.8	764.0

Amounts falling due after more than one year	2016 £m	2015 £m
Finance leases	**20.5**	20.6
Other lease related borrowings	**87.9**	87.8
Preference shares	**0.1**	0.1
Accruals and deferred income	**14.1**	15.5
Other creditors	**0.2**	1.3
	122.8	125.3

The preference shares carry a right to a fixed cumulative preferential dividend. They participate in the event of a winding-up and on a return of capital and carry the right to attend and vote at general meetings of the Company, carrying four votes per share.

Other lease related borrowings represent amounts due under sale and leaseback arrangements that do not fall within the scope of Section 20 'Leases' of FRS 102. The Company has an option to repurchase each leased property for a nominal amount at the end of the lease. The leases have terms of 35 to 40 years and rents which are linked to RPI, subject to a cap and collar.

The amount falling due for payment after more than five years from the balance sheet date on debts repayable by instalments was £108.0 million (2015: £108.1 million). Debts of £0.1 million (2015: £0.1 million) were repayable otherwise than by instalments after more than five years from the balance sheet date.

9 Provisions for liabilities and charges

	Deferred tax £m	Property leases £m	Total £m
At 4 October 2015	27.3	8.5	35.8
Released in the period	–	(1.7)	(1.7)
Provided in the period	–	0.9	0.9
Unwinding of discount	–	0.1	0.1
Utilised in the period	–	(1.8)	(1.8)
Adjustment for change in discount rate	–	0.4	0.4
Credited to profit and loss	(0.9)	–	(0.9)
Credited to other comprehensive income	(2.9)	–	(2.9)
At 1 October 2016	**23.5**	**6.4**	**29.9**

Payments are expected to continue in respect of these property leases for periods of 1 to 28 years (2015: 1 to 29 years).

Deferred tax
The amount provided in respect of deferred tax is as follows:

	2016 £m	2015 £m
Excess of capital allowances over accumulated depreciation	**5.3**	5.8
Property related items	**18.2**	21.5
	23.5	27.3

10 Financial instruments

Carrying amount of financial assets	2016 £m	2015 £m
Measured at fair value through profit or loss	**38.0**	25.7

Carrying amount of financial liabilities	2016 £m	2015 £m
Measured at fair value through profit or loss	**38.0**	25.7

The only financial instruments that the Company holds at fair value are interest rate swaps. The fair values of the Company's interest rate swaps are obtained using a market approach and reflect the estimated amount the Company would expect to pay or receive on termination of the instruments. The Company obtains such valuations from counterparties who use a variety of assumptions based on market conditions existing at each balance sheet date.

11 Operating lease commitments

At 1 October 2016 the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases as follows:

	2016		2015	
Due:	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	**14.9**	**–**	17.7	–
In more than one year and less than five years	**23.7**	**–**	36.4	–
In more than five years	**59.4**	**–**	63.5	–
	98.0	**–**	117.6	–

12 Finance lease obligations

The Company leases a number of properties under finance leases. The leases have various terms, escalation clauses and renewal rights. Future minimum lease payments under finance leases are as follows:

Due:	2016 £m	2015 £m
Within one year	**1.2**	1.2
In more than one year and less than five years	**5.1**	5.0
In more than five years	**37.6**	38.9
	43.9	45.1
Future finance charges	**(23.3)**	(24.4)
Present value of finance lease obligations	**20.6**	20.7

Notes continued

For the 52 weeks ended 1 October 2016

13 Equity share capital

	2016		2015	
Allotted, called up and fully paid	**Number m**	**Value £m**	Number m	Value £m
Ordinary shares of 7.375p each	**602.8**	**44.4**	602.8	44.4

14 Reserves

The share premium account comprises amounts in excess of nominal value received for the issue of shares less any transaction costs.

When freehold and leasehold properties are revalued any gains and losses are recognised in the revaluation reserve, except to the extent that a revaluation gain reverses a revaluation loss previously recognised in profit or loss or a revaluation loss exceeds the accumulated revaluation gains recognised in the revaluation reserve; such gains and losses are recognised in profit or loss. The associated deferred tax on revaluations is also recognised in the revaluation reserve. Amounts representing the equivalent depreciation are transferred to profit and loss reserves annually and the full amount is transferred on disposal of the associated property.

The capital redemption reserve arose on share buybacks.

Details of own shares are provided in note 28 to the Group financial statements.

15 Guarantees and contingent liabilities

The Company has entered into a Deed of Guarantee with Marston's Trading Limited ('Trading') and the Trustees of the Marston's PLC Pension and Life Assurance Scheme ('the Scheme') whereby it guarantees to the Trustees the ongoing obligations of Trading to contribute to the Scheme and the obligations of Trading to contribute to the Scheme in the event of a debt becoming due under section 75 of the Pensions Act 1995 on the occurrence of either Trading entering liquidation or the Scheme winding up.

The Company has guaranteed the obligations of Trading under its banking facilities and the obligations of Marston's Estates Limited under various property leases.

16 Reconciliations on adoption of FRS 102

Reconciliations and descriptions of the effect of the transition to FRS 102 on; (i) equity at the date of transition to FRS 102; (ii) equity at the end of the comparative period; and (iii) profit for the comparative period reported under previous UK GAAP are given below.

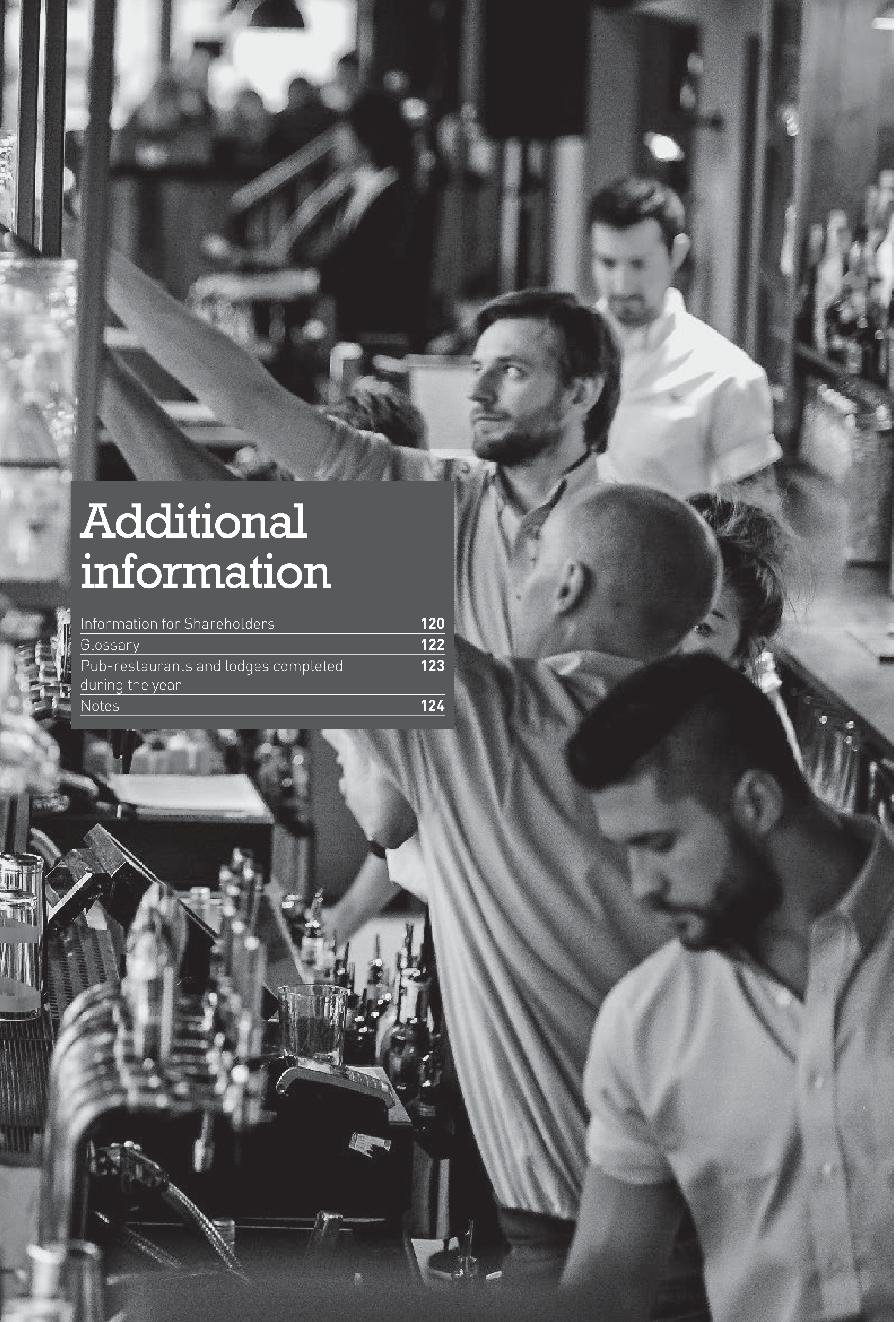
Reconciliation of equity	3 October 2015 £m	5 October 2014 £m
Equity as reported under previous UK GAAP	1,021.0	955.4
Adjustments arising from transition to FRS 102:		
Assets held for sale	–	–
Deferred tax	(21.5)	(15.6)
Equity reported under FRS 102	999.5	939.8

Reconciliation of profit	2015 £m
Profit as reported under previous UK GAAP	54.8
Adjustments arising from transition to FRS 102:	
Assets held for sale	4.0
Deferred tax	2.2
Profit reported under FRS 102	61.0

Assets held for sale
When following previous UK GAAP the Company had the policy of categorising an asset (typically a property) as held for sale when its value was to be recovered through a sale transaction rather than continuing use. Assets held for sale were valued at the lower of carrying value and fair value less costs to sell, and were no longer depreciated. When an asset classed as held for sale was impaired that impairment was recognised in the profit and loss account rather than the revaluation reserve.

Under FRS 102 there is no categorisation of assets as held for sale and so upon transition to FRS 102 all assets that were classed as held for sale have been reclassified as tangible fixed assets. The carrying value has been reduced by any depreciation not yet charged and the revaluation reserve balances in respect of these assets have been adjusted appropriately.

Deferred tax
Under previous UK GAAP the Company was not required to provide for deferred taxation on revaluations and other timing differences between the accounts carrying value and tax base cost of properties, such as impairments, rollover relief and indexation allowance, unless the Company had entered into a binding sale agreement and recognised the expected gain or loss. Under FRS 102, deferred tax is provided on the temporary differences arising from these items.



Additional information

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Information for Shareholders

Annual General Meeting (AGM)
The Company's AGM will be held on 24 January 2017 at 12 noon at Wolverhampton Wanderers Football Club, Molineux Stadium, Waterloo Road, Wolverhampton WV1 4QR.

Financial calendar

Ex-dividend date for final dividend	15 December 2016
Record date for final dividend	16 December 2016
AGM and Interim Management Statement	24 January 2017
Final dividend payment date	30 January 2017
Half-year results	17 May 2017
Ex-dividend date for interim dividend	May 2017
Interim dividend payment date	July 2017
Full-year results	30 November 2017

These dates are indicative only and may be subject to change.

The Marston's website
Shareholders are encouraged to visit our website **www.marstons.co.uk** for further information about the Company. The dedicated Investors section on the website contains information specifically for shareholders including share price information, historical dividend amounts and payment dates together with this year's (and prior years') Annual Report and Accounts.

Registrars
The Company's shareholder register is maintained by our Registrar Equiniti. If you have any queries relating to your Marston's PLC shareholding you should contact Equiniti directly by one of the methods below:

Online: **www.shareview.co.uk** – from here you will be able to securely email Equiniti with your query.

Telephone: 0371 384 2274*

Text phone: 0371 384 2255*

By post: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA

* Lines are open from 8.30am to 5.30pm (UK time), Monday to Friday, excluding English public holidays.

Dividend payments
By completing a bank mandate form dividends can be paid directly into your bank or building society account. Those selecting this payment method will benefit from receiving cleared funds in their bank account on the payment date, avoiding postal delays and removing the risk of any cheques being lost in the post. To change how you receive your dividends contact Equiniti or visit **www.shareview.co.uk.**

Duplicate documents
If you have received two or more sets of the documents concerning the AGM this means that there is more than one account in your name on the shareholder register, perhaps because either your name or your address appear on each account in a slightly different way. If you think this might be the case and would like to combine your accounts, please contact Equiniti.

Moving house?
It is important that you notify Equiniti of your new address as soon as possible. If you hold 1,500 shares or fewer, and reside in the UK, this can be done quickly over the telephone. However, for holdings greater than 1,500 shares your instruction will need to be in writing, quoting your full name, shareholder reference number (if known), previous address and new address.

Electronic communications
Changes in legislation in recent years allow the Company to use its corporate website as the main way to communicate with shareholders. Annual Report and Accounts are only sent to those shareholders who have opted to receive a paper copy. Registering to receive shareholder documentation from the Company electronically will allow shareholders to:

- view the Annual Report and Accounts on the day it is published;
- receive an email alert when the Annual Report and Accounts and any other shareholder documents are available;
- cast their AGM votes electronically; and
- manage their shareholding quickly and securely online, through **www.shareview.co.uk.**

This reduces our impact on the environment, minimises waste and reduces printing and mailing costs. For further information and to register for electronic shareholder communications visit **www.shareview.co.uk.**

Ordinary shares

Range of shareholding

	Number of Holdings	% of Holdings	Number of Shares	% of Shares
1–1,000	3,693	35.6	1,498,624	0.3
1,001–10,000	5,093	49.0	20,051,426	3.3
10,001–100,000	1,280	12.3	33,301,405	5.5
100,001–1,000,000	223	2.2	76,552,470	12.7
1,000,001+	98	0.9	471,357,274	78.2
Total	10,387	100.0	602,761,199	100.0

An analysis of the register by shareholder type can be found in the Governance section on page 43.

Buying and selling shares in the UK

If you wish to buy or sell Marston's PLC shares and hold a share certificate, you can:

- use the services of a stockbroker or high street bank; or
- use a telephone or online service.

If you sell your shares in this way you will need to present your share certificate at the time of sale. Details of low cost dealing services may be obtained from **www.shareview.co.uk** or 0345 603 7037**.

** Lines are open Monday to Friday, 8.00am to 4.30pm for dealing and until 6.00pm for enquiries (UK time), excluding English public holidays.

Share fraud warning

Share fraud includes scams where investors are called out of the blue and offered an inflated price for shares they own or shares that often turn out to be worthless or non-existent. These calls come from fraudsters operating 'boiler rooms' that are mostly based abroad. While high profits are promised, those who buy or sell shares in this way usually lose their money. The Financial Conduct Authority (FCA) has found most share fraud victims are experienced investors who lose an average of £20,000, with around £200 million lost in the UK each year.

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

Get the name of the person and organisation contacting you.

Check the Financial Services Register at **www.fca.org.uk/register** to ensure they are authorised.

Use the details on the FCA Register to contact the firm.

Call the FCA Consumer Helpline on 0800 111 6768 if there are no contact details on the Register or you are told they are out of date.

Search the FCA list of unauthorised firms and individuals to avoid doing business with.

Remember, if it sounds too good to be true, it probably is.

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme if things go wrong.

If you are approached about a share scam you should tell the FCA using the share fraud reporting form at **www.fca.org.uk**, where you will find out about the latest investment scams. You can also call the Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Company details

Registered office: Marston's House, Brewery Road, Wolverhampton, WV1 4JT

Telephone: 01902 711811

Company registration number: 31461

Investor queries: investorrelations@marstons.co.uk

Glossary

ALMR The Association of Licensed Multiple Retailers

BBPA British Beer & Pub Association – a body representing Britain's brewers and pub companies

BIS Department for Business, Innovation and Skills – Government department of economic growth

Challenge 21 BBPA scheme to prevent underage sales – if a customer buying alcohol looks under the age of 21 they will be asked to provide proof of their age

Challenge 25 Extension to Challenge 21 – scheme where customers will be asked to prove their age if they look under 25

CROCCE Cash Return on Cash Capital Employed – calculated in the same way as ROC

CR Corporate Responsibility – businesses' response to their impact on society

EBIT Earnings before interest and tax

EBITDA Earnings before interest, tax, depreciation and amortisation

EPS Earnings per share

Export Anything sold outside the UK

FCF Free Cash Flow – operating cash flow of the business after tax and interest

FRC Financial Reporting Council – independent regulator

Free trade Independently owned pubs and clubs

Generous George Destination pub brand

LPG (emissions) Liquefied petroleum gas, used as a fuel in heating appliances, cooking equipment and vehicles

InMoment External customer experience management company

MBC Marston's Beer Company, internal division

MIT Marston's Inns and Taverns, internal division

National on-trade Managed house pub groups, tenanted pub groups, brewers

NED Non-executive Director

NGCI Non gluten containing ingredient

Off-trade Business with food and drink retailers, such as supermarkets (also known as take home)

On-trade Business with hotels, bars, restaurants and pub companies

PBT Profit before tax

PBA Premium bottled ale

ROC Return on Capital – a measure of how effectively we use the capital invested in our business

Take home Supermarkets, cash and carry, convenience stores (also known as off-trade)

The Pubs Code Statutory regulation effective 21 July 2016

TSR Total Shareholder Return – a combination of share price appreciation and dividends paid

Picture reference

The Saxon King, Southend – front cover

The Lost & Found, Leeds – front cover

Chain Bridge, Boston – page 2

Foundry 39, Edinburgh – page 2

The Llanwern Bull, Newport – page 2

The Mug House, Worcester – page 2

Wychwood Brewery, Witney – page 2

Canterbury Bell, Thanet – page 6

The Eyre Arms, Sheffield – page 11

The Huntsman at Brockenhurst (bedroom) – page 13

The Huntsman at Brockenhurst – page 25

Teal Farm, Washington – page 26

The Tavern, Denstone – page 27

Pub-restaurants and lodges completed during the year

	Scotland	
Old Plane Tree	Darnley, Glasgow	Two for One and Pizza Kitchen
Red Squirrel	Stevenston	Milestone Carvery and Lodge
Sweet Chestnut	Dunfermline	Lodge
Foundry 39	Edinburgh	Revere Town Centre
	North of England	
The Lost & Found	Leeds	Revere Town Centre
Miners Peg	Skelmersdale	Milestone Carvery
Six Halts	Chesterfield	Generous George
The Lost & Found	Knutsford, Cheshire	Revere Town Centre
Old Ash Dene	Ashington, Northumberland	Generous George
Tunny Catch	Scarborough	Generous George
Willow Beck	Northallerton	Milestone Rotisserie
Beaumont	Chorley, Lancashire	Tavern
Shiny Sheff	Sheffield	Tavern
Sandstone Nab	Eston, Middlesborough	Two for One and Pizza Kitchen
Vikings Landing	Stonebridge, Liverpool	Milestone Carvery
Teal Farm	Washington	Tavern
	Midlands	
Alders	Ollerton, Nottingham	Milestone Carvery
Fallow Field	Telford, Hadley Park	Lodge
Mermaid	Ipswich	Lodge
	Wales	
Sessile Oak Lodge	Llanelli	Lodge
Llanwern Bull	Newport Glan Llyn	Generous George
	South of England	
Water Meadow	Melksham	Two for One and Pizza Kitchen
Five Bridges	Sheppey	Milestone Carvery
The Bakehouse	Welwyn Garden City	Milestone Carvery
Canterbury Bell	Thanet	Lodge
Conquerors March	Hastings	Milestone Rotisserie
Chain Bridge	Boston	Two for One and Pizza Kitchen

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