Marston's PLC

Annual Report and Accounts for the year ended 1 October 2011

Stock code: MARS

Marston's is a leading independent brewing and pub retailing business operating a vertically integrated business model.

We operate around 2,150 pubs and bars situated across England and Wales, comprising tenanted, leased, franchise and managed pubs at the heart of thriving local communities offering a welcoming environment and value for money.

We operate five breweries — Banks's Brewery in Wolverhampton, Marston's Brewery in Burton upon Trent, Jennings Brewery in the Lake District, Ringwood Brewery in Hampshire and Wychwood Brewery in Oxfordshire.

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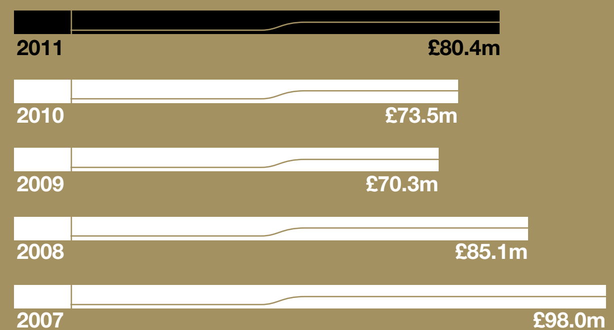
HIGHLIGHTS
Financial and Strategy

- **Managed pub development**
  19 new-build managed pubs completed with performance ahead of target; on track to complete around 25 new-build sites in 2012.
- **The 'F-Plan'**
  Food like-for-like sales up 5% now representing 42% of sales; over 26 million meals sold in managed pubs at an average spend per head of £6.10.
- **Tenanted and leased pub development**
  Retail Agreements implemented in 337 pubs with profit uplift in line with targets; on track to roll out to a further 200 pubs in 2012.
- **'Localness' and premium ale strategy**
  Premium cask ale volumes are up 5%, premium ale brands now representing 62% of our ale portfolio.

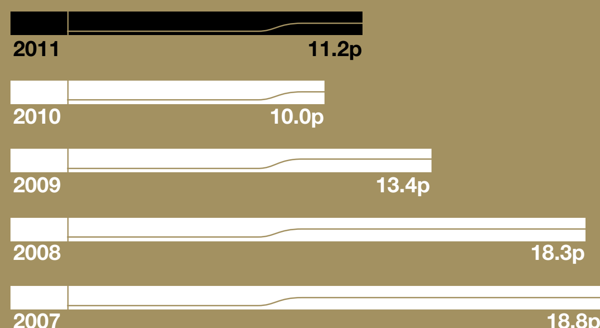
Revenue (£m)
£682.2m up 4.8%
(2010: £650.7m)

Underlying* operating profit (£m)
£154.3m
(2010: £148.7m)

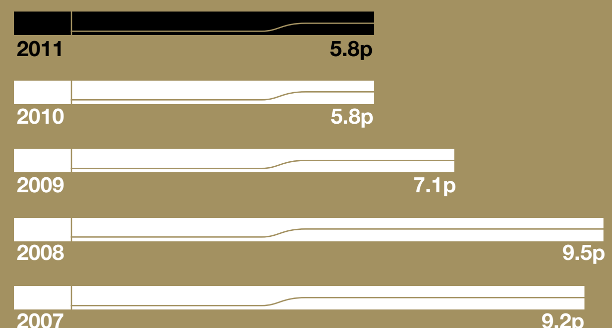
Underlying* profit before tax (£m)
£80.4m up 9.4%
(2010: £73.5m)



Underlying* earnings per share (p)
11.2p
(2010: 10.0p)



Dividend per share
5.8p
(2010: 5.8p)



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

Earning and dividends per share have been restated to reflect the 4-for-1 share split in January 2007 and the impact of the issue of new shares under a rights issue in July 2009.

A MESSAGE FROM THE CHAIRMAN

Marston's PLC
Marston's House
Brewery Road
Wolverhampton
WV1 4JT

Dear Shareholder

In 2011 we made good progress towards our three key objectives: of generating sustainable growth, of increasing return on capital, and of reducing debt ratios.

Our strategy is differentiated in three areas. First, our focus is on new-build managed pubs. Second, we have introduced franchise agreements, and have increased our support to the traditional tenanted and leased estate. Third, our ale brand development is based upon local beers with genuine provenance.

Each of these is underpinned by the objectives of enhancing service both to our consumers and our trade customers, while at the same time offering outstanding value. It is manifest that this strategy is appropriate to current market conditions.

We propose a final dividend of 3.7p, unchanged compared to last year. The total dividend for the year is thus 5.8p, also unchanged compared to last year, and representing dividend cover of 1.9 times, up from 1.7 times in 2010.

As announced last year, a number of Board changes were made on 1 October 2011. The number of Executive Directors reduced from five to three, with Alistair Darby appointed as Chief Operating Officer.

Derek Andrew retired from the Group after 31 years' service, and is replaced as Managing Director of Marston's Inns and Taverns by Peter Dalzell. We thank Derek for his excellent contribution.

Stephen Oliver stepped down from the Board, and is appointed Managing Director of Marston's Beer and Pub Company, created through the combination of our tenanted and leased estate with our brewing operations.

Miles Emley, Non-executive Director, has informed the Board of his intention to step down after the Annual General Meeting on 27 January 2012 after 14 years' service. Miles has made a significant and steadying contribution during a turbulent decade or so in our industry.

We expect the environment to remain challenging for the foreseeable future, and have cut our cloth accordingly. Economic pressures on energy, commodity and labour costs will be mitigated substantially through tight cost management and effective purchasing, but the scale of increases in regulatory costs, business rates and alcohol duty needs to be addressed by this Government if opportunities for growth in leisure businesses are to be exploited.

This year, we have supported the Government's Responsibility Deal, its health awareness initiatives and Drinkaware. We welcome the Government's response to the Business, Innovation and Skills Select Committee's report and, in particular, that self-regulation is supported as the best means of implementing a range of substantive reforms to the operation of tenanted and leased pubs. The Framework Code of Practice requires higher standards of care in the appointment of licensees and will be further strengthened through these reforms. Each of these actions demonstrates our commitment to the highest standards in our dealings with consumers and customers.

We have a clearly defined strategy for continued profitable development. This seeks to improve the fundamental ratios of return on capital, of debt and of dividend cover. We aim to sustain our momentum through 2012 and beyond.

David Thompson
Chairman
30 November 2011

WHY INVEST IN MARSTON'S?

AWARDS

2011 WINNER TENANTED PUB COMPANY OF THE YEAR
MARSTON'S PUB COMPANY

2011 WINNER IN COMMUNITY PUB MENU AND KIDS MENU CATEGORIES
MARSTON'S INNS AND TAVERNS

MARSTON'S MULTI-SITE RETAILER PROGRAMME RECEIVED BII ACCREDITATION

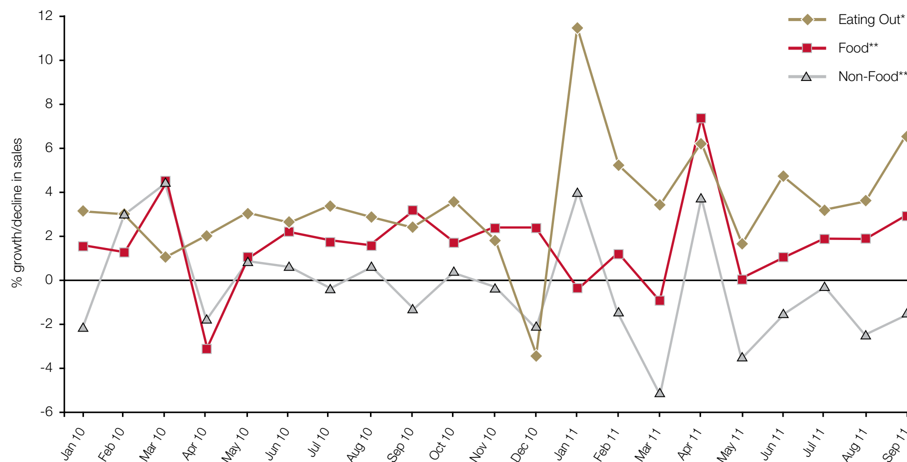
2011 BRITISH PIE AWARDS GOLD AWARD
STEAK AND MARSTON'S PEDIGREE ALE PIE

CN GROUP BUSINESS AWARDS FINALIST
JENNINGS BREWERY IN COMMUNITY INVOLVEMENT CATEGORY

› WHY INVEST IN MARSTON'S?

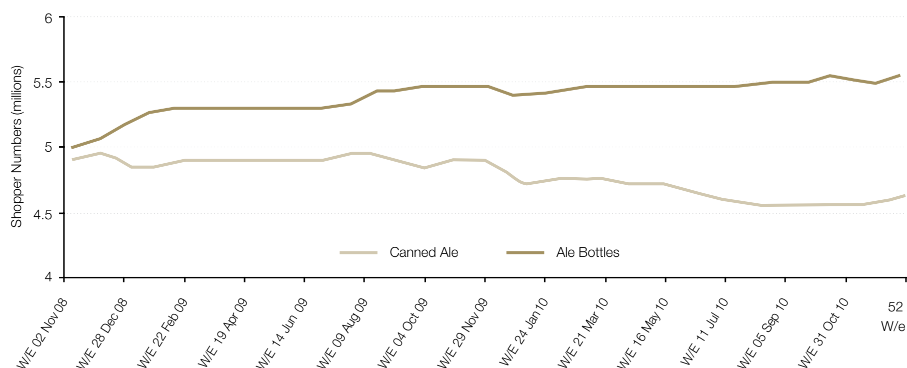
- We have a clear strategy and defined objectives delivered through our vertically integrated business model.
- We have one of the most highly experienced and stable management teams in the industry.
- We successfully predict market trends such as the increase in food related sales in UK pubs. Our 'F-Plan' anticipated the growth trends in the pub-restaurant market and targets food, families, females and forty/fifty somethings.
- Financial Strength — with our strong cash flow we balance reinvestment in the future growth of the business with a commitment to pay dividends to shareholders. We have a long-term efficient and secure financing structure and a 98% freehold pub estate by value.
- Strong market position — a national pub operator satisfying consumer trends — growth in the eating-out market, a revival in premium cask and bottled ale and demand for family friendly pubs.

Trends in consumer expenditure — strength of the eating-out market



Source: * Coffer Peach Tracker
** BRC Tracker

Bottled Ale continues to recruit shoppers



Source: Kantar Worldpanel, 31 Oct 2010 52 W/e data
Base: Off trade filtered to Multiples

OUR STRATEGY

Strategy

Exploit and develop competetive advantage in pubs and brewing sectors.

Delivery through our Business Model

- 'F-Plan'
- New-build investment

- Innovative agreements
- Greater control of retail offer

- 'Localness'
- Premium

Marston's Group Objectives

1

Sustainable Growth

UNDERLYING EARNINGS PER SHARE

up 12%

to 11.2 pence per share

(2010: 10.0 pence per share)

2

Reduce leverage ratios

Leverage reduced

to 5.6x from 5.7x

in 2010

3

Increase return on capital employed

up 0.2%

at 9.8%

(2010: 9.6%)

OUR BUSINESS MODEL

How our Business Model supports our strategy of exploiting and developing our competitive advantage in pubs and brewing.

INNS & TAVERNS

MANAGED PUBS

- *Fully managed from Marston's*
- *Staff employed directly by Marston's*
- *Value for money, great service*
- *Successful trading formats – 'Two for One' and 'Milestone Carvery'*
- *'F-Plan' – food, families, females, forty/fifty somethings*

PUB COMPANY

RETAIL AGREEMENT

- *5 year franchise*
- *Part managed from Marston's Head Office*
- *Franchisee receives 20% of turnover*
- *Staff employed by franchisee*

INNOVATIVE AGREEMENTS

- *Tracker Tenancy*
- *Pathway Tenancy*
- *Base Lease – Fully Tied or Free Of Tie*

BEER COMPANY

SALES

- *Marston's managed pubs and tenanted and leased estate*
- *Free Trade*
- *National On-Trade including other pub companies*
- *Take Home including supermarkets*

BREWING

Our brands include Pedigree, Banks's Bitter, Cumberland Ale and Hobgoblin produced at our breweries in Burton upon Trent, Wolverhampton, Cockermouth, Ringwood and Witney

Operates around 500 food led pubs and bars

Objectives

- Increase estate to around 600 sites within 5 years
- Develop the 'F-Plan'

Progress

- Completion of 34 new-build pub-restaurants in last 2 years
- Food sales mix increased to 42% of sales, a 50% increase from 2005

Future Plans

- Target of 25 new-build sites per annum
- Maintain value offer

Operates around 1,600 tenanted, leased and franchise pubs

Objective

- Expansion of the Retail Agreement

Progress

- Retail Agreement in 337 sites

Future Plan

- Extend Retail Agreement to 600 sites

Objective

- Develop traditional tenanted model

Progress

- Offer tenants and lessees flexibility on rents and beer pricing delivering profits in 0.8% growth

Future Plan

- Increase Capex to £5m per annum to drive growth

Operates breweries focusing on premium cask and bottled ales

Objectives

- Focus on long-term growth in premium cask and bottled ales
- Leverage the 'localness' benefits of the five breweries

Progress

- Expansion of Free Trade operation around local breweries driving 8% increase in customers
- 1 in 4 pints of premium cask ale sold in England and Wales are Marston's products

Future Plans

- Expand Free Trade territories
- Continue sponsorship of England Cricket Team

FOCUS ON . . .

RETAIL AGREEMENTS

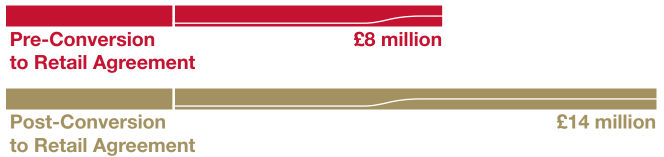
Accredited by the British Franchise Association, the success of Retail Agreements is based on:

- Encouraging entrepreneurialism from the franchisee who retains a fixed percentage of the total pub revenue — usually 20% — so the higher the revenue generated, the more the franchisee can earn;
- The franchisee has control over staffing and directly employs their own staff and pays their wages;
- Marston's bears all running costs and capital investment costs of any required repair and refurbishment;
- Marston's retains greater control over the pubs than in the traditional tenanted model and can quickly respond to changing conditions by adapting the food offer or improving standards.

The George, Wilmslow

The Retail Agreement has been implemented in 337 pubs and we are on track to roll out to a further 200 pubs in 2012. Our intention is to have 600 pubs converted to the Retail Agreement by 2013. The Retail Agreement has a huge effect in increasing annual profit for the pubs involved:

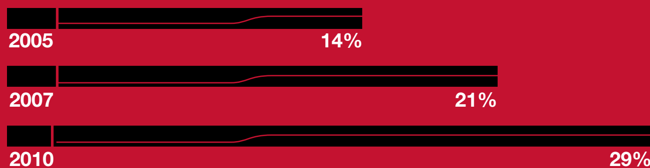
Expected annual profit for 600 pubs on Retail Agreement



PREMIUM ALE STRATEGY

We focus on premium cask ale and premium bottled ale as both of these sectors of the ale market are in growth. We aim to grow our ale brand portfolio by continuing to deliver category innovation and offer consumers and customers a broad range of brands with genuine local provenance and appeal.

IMPORTANCE CONSUMERS PLACE ON PRODUCT BEING 'LOCALLY PRODUCED'



IGD Shopper Trends 2010 base main shoppers

NEW-BUILD INVESTMENT

One of our stated objectives is to invest in new-build pub-restaurants.

During a three year programme, which commenced in 2009/10, we are committed to investing £140 million into 60 new-build sites. This programme remains the key driver of growth for Marston's Inns and Taverns.

We have a track record of delivering excellent returns from these developments. The average cost of each new-build, including the freehold site, is £2.5 million.

We aim to complete around 25 new-build pub-restaurants in 2012, utilising our in-house team and experience to ensure the best consumer offer in the right pub location, by targeting the eating-out market and positioning the pubs in areas such as retail parks and prominent sites.

PERFORMANCE ON 55 NEW-BUILD SITES 2005–2011

The Watermead, Northwich

The Copper Pot, Knowsley

NEW-BUILD TARGETS OUTSTRIPPED (POST 2009)

Average weekly turnover per new-build

£27,000

Pro forma annual EBITDA per new-build

£400,000

BUSINESS REVIEW

Ralph Findlay
Chief Executive Officer

Andrew Andrea
Chief Financial Officer

"In 2011 we have continued to make good progress . . . offering value for money with high service standards, investment in a quality pub estate and a wide range of local and premium beers."

The Royal Oak, Wolverhampton

FACT

1 in 4 pints of premium cask ale and 1 in 5 bottles of premium ale sold in England and Wales are Marston's products

Source: BBPA

GROUP OVERVIEW

We have a clear strategy to generate sustainable growth, to improve return on capital, and to reduce leverage ratios. We are pleased to report that we have made good progress on all of these measures.

Revenue was 4.8% up on last year, with improvement in all three trading divisions. Operating margin was 0.3% below last year, predominantly as a result of the increasing number of Retail Agreements. These generate increased profit at a lower operating margin percentage. Margins improved in Marston's Inns and Taverns and were maintained in Marston's Beer Company reflecting our continuing focus on tight cost control.

Underlying operating profit increased by 3.8% to £154.3 million, with underlying profit before tax of £80.4 million up 9.4% (2010: £73.5 million). Underlying earnings per share have grown strongly, up 12.0% to 11.2 pence per share (2010: 10.0 pence per share).

These good results have been achieved despite the well-documented challenging consumer environment, which has seen downward pressure on consumers' discretionary spending and significant inflationary pressures. Our strategy has focused on offering consumers consistent value for money in a quality pub environment. To improve both stability in and returns on our leased estate and to help our licensees remain competitive in today's market, we offer them business-building advice and access to our Group buying power.

In 2011 we have continued to make good progress in executing the key operational components of our strategy, offering value for money with high service standards; investment in a quality pub estate; and a wide range of local and premium beers.

New-build development

Our new-build development programme remains the key driver of growth for Marston's Inns and Taverns.

These investments are targeted at the eating-out market and are positioned in areas of high traffic flow such as retail parks and other prominent sites with easy access to population centres. The total cost of each new pub-restaurant, including the site, is in the region of £2.5 million. Over the past five years we have opened around 50 new pub-restaurants, achieving an average EBITDA return on capital of 18%. We have maintained an extensive site pipeline but remain very selective about the sites we invest in. From 2012 onwards, we aim to open around 25 new sites each year, financed from cash flow and existing resources, in line with previously stated plans.

The 'F-Plan'

Since 2005 our organic development plans have been underpinned by the 'F-Plan' – a focus on food, families, females and forty/fifty somethings – which recognises the longer-term growth trends in the eating-out market. Over that period, this focus has seen our food sales mix increase from 28% to 42% of turnover in our managed pubs. The number of meals served has nearly doubled to around 26 million meals each year, and in 2011 we achieved double-digit volume growth in children's meals, starters, desserts and coffee. Over the last three years, consumers have increasingly demanded value for money, a trend which we expect to continue for the foreseeable future.

Retail Agreement

In 2011 we gained British Franchise Association accreditation for our innovative Retail Agreement, helping us to attract entrepreneurs from a wider market. It remains our intention to have at least 600 pubs converted to Retail Agreement by the end of 2013, increasing annual profit from these pubs by at least £6 million, compared to the pre-conversion profit, to £14 million. In line with our targets, we have now converted 337 pubs to the new agreement, with post-conversion profits up £1.3 million compared with last year. We are currently planning around 200 conversions for 2012. The average expenditure per conversion is around £50,000 per pub with a minimum target EBITDA return on incremental capital expenditure of 20%.

Traditional tenanted model

In the medium term we will have around 1,000 pubs operating under the traditional tenanted model. We continue to develop the model, offering licensees choice in rent and discount models, including free-of-tie options. In 2012, we plan to invest around £5 million in the estate to help our quality licensees further improve their businesses. Our innovative and flexible approach to the tenanted model was recognised this year with Marston's winning the 'Tenanted Pub Company of the Year' award at the 2011 Publican Industry Awards.

'Localness' and premium ale strategy

We aim to grow our ale brands by focusing on offering consumers a broad range of brands with genuine local provenance and meeting the increasing consumer demand for premium cask and bottled ale. We remain market leaders in both of these growth segments of the ale market, and through our outstanding range of ales we are in a strong position to exploit opportunities in the independent free trade, in the off-trade, and with other pub operators.

Customer service

Earlier this year we announced plans to transfer the management of our Retail Agreement sites to Marston's Inns and Taverns, and to combine the commercial operations of Marston's Pub Company and Marston's Beer Company in one trading division: Marston's Beer and Pub Company. These changes took effect on 2 October 2011. Our objective is to promote 'best in class' service to consumers visiting our managed and Retail Agreement pubs; to our tenanted and leased licensees; and to independent customers. For the purpose of financial reporting, we will continue to report separately the performance of our tenanted and leased pubs (including Retail Agreements) and our brewing operations in 2012.

Dividend

The proposed final dividend of 3.70 pence per share is the same as last year and will provide a total dividend for the year of 5.80 pence per share, which is also unchanged. Dividend cover increased to 1.9 times in 2011 (2010: 1.7 times). It remains our policy to build dividend cover to around 2 times earnings in the medium term.

Current trading

We have seen an encouraging start to the new financial year. In managed pubs, like-for-like sales in the eight weeks to 26 November increased by 3.0%, with food sales growth of 3.0%, and wet sales improving by 3.0%. In our tenanted, leased and franchise business, profit trends continue to improve gradually and are estimated to be up 2.0%. Our beer brands are performing in line with our expectations.

Key Performance Indicators

The Board of Marston's PLC and the divisional management boards monitor a range of financial and non-financial performance indicators, reported on a periodic basis, to measure performance against expected targets. Of these, the key performance indicators monitored by the Board are:

	2011	2010
Group		
1. Underlying earnings per share	**11.2p**	10.0p
2. Ratio of net debt to EBITDA	**5.6 times**	5.7 times
Marston's Inns and Taverns		
3. Like-for-like sales growth	**2.9%**	1.7%
4. New site openings	**19**	15
Average profit per pub		
5. Marston's Inns and Taverns	**£145k**	£132k
6. Marston's Pub Company	**£48k**	£47k

Definitions

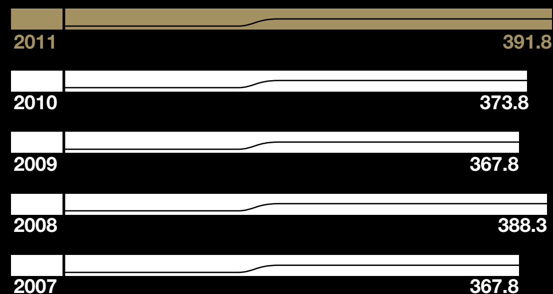
1. Underlying earnings per share are basic earnings per share before exceptional items.
2. Ratio of net debt to EBITDA is the net debt at the period end compared to EBITDA before exceptional items.
3. Like-for-like sales growth is the percentage change in revenue for managed pubs owned by the Group for the whole of the current period under review and the prior comparative period.
4. New site openings are the number of managed pubs opened either as new-build pubs or acquired and refurbished pubs in the period under review.

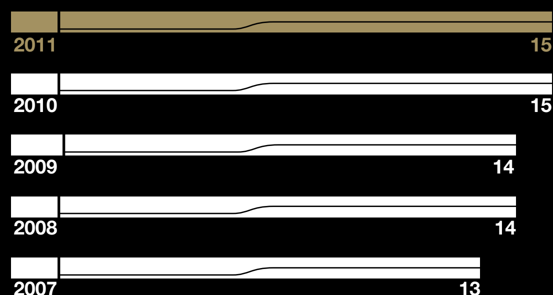
5./6. Average profit per pub is operating profit before exceptional items divided by the average number of pubs in the period.

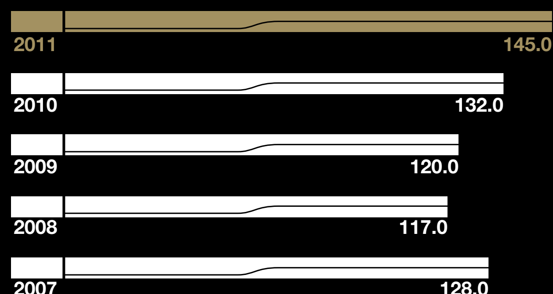
FACT

fast**cask**™ technology now available in mini**cask** — delivering genuine real ale to enjoy at home in a convenient format

BUSINESS REVIEW CONTINUED







MARSTON'S INNS AND TAVERNS

Performance

Total revenue increased by 4.8% to £391.8 million reflecting the continued strong performance of the new-build pub-restaurants and growth in like-for-like sales. Underlying operating profit of £71.0 million was up 9.1% (2010: £65.1 million). The average annual profit per pub increased by 10% from £132,000 to £145,000.

Total like-for-like sales were 2.9% above last year, with like-for-like food sales up by 5.0% and like-for-like wet sales up 1.8%. The improved performance has been driven primarily through increased footfall, rather than through price increases. This good performance demonstrates that despite the challenging economic backdrop there is strong consumer demand for pubs offering great value for money, particularly in food, in a high quality, attractive environment.

We achieved a 0.7% improvement in operating margin through improved drinks margins, tight labour cost control, fixed price purchasing contracts and flexibility in menu management which mitigated the pressures of higher food costs. We expect to mitigate cost increases of around £8 million in 2012 through similar measures.

Capital investment included £45 million in new-build pub-restaurants and £23 million in the existing estate including major refurbishments of 38 pubs.

Value and service

Value for money is at the heart of our consumer proposition. This includes a focus not just on value pricing but also on pub standards, the quality of our food and drink offers, and on service.

Our successful approach to value pricing is clear from the fact that average spend per head on food was broadly unchanged at £6.10, encouraging higher footfall and good like-for-like sales growth, despite the 2.5% increase in VAT from January 2011. The move towards full table service has contributed to a 17% growth in the sales of starters and desserts. We are increasing our investment in staff training and development to improve service standards further and we have introduced the Empathica customer feedback system to provide further consumer insight.

In addition to developing our food business through the implementation of the 'F-Plan', we have also made progress in drinks sales, with like-for-like sales growth of 1.8% significantly ahead of the UK on-trade. We have seen improving trends in all drinks categories, notably our own cask ales with premium cask ale growth of 15%. This trend builds on the strong growth achieved last year.

Broad range of pub formats

Our business comprises around 250 Destination food pub-restaurants, 210 Taverns, and around 25 high street bars, including Pitcher & Piano. We achieved like-for-like sales growth in each of these areas.

In Destination food pub-restaurants, our value-for-money formats have proved popular, generating strong like-for-like sales growth. Our 118 'Two for One' pub-restaurants, which offer consistent value for money in a quality pub environment accompanied by full table service, had an outstanding year, achieving like-for-like sales growth of 7.2% including strong growth in both food and drink sales. Food sales account for over 60% of total sales in these pub-restaurants.

Our Taverns business has also performed well. We operate several formats in our traditional community pubs which vary according to location. Like-for-like sales were up 0.8% driven by a strong marketing and promotions programme, including an increased emphasis on traditional pub entertainment throughout the week. This programme is underpinned by everyday value drinks and food offers, with food now accounting for 26% of sales in these pubs (2010: 25%).

Pitcher & Piano performed well in a competitive market, generating like-for-like sales growth of 3.6%. In this market the key to successful performance is ensuring that the bars remain appealing and contemporary, and are constantly refreshed. During the year we have invested in around half of the bars, and introduced new food offers, including our 'sharing platters' menu.

New-build development programme

We completed 19 new-build pub-restaurants in the year. The performance of our new-build programme since 2010 remains strong, with average turnover of £27,000 per week significantly exceeding our original target of £20,000 per week. Food sales in these new pub-restaurants account for around 62% of total sales. Profitability is also strong with an estimated annual return on capital of 18.6%, representing an effective investment multiple of 5.4x EBITDA.

The Oddfellows Hall, Compton

Great Service

Great customer service is at the heart of our business and Marston's Inns and Taverns have three initiatives designed to improve our service standards further:

- Empathica is an independent consultancy that we are working with to survey our customers and employees on a monthly basis, allowing us to identify areas for improvement and respond to the evolving demands of our customers.
- SMILE is a new employee initiative to promote the message to front of house teams that 'Service Means I Look after Everyone' – focusing on clear communication between team members to provide great service to customers.
- High 5 is an internal benchmarking system for our managers – regularly monitored and linked to the bonus scheme – to ensure great performance in five key areas: People, Customer, Standards, Sales and Profit.

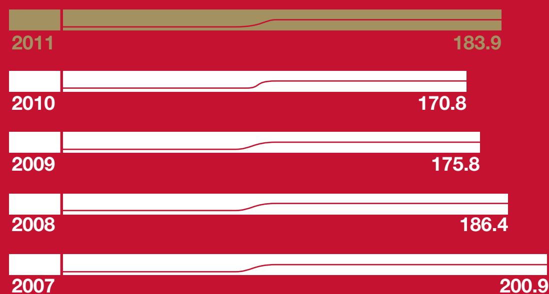
Pictured

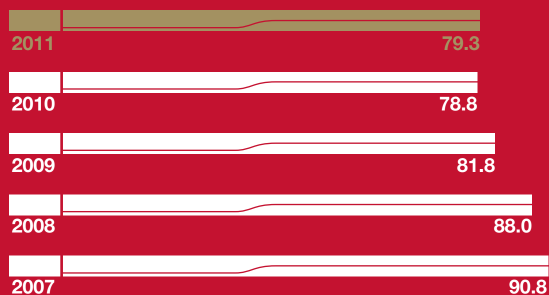
1	2
3	

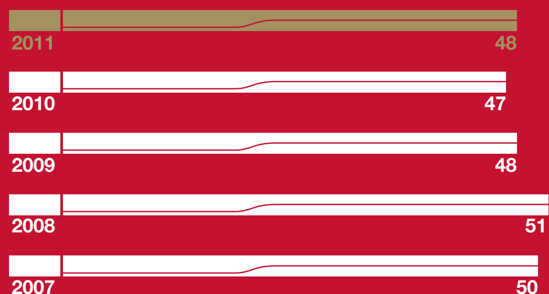
1 The Clarendon Hotel, Wolverhampton **2** Family welcome
3 Service with a smile!

Performance

BUSINESS REVIEW CONTINUED







MARSTON'S PUB COMPANY

Performance

Total revenue increased by 7.7% to £183.9 million reflecting the increased contribution from Retail Agreements. Underlying operating profit was £79.3 million, an increase of 0.6%. Average profit per pub increased by 2.1%.

The estate is comprised of two categories of pub: around 1,000 pubs that will remain on traditional tenanted agreements, and at least 600 pubs that we are converting to Retail Agreements.

In the traditional estate the performance has been stable, with revenue up 0.7%, and operating profit up 0.8% on last year. Rent increased by 1.6%, supporting our long-held view that our rent setting process is fair with the clear objective of establishing sustainable rent levels. Tenant turnover is also low at around 10%, demonstrating that good tenanted and leased pubs operated by skilled licensees are capable of meeting the challenges of the current economic environment. Operating margins in these pubs are similar to last year.

Performance in the 600 pubs remaining has improved significantly as we have steadily converted this group of pubs to Retail Agreement. At the year-end, Retail Agreements operated in 337 pubs. These conversions contributed £1.3 million of profit growth this year, offset by continued profit decline in the pubs yet to be converted. As highlighted earlier, the rollout of the agreement represents a significant growth opportunity and over the next two years we expect to address this decline by converting the remainder of the 600 pubs.

Operating margin for the division was 3.0% lower at 43.1%, primarily due to the Retail Agreement. These franchise agreements generate increased profit but the operating margin percentage is reduced. Capital investment in the period was £33 million including around £14 million in Retail Agreement pubs and £13 million in maintenance capital, demonstrating our commitment to maintaining a high quality estate.

Stability in the traditional estate

Our objective for pubs operating under the traditional tenanted model is to operate a stable, well-invested estate that can achieve sustainable modest growth. In the past year we have introduced a series of measures to support this strategy:

- **Enhanced licensee support.** We have integrated Group commercial functions – those supporting our managed pubs and our tenanted and leased pubs – into one team to ensure that we maximise the benefits of our managed pub expertise and greater buying power across all of our pubs, and thus increase the level of support we are able to offer to our licensees. This provides licensees with access to improved purchasing terms and revenue generating ideas to improve the performance of their businesses. The benefit of this support is reflected in our low licensee turnover and the fact that we have very few closed pubs.
- **Flexible agreements.** We recognise that our licensees may seek to structure their commercial arrangements in different ways. We now offer licensees a variety of agreements offering different levels of discount and alternative drinks tie arrangements, including free-of-tie options.
- **New internal code of conduct.** We have introduced stricter criteria which potential licensees must meet to take on a lease agreement. We only seek to appoint licensees who demonstrate they are

appropriately skilled and funded, supported by a robust business plan. We recognise that this may delay the recruitment process, but it is consistent with our objective of increased licensee stability.

- **Selective capital investment.** In conjunction with our licensees we will selectively invest in pubs which offer opportunities for growth. We intend to invest up to £5 million in 2012 providing our internal returns criteria are met.

Development of the Retail Agreement

There are several features of the agreement that contribute to improved performance:

- **Reduced risk for the franchisee.** The franchisee earns around 20% of total revenue, and is responsible for staff costs. Marston's retains responsibility for other operating costs and stock. The franchisee is required to provide a £5,000 returnable deposit.
- **Attractive consumer proposition.** Marston's invests around £50,000 to improve the consumer appeal of the pub. The retail offer, including food menus and entertainment, is developed by the same team that is responsible for our managed pubs. A key attraction for franchisees is that negotiations over rent and beer prices play no part in this business model, helping to ensure that all stakeholders are focused on maximising consumer satisfaction, and thus revenue.
- **Wider pool of retailers.** The Retail Agreement attracts nearly three times more applicants than the traditional tenanted model. Following franchise accreditation with the British Franchise Association we are able to promote the agreement to a wider pool of entrepreneurs, with nearly 30% of Retail Agreement licensees having come from outside the industry. This high demand helps to ensure that the quality of our licensees remains high.
- **Strong licensee endorsement.** During the year we undertook a survey of 132 franchisees to establish their views of the agreement. The response was extremely positive – 85% of franchisees commented that they were 'making an acceptable living or better', and 93% would 'recommend the agreement to others'. This is reflected in high franchisee stability levels.

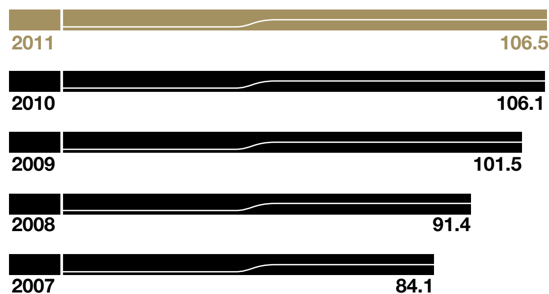
FACT

An estate agent, an RAF crew member and a supermarket manager — all now running pubs under our innovative agreements!

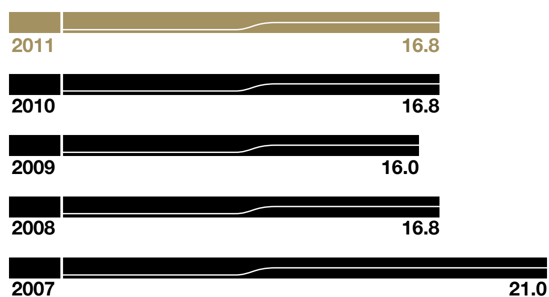
Robin Hood, Congleton

BUSINESS REVIEW CONTINUED

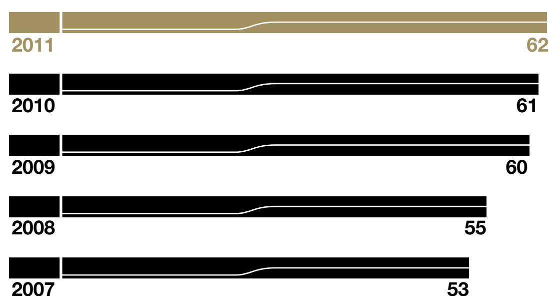
Revenue (£m)
106.5



EBITDA return on capital (%)
16.8



Premium ale: Total ale volume (%)
62



MARSTON'S BEER COMPANY

Performance

Total revenue increased by 0.4% to £106.5 million. Underlying operating profit increased by 0.6% to £16.3 million.

Overall ale volumes were up 2% on last year, with premium cask ale volumes up 5% and bottled ale volumes up 6%. Our focus on premium ale has driven significant progress in our share of these segments, with our share in premium cask ale growing by a further 3% to 26% and a leading 24% share of premium bottled ale. Approximately three-quarters of our own-brewed beers are sold to third parties.

Our 'localness' strategy continues to drive growth in the independent free trade. We anticipate an increase in the number of free trade opportunities in future as the pub sector evolves, and we have increased our resources in key geographical target areas to exploit market conditions. Our free trade account base increased by 7% to around 3,600 customers, and cask ale sales to this sector increased by 4%.

In the take home market we have built successfully on our strong 2010 performance with volumes up 1%. Cask ale sales to tenanted and managed pub companies were up 8% in the year, with good progress in particular in the managed pub sector.

Operating margin was level with last year at 15.3%. As we noted at the interim results, we anticipate cost inflation of around £1 million, which we will mitigate through a combination of price increases and the introduction of energy saving cost initiatives.

Continued brand investment

Our brand investment programme comprises investment at both a national and regional level. Nationally, we continue to invest in Marston's Pedigree as 'The Official Beer of England Cricket', and Hobgoblin remains positioned as the 'Unofficial Beer of Halloween'. Locally, we continue to support our regional brands through long-term sponsorships of events including the New Forest Show and the Keswick Jazz Festival.

Our brands have been further supported by the continued rollout of our innovative fast**cask**™ system which has expanded the market for cask ale into venues such as Lord's Cricket Ground, holiday parks and music festivals. Fast**cask**™ now accounts for 20% of our cask ale sales.

FACT

Over 50 million pints of fast**cask**™ served since launch last year, many in pubs and bars who are serving cask ale for the first time

Lunch at the Banks's 'brewery tap', The Clarendon Hotel, Wolverhampton

What 'Localness' Means To Us

Each of our five regional breweries aim to be an active part of their community, supporting local producers, providing employment and sponsoring local events:

- Banks's Brewery recently launched its brewery tour and shop and is a major sponsor of local football, rugby and cricket teams.
- Marston's Brewery runs several local ale trails and a popular St George's Day Beer Festival at the brewery.
- Jennings Brewery is at the heart of the community in Cockermouth and sponsors local events such as the Keswick Jazz Festival and the Grasmere Show.
- Ringwood Brewery runs popular regional ale trails and participates in many local events such as the town's summer and Christmas carnivals and Christmas carol concert.
- Wychwood Brewery's Hobgoblin is the centre piece of the successful brewery tour and shop. The legendary character leads the mischief making at the brewery's 'Grand Lighting of the Pumpkins' on Halloween night.

1 Banks's Brewery shop, open for business!

2 A selection of bottled ales

BUSINESS REVIEW CONTINUED

Financial Review

> "Our strategy has focused on offering consumers consistent value for money in a quality pub environment . . . in 2011 we have continued to make good progress in executing the key operational components of our strategy."

	Revenue		Underlying operating profit		Margin	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 %**	2010 %
Marston's Inns and Taverns	**391.8**	373.8	**71.0**	65.1	**18.1**	17.4
Marston's Pub Company	**183.9**	170.8	**79.3**	78.8	**43.1**	46.1
Marston's Beer Company	**106.5**	106.1	**16.3**	16.2	**15.3**	15.3
Marston's Group Services	**–**	–	**(12.3)**	(11.4)	**(1.8)**	(1.8)
Group	**682.2**	650.7	**154.3**	148.7	**22.6**	22.9

Results for the 52 weeks to 1 October 2011

Despite the continued tough economic backdrop, Group revenue was 4.8% up on last year, with improving trends in all three of our trading divisions. Group operating margin was 0.3% down on last year predominantly a result of the increasing number of Retail Agreements. Margins improved in Marston's Inns and Taverns reflecting our continued focus on tight cost control.

Underlying operating profit increased by 3.8% to £154.3 million and underlying earnings per share were up 12.0% to 11.2 pence per share (2010: 10.0 pence per share).

Operating profit after exceptional items was £151.6 million (2010: £132.4 million) and basic earnings per share after exceptional items were 12.1 pence per share (2010: 8.3 pence per share). One of our core strategic objectives is to increase return on capital employed. In 2011 this figure was 9.8 % representing an improvement on the 2010 figure of 9.6%.

Capital expenditure

Capital expenditure was £111.5 million in 2011 (2010: £83.5 million), including the construction of 19 new-build sites and the conversion of a further 233 Retail Agreements. We expect capital expenditure to be between £100 million and £110 million in 2012. The level of maintenance capital expenditure will be broadly similar to 2011.

Disposals

We continually review our property portfolio and sell those with low growth prospects or those with higher alternative use value. Despite a challenging property market, we sold 25 properties during the year, generating cash of £15.2 million, at a surplus to book value. Since the year end we have received £16 million of proceeds in respect of the disposal of five pubs to Fuller, Smith & Turner plc.

Financing

The blended cost of debt for the Group remained unchanged at 6.9%. The debt structure for the Group comprises a revolving bank facility, together with a long term securitisation of approximately £1,000 million. Subsequent to the period end we have signed a new bank facility removing any need for short-term refinancing. The new £257.5 million bank facility expires in May 2016 and replaces our existing £295 million bank facility originally expiring in August 2013. The level of operational flexibility under the new facility is similar to the existing facility and the blended cost of debt for the Group remains the same.

The Group has significant headroom on both the banking and securitisation covenants. Importantly, the Group also has flexibility within the financing structures to transfer pubs between the banking and securitisation groups.

Net debt of £1,100.8 million at 1 October 2011 is an increase of £18.6 million compared to £1,082.2 million at 2 October 2010. The modest increase in net debt is a consequence of the previously highlighted increase in growth capital expenditure. Operating cashflow of £182.4 million remains strong, driven by a combination of the improved profit and continued working capital improvements.

For the period ended 1 October 2011 the ratio of net debt to EBITDA before exceptional items fell to 5.6 times (2010: 5.7 times). It remains our intention to reduce this ratio to below 5.0 times. Interest cover of 2.1 times has improved slightly versus last year (2010: 2.0 times).

Net finance costs before exceptional items are £1.3 million below last year largely driven by higher levels of pension interest income.

Treasury management

The Group regularly reviews its forecast short-term and medium-term cash flows. Excess cash is placed either on short-term deposit or invested in deposits which are refundable on demand. The vast majority of the Group's borrowings are fixed through a combination of fixed rate securitised debt and interest rate swaps.

The financial risks faced by the Group are managed in accordance with Board approved policies and are subject to regular review by the treasury committee. The banking and securitisation covenants are reviewed throughout the year by the treasury committee and the Board with a focus on ensuring appropriate headroom is available.

Pensions

Our final salary pension scheme at the year end showed a surplus of £7.1 million before tax (2010: £25.0 million deficit), and £5.3 million after tax (2010: £18.2 million deficit).

Contributions to the scheme were broadly similar to last year with an £11 million top-up contribution. The top-up contribution increases at 5.75% annually, with the intention of funding the actuarial deficit over the next eight years.

Taxation

The underlying rate of taxation (before exceptional items) of 20.9% in 2011 is below the standard rate of corporation tax of 27% primarily due to credits in respect of deferred tax on property.

The underlying tax rate has decreased by 1.4% from 22.3% in 2010.

Exceptional items

There is net exceptional profit of £0.4 million before tax. This reflects a £3.1 million gain in respect of the mark-to-market valuation of certain interest rate swaps, offset by £2.7 million of costs relating to the Group reorganisation.

BUSINESS REVIEW CONTINUED

Principal Risks and Uncertainties

The following represents, in the opinion of the Board, the principal risks of business. It is not a complete list of all the risks and the priority, impact and likelihood of the risks may change over time.

ECONOMIC

Factor
Marston's business relies upon the discretionary spend of its customers. Economic conditions continue to look uncertain. Inflation could increase the basic of cost of living within the UK.

Impact
- Customers spend less on leisure.
- Forecasting and investment returns become more uncertain.

Risk
Economic growth remains very low while inflation continues to increase.

Associated Objective
- Maximising the return on investment.

MITIGATION
- Value focused proposition to customers.
- Flexible pricing options.
- Competitive offering.
- High standard of service and quality.
- Consumer trends proving that eating out remains resilient even during recessionary periods.

TENANTED AND LEASED PUBS

Factor
Tenanted and leased pubs are operating in a highly competitive environment and against large managed pub operations, restaurant chains and food retail outlets.

Impact
- Declining volumes of drink and profits in tenanted pubs.
- Decrease in investment in tenanted properties.

Risk
Capital raised by pub companies and invested in managed pubs has been used to win market share. Actions to support tenants may prove insufficient given the weight of investment by other operators.

Associated Objective
- Operating a sustainable and competitive tenanted model.

MITIGATION
- Rollout of the Retail Agreement.
- Investment in tenanted properties.
- Recruitment of high quality tenants by using a joint recruitment team across our tenanted and managed house divisions.
- Offering flexible agreements to our tenants to link rent to trading activity.

INVESTMENT PLANS

Factor
Increasing competition for building development sites.

Impact
- Lack of available sites restricts pub development.
- Growth targets are not met.

Risk
Investment plans do not meet targets. The availability of quality sites for investment is key. There is likely to be increased competition from other operators for sites.

Associated Objective
- Maximising profit growth and development of a high value property estate.

MITIGATION
- In-house property development team with proven experience in delivering new-build projects.
- In-depth knowledge of site availability.
- Expert understanding of planning legislation.
- Vigilance and awareness of development projects by our new-build team to identify future available sites.
- Maintain pipeline of new sites for future years.

ACCOUNTING CONTROLS		MITIGATION
Factor The financial systems of the Company have to handle large numbers of transactions securely and ensure that transactions are properly recorded.	**Impact** • Financial irregularities would result in a loss of confidence. • Reputation would be damaged if there was a material mis-statement in the reported results.	• Sophisticated accounting systems. • Thorough year end audit. • Regular management accounts by operating area, in sufficient detail to expose irregularities. • Detailed budgets and forecasts. • Segregation of duties. • Access controls over accounting information. • Levels of authority built into the approval process for transactions. • Banking controls over the approval of payments.
Risk Breakdown of internal accounting controls leading to material misstatement.	**Associated Objective** • Safeguard the assets of the business. • Build investor confidence.	

FINANCIAL COVENANTS		MITIGATION
Factor Lenders to the business expect that Marston's will repay capital and interest on time and operate within stated covenants.	**Impact** • Breach of covenants could result in additional financial operating restrictions being imposed on the business. • Loss of reputation and creditworthiness.	• Sophisticated accounting systems. • Constant monitoring of financial ratios. • Company strategy, business plans, acquisitions and project development built upon the preservation of corporate financial covenants. • Bi-annual confirmation by Marston's external auditors of the compliance with the covenants.
Risk Breach of financial covenants. Marston's has agreed a number of financial operating ratios with lenders to the business which it cannot exceed without breaching the terms of its loans.	**Associated Objective** • Financial security. • High rating for Marston's bonds. • Reputation protected. • Business financed at rates of interest that allow profit to be generated to provide further growth in the Company.	

INFORMATION TECHNOLOGY		MITIGATION
Factor Marston's is heavily reliant upon its IT network to process transactions, conduct operations on a ground level and report on results.	**Impact** • Significant disruption would be caused to the daily trading operations of the Group.	• Networks protected by a firewall. • Anti-virus protection. • Constant vigilance and monitoring threats to data protection posed by hacking, breach of access controls and viruses. • Physical protection of servers and networks. • Backup procedures and continual monitoring of backed up data integrity and rehearsal of recovery procedures. • Business continuity plans. • Backup servers capable of replicating the live servers with no significant period of downtime. • Thorough annual audit.
Risk External interference in the computer system. Compliance with the Digital Economy Act and security of data. Recovery of backup taking longer than four hours.	**Associated Objective** • Create a stable platform that allows the Company to conduct its operations with a high degree of efficiency and speed without disruption. • Protect data, particularly that which is commercially damaging if openly available.	

BUSINESS REVIEW CONTINUED
Principal Risks and Uncertainties CONTINUED

COMMUNICATION OF STRATEGY		MITIGATION
Factor Marston's must be able to effectively communicate its strategy in order for investors to correctly evaluate the performance of the Company.	**Impact** ● The market value of the Company may not reflect the true value of the assets and future profits.	● An understandable and useable strategy which allows Marston's to be differentiated from its competitors. ● Achievable plans and clear objectives. ● Proven track record of operating in accordance with forecast plans. ● Thorough understanding of the market and the opportunities available.
Risk The Company loses the confidence of investors either through poorly understood strategy or poor communication to the market.	**Associated Objective** ● Clear communication of business strategy and performance. ● Growth of investor confidence.	

REPUTATION		MITIGATION
Factor Reputation of the Company is key to its relationship with customers, regulatory authorities, investors and trading partners.	**Impact** ● Loss in confidence amongst Marston's stakeholders that corporate objectives and strategy will be met.	● Clear understanding of consistent Group strategy and the risks to it by the Board. ● Good corporate governance. ● Corporate social responsibility. ● Protection of long term relationships with customers and trading partners. ● Protection of all stakeholders' interests in the business. ● Health and safety and legal compliance. ● Credible plans, with a track record of achieving targets.
Risk Bad reputation. The reputation of the Company is critical to long term success. The Company has many direct interfaces with the public where reputation is at risk.	**Associated Objective** ● Achievement of strategy.	

The Watermead, Northwich

Corporate Social Responsibility

> "We actively encourage employees to take up further education opportunities and are currently supporting employees undertaking 50 types of further and higher education."

Our people and our responsibilities

Our philosophy is that we should act in ways that ensure our employees are proud to say who they work for, our suppliers are keen to do business with us, and our customers choose Marston's pubs and beers for their value, quality and reputation.

The underlying principle that guides delivery of this philosophy is that we should always aim to be **'FIT'**. **'FIT'** summarises three fundamental behaviours that are now well embedded throughout the business:

Fairness Any action, decision or policy adopted within the Marston's Group should be both equitable and reasonable. It should not result in one particular group of stakeholders gaining an unjustified advantage or benefit at the expense of another.

Integrity If a commitment is made it should be kept. If it cannot be delivered or circumstances change so that an alternative course of action is appropriate this should be clearly explained.

Transparency Wherever there is the freedom to do so, the Group should act in a manner that is open to the scrutiny of our employees and the wider community.

The move from three to two trading divisions on 2 October 2011 offers an ideal opportunity to review and enhance these statements over the coming months so that they evolve into a full and clearly understood Code of Ethics.

To oversee our approach to CSR, the Group has an Environmental & Corporate Social Responsibility (E&CSR) Committee chaired by Stephen Oliver, Managing Director of Marston's Beer and Pub Company. The Committee has day-to-day responsibility for the implementation of CSR policies within the Group and reports to the Board. A separate Environment Report is available at www.marstons.co.uk/Responsibility.

Our people

We employ about 13,000 people, offering local job opportunities throughout England and Wales. In addition our lessees, tenants and Retail Agreement operators also employ significant numbers of people across the country. Many of our staff work on a flexible part-time basis to suit their personal circumstances — offering excellent and growing opportunities for students, people seeking to work around child caring responsibilities and people returning to the work environment after a career break.

- Circa 51% of our entire workforce is female.
- More than half of our workforce work flexible hours many of whom do so to fit work around other commitments and a quarter of the workforce typically work less than 16 hours per week.
- Our youngest employee is 16 and our oldest employee is 97.
- 42% of our pub managers are female and represent 45% of our new-build management team.

Encouraging all of our employees to take advantage of our training and development opportunities is a fundamental part of our strategy for success. For pub based staff who wish to progress through the business, many of whom have not necessarily achieved their full potential through the school system, we offer comprehensive catering and front of house programmes. These are designed to increase the skills and experience of individuals who may ultimately go on to manage one of our pubs or move into a range of Head Office roles whilst achieving nationally recognised qualifications at the same time.

We are an Accredited Training Centre for both the Chartered Management Institute (CMI) and the British Institute of Innkeeping (BII) and run programmes that offer a wide range of supervisory, managerial and operational training qualifications. We actively encourage employees to take up further education opportunities and are currently supporting employees undertaking 50 types of further and higher education. We offer graduate training scheme opportunities and are particularly proud of our industry leading apprenticeship programme designed to attract very high quality sixth form students who wish to undertake professional training without incurring the student debt burden associated with full-time higher education.

Marston's seeks to operate in a transparent manner where its people are concerned and this is supported by a full Equal Opportunities policy and Whistle blowing policy, both of which can be found at www.marstons.co.uk/Investors/Governance.aspx.

BUSINESS REVIEW CONTINUED

Corporate Social Responsibility CONTINUED

> "Community involvement and 'localness' are at the core of our business and we play a positive part in our local communities . . . supporting a huge range of community and charitable events."

- We first achieved the Investors In People award in 1995 and have been continuously accredited since that date.
- Our retail staff have undertaken 28,000 online induction, customer service and responsible retailing training courses this year.
- This year 2,250 Keyholder and kitchen training programmes have been completed.
- We have 133 ex-Keyholder trainees who are now fully fledged deputy managers and a further 24 have made the next step to taking overall responsibility for managing one of our pubs.
- Over the last three years 187 employees have completed CMI or BII accredited training programmes.
- We are currently the only company accredited to run the BII's new Multi-Site Retailer Programme via our own internal People Development team.
- We received 115 applications per position for our last Graduate Training scheme entry, 66% higher than the national average for the year (Source: Association of Graduate Recruiters).

Community commitment

Community involvement and 'localness' are at the very core of our business and strategy. Where appropriate we source locally, we recruit locally and we seek to be our customers' local choice. We play a positive part in our local communities, running open days at our breweries and supporting a huge range of community and charitable events both through our brewing sites and our pubs.

We were delighted when Jennings Brewery was recognised in the industry's Publican Awards 2010 for its tireless community support, raising the single biggest donation to the Cumbrian Flood Relief Fund of £178,000. The good work continues and Jennings Brewery has now been nominated as a finalist in the CN Group Business Awards Community Involvement category.

- Charitable involvement starts at the very top at Marston's and this year Chief Executive Officer Ralph Findlay helped to raise £40,000 for a range of good causes by cycling the 103 miles between Wolverhampton and Aberdyfi on the coast of Snowdonia.
- Our employees also run their own Marston's Employee Charity Fund, which the Company supports by match funding the employee contributions. In the last 12 months the fund has donated over £13,000 to a range of local good causes nominated by our staff.
- Marston's Inns and Taverns (MIT) also runs a Charitable Trust funded equally by the Company and employee contributions and in the last year has made awards of £16,000 to help support charitable activities run in our MIT pubs.
- The Company has made charitable donations of £13,497 during the year (2010: £193,236).

Health and safety

The health and safety of our employees, customers and the general public is treated with the utmost importance. Information on accident rates, compliance and audit scores for all areas of the business is reviewed by the Board on a regular basis. A description of our health and safety systems is available at www.marstons.co.uk/Responsibility/HealthAndSafety.aspx.There is also a link there to our Health and Safety at Work Policy.

Day-to-day responsibility for health and safety in the workplace is delegated to operational managers best placed to monitor and control safety. This is supported by individual site health and safety committees responsible for reviewing safety controls, monitoring accident rates and implementing improvements. We also have dedicated professionals responsible for monitoring compliance to Marston's policies and relevant legislation.

The Group Health and Safety Manager oversees the operation of controls within our pub division and monitors compliance across the Group. Our newly appointed Supply Chain Health and Safety Manager is responsible for the operation of our health and safety systems and compliance to job safety instructions for our Production and Distribution teams. This new appointment reflects the priority given to tackling any risks to the safety of our employees especially where the nature of their work is manually demanding.

An additional investment has been made this year in an incident recording and investigation application for our Production and Distribution sites. This online platform will give management greater oversight of the emerging trends in the types of incidents occurring, allow better tracking of audit scores for our breweries and depots and assessment of corrective actions taken.

Our managed pubs are subject to a bi-annual external audit of hygiene, health and safety. The results of those audits directly impact upon the evaluation of our pub managers' performance. The safe operation of our pubs is built upon safety training, documented safety instructions, safe design and engineering, and established routines of safety inspection. New recruits, as well as seasoned managers, are trained from the outset of their employment, and continually refreshed thereafter, to

ensure that a high degree of awareness of safety and alertness to danger is sustained.

The operators of our tenanted and leased pubs, including those on Retail Agreements, are primarily responsible themselves for the health and safety of their employees and customers. We do provide support and documentation on creating a health and safety policy, assessing risk in the workplace and the threat of fire. We also provide support for our tenants and lessees to help them fulfil their legal obligations particularly in respect of equipment inspections and fire risk assessments.

Both our managed pubs and tenanted and leased estate are supported by customer service teams and dedicated surveyors who can respond quickly to any property defects that may cause a threat to safety.

Responsible retailing

The Group is a long-standing member of the British Beer and Pub Association (BBPA), and Marston's continues to be a signatory to the Portman Group Code which promotes responsible attitudes towards drinking alcohol. Marston's also continues to support both Drinkaware and the industry's own long term multi-million pound alcohol awareness campaign for smarter drinking 'Why let good times go bad?'. We engage actively within the industry and with Government to meet the objective of responsible retailing.

We have made a significant investment in e-learning tools which all MIT pub staff must complete. A core part of our investment in e-learning is the identification of potential under-age drinkers. We also run similar training to ensure tenants, lessees and Retail Agreement operators are aware of their responsibilities in this area.

Marston's actively supports the Challenge 21 initiative in both its managed and leased pub estate and maintains close links with licensing and other enforcement bodies to help ensure that our pubs operate in a responsible and considerate manner. Managed pubs monitor the use of Challenge 21 via the till system, recording each time service is refused. In addition, we also operate our own 'test purchase' programme to further reinforce the compliance message.

Challenge 21

This year nearly 250,000 refusals to serve were recorded, mostly for failure to provide acceptable evidence of age or not being fit to consume alcohol. Whilst this only affects about 0.25% of total transactions it is a clear demonstration of our commitment to operate in a responsible and consistent manner.

Where Pubwatch and Best Bar None initiatives are in place we expect our pub managers to play an active part in these arrangements, and none of our pubs operate a 24 hour licence. We have established operating procedures and promotion policies within those pubs we manage to ensure that they comply with the Mandatory Code of Practice relating to the retailing and promotion of alcohol that came into force in 2010.

A practical demonstration of this commitment is Marston's decision to sign up to many of the pledges that form part of the Government's new Responsibility Deal.

Responsibility Deal pledges

- Alcohol labelling.
- Alcohol unit awareness.
- Tackling under-age alcohol sales.
- Support for the Drinkaware Trust.
- Advertising and marketing of alcohol.
- Community support to tackle alcohol harm.
- Healthier eating.
- Occupational Health Standards.
- Chronic Conditions Guide.

Healthy eating

Food represents a significant area of growth for Marston's, particularly in MIT. A continuing part of our strategy is offering healthier and more sustainable food choices without compromising quality or value for the customer.

We promote food sustainability in a number of different ways, such as:

- In 2010/11 we sold 349 tonnes of sustainably sourced fish, reducing the quantity of haddock and cod we use by 70% to allow these endangered stocks to replenish.
- We use Prep High Performance cooking oil which supports the production of sustainable palm oil via the Green Palm trading programme.
- We source 4,500 tonnes of chips from a responsible supplier who uses the potato remnants for animal feed, fertiliser and renewable energy.

We are committed to offering customers healthier meals, for example:

- In January 2011 MIT launched a range of calorie counted dishes with less than 500 calories per meal. To date we have served over 175,000 of these meals.
- Our children's menu won an award for its health and nutritional content at the Menu Innovation & Development Awards during the year.
- Marston's has signed up to two of the food pledges in the Government's Responsibility Deal.
- As part of our salt reduction commitment to ensure compliance with 2012 salt targets, we have removed 1.5 tonnes of salt from the food we serve to our customers.
- Hydrogenated vegetable oils have been removed from all of our products.
- Where vegetables are an accompaniment to a main meal at an MIT pub they provide two portions of an adult's '5 a day' requirement.
- We do not add salt to chips and we grill rather than fry our sausages.
- All our MIT meals are free from genetically modified ingredients and monosodium glutamate.

BUSINESS REVIEW CONTINUED
Corporate Social Responsibility CONTINUED

Food safety and supply
In 2011 we spent £53 million on purchasing food (2010: £45 million), sourcing over 800 lines from more than 120 suppliers. We are determined to ensure that the goods we buy are produced ethically, and are socially and environmentally sustainable.

To maintain consistently high standards of food quality and hygiene, all of our suppliers are either British Retail Consortium approved, complete a self audit or are audited by an independent food hygiene company. As part of this process, suppliers must be able to demonstrate full traceability of all products supplied to all Marston's managed pubs. All of the suppliers audited this year by our independent food hygiene consultants were successful in achieving the required standard. On occasions, audit teams have also included our own food safety specialists so that we can see at first hand the processes and standards our suppliers adhere to.

Having five regional breweries helps minimise the carbon footprint we generate in producing and distributing our beers. Similarly, by sourcing locally wherever possible and keeping our external suppliers under review we are able to minimise food and delivery miles.

All of our purchasing professionals abide by the Chartered Institute of Purchasing and Supply's (CIPS) Professional Code of Ethics Statement.

Award Winning Food
Providing healthy food does not mean compromising quality and this has been recognised in 2011 with a number of awards for our products.

- At the 2011 Menu Innovation & Development Awards MIT secured two awards for Best Children's Menu and Best Community Pub Menu.
- Our Steak and Marston's Pedigree Ale Pie won a Gold award at the 2011 British Pie Awards.
- At the 2011 British Frozen Federation Awards our Cod en Croute won Best New Main Course/Meal Centre Product – Traditional Style Cuisine.

Environment
Marston's remains committed to reducing all the environmental impacts of its activities including the use of raw materials, energy, emissions and the disposal of waste.

Detailed information is provided in our annual Environment Report available at www.marstons.co.uk/Responsibility.

Key Environment Data

	Unit	2011	2010
Gas*	GWH	187.7	165.8
Electricity*	GWH	124.1	95.8
Water (breweries)	'000 m^3	704.8	659.2
Fossil fuel (diesel)**	'000 gallons	579.3	465.3
Emissions (CO_2)**	'000 tonnes	98.9	82.2
Total Waste	'000 tonnes	45.4	36.9
Waste Recycled	'000 tonnes	77.5%	65.3%

* Increases in gas and electricity consumption in 2011 are mainly as a result of the increase in pubs being converted to Retail Agreements under which Marston's is responsible for energy costs.

** Company car fuel usage is not currently measured and is excluded from the calculation of carbon dioxide emissions and fuel usage. The fuel figures shown are for the distribution fleet.

> "Having five regional breweries helps minimise the carbon footprint we generate in producing and distributing our beers. Similarly, by sourcing locally wherever possible . . . we are able to minimise food and delivery miles."

Achievements in 2011

- Reduction in waste to landfill – glass recycling collections up by 5%
- Increase in energy efficiency at our Wolverhampton brewery by 20%
- Increase in water efficiency at our breweries by up to 10%
- Increase in waste recycling collections

Focus in 2012

- To improve the level of food recycling from our managed pubs
- To implement new solutions for energy saving in our pubs, including:
  - LED lamps, voltage reduction equipment, new space heating controls and improved insulation
  - free-air cooling systems for pub beer cellars
  - solar thermal, solar PV and heat pump solutions

Running Hare, Ewloe – 22% comparable saving in electricity

Case Study: New Pub Development

Marston's is the UK's largest builder of new pubs. We are determined that these are as energy efficient as possible and have developed designs which include low heat loss and reduced air infiltration, heat recovery, comprehensive monitoring, close control and high efficiency equipment items. Such measures have been shown to reduce energy levels by over 20%, compared to older sites.

DIRECTORS AND ADVISERS

DAVID THOMPSON †
CHAIRMAN

Joined the Company in 1977 and appointed to the Board in 1980. Appointed Managing Director in 1986, Chairman in 2001 and Non-executive Chairman in 2002. He is Chief Executive of Anglia Maltings (Holdings) Limited and an Executive Director of Ragleth Limited. He is also Non-executive Director of Persimmon Plc, Caledonia Investments plc and Smiths Flour Mills Limited.

RALPH FINDLAY †
CHIEF EXECUTIVE OFFICER

Appointed to the Board as Finance Director in 1996 becoming Chief Executive in 2001. He is currently Chairman of the British Beer and Pub Association. He previously worked as Financial Controller at Geest plc and Treasury Manager at Bass plc.

ANDREW ANDREA
CHIEF FINANCIAL OFFICER

Joined the Company in 2002 as Divisional Finance Director for Marston's Beer Company and in 2006 he became Operations Director for Marston's Pub Company. He was appointed to the Board as Finance Director in March 2009. A qualified Chartered Accountant, he has previously worked in various financial and commercial roles with Guinness Brewing Worldwide, Bass Brewers Limited and Dollond & Aitchison.

MILES EMLEY *†
NON-EXECUTIVE DIRECTOR

Appointed to the Company in 1998. He was Chairman of St Ives PLC until April 2011 and a former Director of NM Rothschild & Sons Limited and UBS Phillips & Drew.

ROBIN HODGSON — THE LORD HODGSON OF ASTLEY ABBOTS CBE *†
NON-EXECUTIVE DIRECTOR

Appointed to the Company in 2002. He is Chairman of Nova Capital Management Limited and a Director of Nova Capital Group Limited, Johnson Brothers & Co Limited, Tenet Group Limited, EIS Optics Limited and RFIB Group Limited.

ROSALIND CUSCHIERI *†
NON-EXECUTIVE DIRECTOR

Appointed to the Company in October 2006. She is Chief Executive of Lightbody Ventures Limited and former Commercial Director of Warburtons Limited. On 20 October 2010 she was appointed a Director of Genius Gluten Free Limited. She was previously responsible for the off-trade category marketing with Scottish & Newcastle plc.

ADVISERS

Registrar and transfer office
Equiniti Registrars, Aspect House,
Spencer Road, Lancing,
West Sussex, BN99 6DA
Shareholder queries: 0871 384 2274
www.shareview.co.uk

Auditors
PricewaterhouseCoopers LLP,
19 Cornwall Street, Birmingham, B3 2DT

Merchant bankers
NM Rothschild & Sons Limited,
New Court, St Swithin's Lane, London,
EC4N 8AL

Solicitors
Freshfields Bruckhaus Deringer LLP,
65 Fleet Street, London, EC4Y 1HS

Wragge & Co LLP, 55 Colmore Row,
Birmingham, B3 2AS

Senior Management Team

ALISTAIR DARBY
CHIEF OPERATING OFFICER

Appointed to the Board in 2003 on his appointment as Managing Director of Marston's Beer Company. In 2008 he became Managing Director of Marston's Pub Company. He is also a Non-executive Director of Cask Marque.

ANNE-MARIE BRENNAN
COMPANY SECRETARY

Joined the Company in 1998 as Group Tax Manager. A qualified Chartered Accountant and Chartered Secretary. She was appointed Company Secretary in 2004.

STEPHEN OLIVER
MANAGING DIRECTOR
MARSTON'S BEER AND PUB COMPANY

Joined the Company on the acquisition of Marston, Thompson & Evershed and became Managing Director of Marston's Pub Company on his appointment to the Board in 2001. In 2008 he became Managing Director of Marston's Beer Company. He is a Trustee of the Burton Breweries Charitable Trust and during the year became a Non-executive Director of George Bateman & Son Limited.

ROBIN ROWLAND
NON-EXECUTIVE DIRECTOR

Appointed to the Company in 2010.
He is Chief Executive of YO! Sushi Limited.
He formerly held executive Board positions at City Centre Restaurants plc and Scottish & Newcastle plc — Retail Division.

NEIL GOULDEN *†
NON-EXECUTIVE DIRECTOR

Appointed to the Company in April 2008.
He is Chairman Emeritus of the Gala Coral Group Limited, Chairman of Affinity Sutton and a member of the Low Pay Commission.
He has previously held Board positions at Ladbrokes plc, Compass Group PLC, Chef and Brewer and Allied Leisure PLC.

PETER DALZELL
MANAGING DIRECTOR
MARSTON'S INNS AND TAVERNS

Joined the Company in 1995 as an Area Sales Manager and in 2003 became Operations Director for Marston's Inns and Taverns.
In 2010 he transferred to Marston's Pub Company as Operations Director. In 2011 he was appointed Managing Director of Marston's Inns and Taverns and is Chairman of its Charitable Foundation.

† Member of Nomination Committee
* Member of Audit Committee and Remuneration Committee

Governance

REGISTERED OFFICE

Marston's House, Brewery Road,
Wolverhampton, WV1 4JT
Telephone: 01902 711811

Stockbrokers
Numis Securities Limited,
The London Stock Exchange Building,
Paternoster Square, London, EC4M 7LT

JP Morgan Cazenove Limited,
20 Moorgate, London, EC3R 6DA

DIRECTORS' REPORT FOR MARSTON'S PLC

(Company Registration Number 31461)

The Directors present their report, together with the audited financial statements of the Group, for the 52 week period ended 1 October 2011.

Principal activities

Our principal activities are operating managed, tenanted and leased public houses, brewing beer and wholesaling beer, wines, spirits and soft drinks.

Business Review

The Chairman's Statement on page 1 and the Business Review on pages 8 to 25 provide detailed information relating to our strategy, the operation of our divisions and the results and financial position for the financial period ended 1 October 2011.

Details of the principal risks and uncertainties we face are set out in the Business Review on pages 18 to 20.

All of the above are incorporated by reference in (and shall be deemed to form part of) this report.

Dividends

An interim dividend of 2.1p per ordinary share was paid on 30 June 2011. The Directors recommend a final dividend of 3.7p per ordinary share to be paid on 1 February 2012 to shareholders on the register on 16 December 2011. This would bring the total dividend for the period ended 1 October 2011 to 5.8p per ordinary share (2010: 5.8p). The payment of the final dividend is subject to shareholder approval at the Annual General Meeting (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 68.

Research and development

We support in-house research and development and work with the British Beer and Pub Association and Brewing Research International.

Treasury management

Our policy on the use of financial instruments is set out in note 20 to the financial statements on page 70.

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 79. 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 25p of nominal value of ordinary and preference share capital held in relation to all circumstances at general meetings of the Company.

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 page 77. For shares held by the Employee Benefit Trust the trustee abstains from voting.

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 AGM.

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.

Directors

Membership of the Board and biographical details of the Directors currently serving on the Board are set out on pages 26 and 27.

Further details relating to the changes to the Board are set out in the Corporate Governance Report on page 30. Details of Directors' service agreements are set out in the Directors' Remuneration Report on page 35. 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 Company was given authority at its 2011 AGM to make market purchases of ordinary shares up to a maximum number of 57,065,327 shares. Similar authority will again be sought from shareholders at the 2012 AGM.

To the extent permitted by law and its Articles of Association, the Company has executed deeds of indemnity for the benefit of each Director or other officer of the Company to indemnify them in respect of the costs of defending claims against them in their role as Directors and officers of the Company or any of its subsidiaries.

Directors' interests in shares

The beneficial interests of the Directors and their immediate families in the ordinary share capital of the Company at 1 October 2011 were:

	Ordinary Shares of 7.375p	
Executive Directors	**1 October 2011**	**2 October 2010**
Andrew Andrea	77,959	77,959
Derek Andrew	1,100,335	900,335
Alistair Darby	196,384	196,384
Ralph Findlay	758,646	758,646
Stephen Oliver	229,417	229,417
Non-executive Directors		
Rosalind Cuschieri	88,126	88,126
Miles Emley	74,020	74,020
Neil Goulden	168,000	168,000
Lord Hodgson	77,112	77,112
Robin Rowland	52,083	—
David Thompson	1,665,679	1,687,653

Auditors

PricewaterhouseCoopers LLP has indicated its willingness to continue as Auditors and their reappointment has been approved by the Audit Committee. Resolutions to reappoint them and to authorise the Directors to determine their remuneration will be proposed at the 2012 AGM.

Substantial shareholdings

As at 30 November 2011, we had been notified in accordance with Chapter 5 of the Disclosure and Transparency Rules and, for the preference shares, with reference to the Register of Members, of the following voting interests:

Ordinary shares of 7.375p each

Shareholder	Number	%
Prudential Plc	47,410,295	8.31
Newton Investment Management Ltd	28,901,389	5.06
Artemis Investment Management Ltd	28,748,591	5.04
Henderson Global Investors Ltd	26,195,149	4.60
Legal & General Group Plc	22,441,741	3.93

Preference shares

Shareholder	Number	%
Fiske Nominees Ltd	34,048	45.40
Mr & Mrs Medlock	10,407	13.88
George Mary Allison Ltd	5,500	7.33
Mr & Dr Knowles	4,356	5.81
Mr W J Higgs	2,855	3.81
Mrs H Michels	2,750	3.67
Mr R Somerville	2,750	3.67

Key Relationships

- **Employees**

  Full details of arrangements relating to employees are described in the Corporate Social Responsibility Report on pages 21 to 25. The average number of employees within the Group is shown in note 5 to the financial statements on page 59.

- **Customers and consumers**

  We have a wide range of customers including national supermarkets, pub companies, tenants and free trade operators, and every individual that steps into one of our pubs. We work to understand our customers' needs, their preferences and dislikes. We invest time in market research and customer surveys in order to understand the changing tastes of our customers, and our network of Area Managers is sufficiently resourced to interact on a local level with our customers so that this knowledge becomes a bedrock for business planning.

- **Local communities**

  Our breweries and pubs recognise the importance of their relationship with their local community. We carefully consider the impact of our business upon the environment and our largest breweries have to demonstrate annually to the Environment Agency that they actively manage their impact upon the local environment in order to achieve their Integrated Pollution Prevention Control permit.

- **Regulatory bodies**

  The licensing system within the UK tightly controls the operation of our pubs. Full details can be found in the Corporate Social Responsibility Report on page 23.

- **Suppliers**

  We carefully manage our supplier relationships. Disruption to supply would otherwise be a significant threat to business continuity. We are not solely reliant upon one particular supplier — contingency arrangements are planned for, documented and subject to continual review. Suppliers' own continuity plans are collected and periodically a number are audited. Our payment policy follows the CBI's Prompt Payment Code for all suppliers. Trade payables for the Group at the financial period end are estimated as representing 49 days' purchases (2010: 44 days' purchases) and for the Company were nil (2010: nil).

Contributions for political and charitable purposes

Full details of our charitable contributions can be found in the Corporate Social Responsibility Report on page 22. 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 (2010: nil).

Environmental policy

Environmental policy is determined by the Board and further details can be found in the Corporate Social Responsibility Report on page 24 and in the 2011 Environmental Report on www.marstons.co.uk.

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 Business Review. The financial position of the Group is described on pages 16 and 17. In addition, note 20 to the financial statements on page 70 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 43 to 83 and 85 to 92 have been prepared on the going concern basis.

Events after the balance sheet date

Full details of significant events since the balance sheet date can be found in note 35 of the financial statements on page 83.

Annual General Meeting

The AGM of the Company will be held at Walsall Football Club, Banks's Stadium, Walsall at 12 noon on 27 January 2012. 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
Company Secretary
30 November 2011

CORPORATE GOVERNANCE REPORT

Introduction
In this report the Company describes how it has applied the main principles of The UK Corporate Governance Code (the 'Code') throughout the accounting year. The Board considers it has complied fully with the provisions of the Code.

The main principles of the Code are:

- Leadership
- Effectiveness
- Accountability
- Remuneration
- Relations with shareholders

LEADERSHIP

Role of the Board
The Board is collectively responsible to shareholders for the long term success of the Company. It meets regularly to monitor the Company's progress against its strategic aims and within its risk management framework. The explanation of the basis on which Martson's generates value and delivers its strategic objectives can be found in the Business Model on pages 4 and 5. It has a schedule of matters reserved for its approval, some of which are dealt with directly and some are on the recommendation of its committees. Other responsibilities are given to Committees of the Board, as set out in the Committee sections below and in their terms of reference, which are available on the Company's website www.marstons.co.uk/investors/governance.aspx.

Summary of Matters Reserved for the Board

- Strategy, management and budget matters;
- Capital structure, dividend policy and financial controls;
- Public and shareholder announcements;
- Internal controls and the identification, monitoring and management of risk;
- Major capital expenditure, asset acquisitions and disposals;
- Board and Committee membership and corporate governance arrangements;
- Remuneration of Directors and senior management; and
- Policies, including ethics, health and safety, environmental, charitable and corporate social responsibility policies.

The Chairman and Chief Executive Officer
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. David Thompson, as Chairman, is responsible for the leadership and effectiveness of the Board. His role is to ensure each Non-executive Director makes an effective contribution to the Board through debate and discussion with the Executive Directors. He ensures that the Board receives accurate, timely and clear information ahead of each Board meeting and that adequate time is available at Board meetings to consider all agenda items, especially strategic matters.

The CEO, supported by the other Executive Directors, is responsible for the performance of the Company in line with the strategies and objectives established by the Board and the powers delegated by it. He ensures that the Board is supplied with information relevant to its strategic role and he leads the Executive Directors and senior management in dealing with the operational requirements of the business.

Non-executive Directors
The Chairman, who was not independent on appointment having previously served as an Executive Director, meets with the Non-executive Directors at least annually without the Executives being present. The Non-executive Directors use their external experiences and expertise to apply independent challenge and rigour to their reviews of the Company's performance and that of its management.

Lord Hodgson is the Senior Independent Director and served in this capacity throughout the year. Where necessary, he acts as a 'sounding board' for the Chairman and as an intermediary for the other Directors. He is available to shareholders if they have concerns which have not been resolved through normal channels or in circumstances where those channels are inappropriate. As the Senior Independent Director, Lord Hodgson leads the Non-executive Directors in their annual assessment of the Chairman's performance and he would also lead any discussions on the appointment of a new chairman.

Board and Committee meeting attendance

Name	Board	Nomination	Audit	Remuneration
David Thompson	10/10	2/2		
Robin Hodgson	10/10	2/2	3/3	3/3
Rosalind Cuschieri	10/10	2/2	3/3	3/3
Miles Emley	10/10	2/2	3/3	3/3
Neil Goulden	10/10	2/2	3/3	3/3
Robin Rowland	10/10			
Ralph Findlay	10/10	2/2		
Andrew Andrea	10/10			
Derek Andrew	10/10			
Alistair Darby	10/10			
Stephen Oliver	10/10			

EFFECTIVENESS

Board composition
Up until 1 October 2011, the Board comprised five Executive Directors, five Non-executive Directors and the Chairman. As announced last year, and with effect from 1 October 2011, Alistair Darby was appointed Chief Operating Officer (COO) and Derek Andrew and Stephen Oliver stepped down from the Board. Thereafter, the Executive Directors comprise the CEO, the COO and the Chief Financial Officer (CFO). With the announced retirement of Miles Emley at the conclusion of the next Annual General Meeting (AGM), the number of Non-executive Directors will be four. The Board considers all of its Non-executive Directors to be independent within the meaning of the Code.

Further to the Davies Report 'Women on Boards', FTSE 350 companies have been encouraged to promote greater female representation on boards. The Company considers that diversity in the boardroom is essential to good business and our appointment processes continue to ensure that all appointments are made on merit and that our Board represents the best interests of shareholders.

Following the announcement of Miles Emley's intention to retire, the Board have identified the need for a further financially qualified Non-executive Director. Further details can be found in the Nomination Committee section below.

Commitment

Each Director is required to disclose their other significant commitments to the Board prior to appointment and when there is any significant change. There is a procedure in place whereby actual and potential conflicts of interest are regularly reviewed. The Articles of Association allow the Board to authorise potential conflicts of interest and to impose such limits or conditions as it thinks fit. Prior to the appointment of any new Director, or if a new potential conflict arises, the appropriate authorisation is sought. The Board considers all Directors to allocate sufficient time to the Company to discharge their responsibilities effectively.

The Chairman is a Director of Ragleth Ltd, the controlling shareholder of Anglia Maltings (Holdings) Ltd and a supplier to the Company. All contracts are concluded on ordinary commercial terms without the Chairman being present in contract negotiations or in the event of any consideration of these by the Board. The Chairman has no controlling interest in Ragleth Ltd and consequently the transactions between the Group and Ragleth Ltd are not Related Party Transactions as defined by International Financial Reporting Standards.

Training and development

Each Director takes responsibility for ensuring that he or she remains up to date in his or her skills and knowledge of the Company and this is reviewed by the Chairman in the annual appraisal and evaluation meeting with each Director. Where appropriate, the Company provides the resources to meet Directors' development requirements. All Directors have regular opportunities to meet with senior management in the pubs and breweries to maintain and deepen their understanding of the business.

Each Director has had a tailored induction programme on joining the Board covering the operations of the Group, the industry and markets within which it operates and its governance arrangements. There is an ongoing process of regular updates on the Company's activities and initiatives for all Non-executive Directors with a formal schedule of presentations by senior management.

During the year the Board visited a number of its managed pubs and met with local management to further its understanding of operational matters. Individually, the Non-executive Directors spent time with senior managers visiting managed and tenanted pubs.

Information and Support

Board and Committee members are supplied with briefings on substantive issues in advance of meetings and there is a regular timetable of matters for consideration during the year. The Chairman agrees the agenda for each meeting in conjunction with the CEO and Company Secretary. Regular reports cover the Group's financial position, risk management and regulatory compliance. The Managing Directors of each division provide regular updates on activities and performance against targets which, going forward, will be reported to the Board through the COO in a monthly summary of key business operations.

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

Evaluation

Having had an externally facilitated evaluation last year, the Chairman, assisted by the Company Secretary, led this year's performance evaluation of the Board, its Committees and individual Directors and reported his findings to the Board. The process was based on questionnaires and one-to-one discussions by the Chairman with each Director and the Company Secretary. Each Committee also discussed, and reported to the Board on, its own performance and effectiveness. The Non-executive Directors, led by the Senior Independent Director, met without the Chairman to appraise his performance.

Each Committee and the Board concluded that it was satisfied overall with its own effectiveness and the contribution and commitment of each of its Directors. The Board agenda has been updated to reflect the impact of changes in Executive Directors and the role of the COO. The timetable of future meetings and agenda items has also been updated to reflect the feedback received during the evaluation process.

Re-election

All Non-executive Directors have letters of appointment which set out their expected time commitment. They are appointed for terms of three years and any subsequent re-appointment is given careful consideration by the Board prior to recommending them to shareholders for approval. Notwithstanding this, all Directors offer themselves for re-election at each AGM. Details of each Director serving on the Board at the date of this Report are set out on pages 26 and 27.

Nomination Committee

Membership

David Thompson (Chairman)

Miles Emley

Ralph Findlay

Lord Hodgson

Rosalind Cuschieri

Neil Goulden

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

Responsibilities

- To 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 executives.
- 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.

The full terms of reference of the Committee can be found in the Investors section of the Company's website.

CORPORATE GOVERNANCE REPORT CONTINUED

Activities

Having announced Executive Director changes at the start of the year, the Committee reviewed the long-term succession plans for Non-executive Directors and the ongoing structure, size and composition of the Board and its Committees. This review was undertaken recognising the forthcoming retirement of Miles Emley.

The Committee identified that it would be desirable to strengthen the Audit Committee with the recruitment of a further financially qualified independent Non-executive Director and, accordingly, have appointed external consultants, Blackwood Group, to draw up a list of potential candidates for the Committee's consideration. This process is ongoing at the date of this Report.

In the light of Miles Emley's retirement, the Committee proposed and the Board approved the appointment of Robin Rowland to the Remuneration Committee with effect from 1 October 2011.

In accordance with the requirements of the Code and with the exception of Miles Emley, all members of the Board will seek re-election at the AGM. The Committee reviewed the contribution and performance of each Director having regard to the outcomes of the Board evaluation exercise. No Director was involved in any decision regarding his or her own re-appointment. Following the reviews, the Committee recommended that each Director be proposed by the Board for re-appointment at the forthcoming AGM.

ACCOUNTABILITY

Internal controls

The Board retains overall responsibility for the Group's systems of internal control and risk management. The implementation of risk management and internal control systems is the responsibility of the Executive Directors. Such systems are designed to manage rather than eliminate risk and by their nature can provide only a reasonable and not absolute defence against material errors, losses, fraud or breaches of the law.

Control environment

Key features of the internal control system

- 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;
- at each meeting the Board reviews financial and non-financial progress towards the Company's goals;
- an internal audit function that scrutinises internal controls and conducts audits on controls associated with key risks of the business, and which recommends improvements.

The Board conducts an annual review of the effectiveness of the Company's risk management and internal control systems, which is co-ordinated by the internal audit function. The review this year confirmed that there is a clear link between the key risks of the business and the controls used to manage those risks. Ownership of the controls by the managers within the business is well defined, and there are no significant weaknesses that require remedial actions to take place.

Risk management system

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The Board reviews the risks annually and the divisional Managing Directors identify and regularly review the top risks with their management teams and the Corporate Risk Manager. These reviews cover strategic, financial, operational and compliance risks.

Managers are required to identify key internal controls for each of the risks they are responsible for. The identified risks are classified and recorded in the Group's risk register.

The internal audit strategy takes into account the key business risks of the Group and provides assurance to the Audit Committee on the effectiveness of the internal control environment in mitigating the risks to an acceptable level. The risk management programme provides vital information to ensure that the internal audit strategy provides sufficient coverage of the critical areas of internal control.

Audit Committee and Auditors

Membership

Neil Goulden (Chairman from 3 December 2010)

Miles Emley (Chairman until 3 December 2010)

Lord Hodgson

Rosalind Cuschieri

The Board regards Neil Goulden as having recent and relevant financial experience given his recent roles as Executive Chairman and acting Chief Executive of Gala Coral Group.

Other individuals, such as the CEO, CFO, Corporate Risk Manager and external Auditors are usually invited to attend all or part of the Committee's meetings. The Corporate Risk Manager reports to each meeting and has the right to approach the Committee directly. At least once a year, the external Auditors meet the Committee without any Executive Director present.

Responsibilities

The Committee is responsible for:

- Reviewing the integrity of the Company's financial statements including the annual and interim reports.
- Reviewing the effectiveness of the internal controls and risk management system.
- Reviewing the Company'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, PricewaterhouseCoopers LLP, specifically reviewing and approving their fees, the terms of engagement and their objectivity and independence on an annual basis.

Auditors

In assessing the work of the external Auditors, the Committee found itself satisfied with the scope of their work, their effectiveness and fee proposal and recommended their re-appointment to the Board. 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. In addition, the audit partner is changed every five years and the current partner has been in the role for two years. Following this year's review the Auditors concluded that there are no factors which would impair their objectivity and independence. The Committee is satisfied that adequate safeguards are in place to protect the independence and objectivity of the service provided by the external Auditors.

The Committee accepts that some non-audit work is most appropriately undertaken by the Auditors. 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. The Group has used other accounting firms for some non-audit work. In each case, consideration was given to the need for value for money, experience and objectivity required in the particular circumstances.

Activities

During the year the Committee met three times to consider and review the risks to the Group, the internal control and risk management systems and to assess the annual internal audit plan. The Corporate Risk Manager presented to each of the meetings. The Committee also considered and recommended for Board approval the Annual Report, Interim Results and the preliminary announcement. To provide the Committee with the opportunity to review and challenge the integrity of the company's financial reports, the external auditors attended each meeting at which they presented either their audit strategy, or findings and conclusions in respect of the Annual or Interim Results.

In addition the Committee reviewed a number of standing items including the Group's "whistleblowing" policy and arrangements thereunder, matters arising from internal audits and compliance and legal developments.

REMUNERATION

Information on the Remuneration Committee, its membership and activities is given in the Directors' Remuneration Report on pages 34 to 39. A resolution to approve the Remuneration Report will be proposed at the AGM.

SHAREHOLDER RELATIONS

An investor relations programme is in place between the Executive Directors and institutional investors, fund managers and analysts. In addition, the CEO and CFO meet with Private Client Fund Managers in a number of locations on a quarterly basis. Matters such as strategy, performance, management and governance are discussed within the constraints of information already made publicly available.

The Board considers it important to understand the views of shareholders and issues which concern them. At least twice each year, it receives written feedback from analysts and institutional shareholders on their meetings with Executive Directors. During the year the Chairman and Senior Independent Director were available to meet with the Company's major institutional investors who are also offered the opportunity to meet with newly appointed directors.

The Company Secretary oversees communication with private shareholders on behalf of the Board. The Annual Report and Accounts is the principal means of communication and the Company's website is an important method of communication for the majority of its shareholders providing comprehensive share price information, results presentations, financial calendars and announcements.

The AGM is an opportunity for the Board to communicate with all its shareholders. Recent trading performance and developments in the business are explained prior to the formal business of the meeting. Shareholders are invited to ask questions during the meeting, which is followed by an opportunity to meet with the Directors on an informal basis. 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.

DIRECTORS' REMUNERATION REPORT

The role of the Remuneration Committee

The Committee is responsible for:

- Setting the framework and policy for remuneration of the Executive Directors.
- Determining the remuneration packages for Executive Directors and the Chairman.
- Monitoring the level and structure of remuneration for senior management and approving bonus payouts.
- Overseeing any major changes in employee benefit structures throughout the Group.

Full details can be found in the Terms of Reference available in the Investor section of our website at www.marstons.co.uk.

Membership

Lord Hodgson (Chairman)

Miles Emley

Rosalind Cuschieri

Neil Goulden

Robin Rowland (with effect from 1 October 2011)

Advisers

Deloitte LLP are retained to provide independent advice to the Committee as required. During the year they provided advice in connection with an amendment to the LTIP, a review of Executive Directors' remuneration and in drafting the new SAYE rules. Separately, Deloitte LLP also provided assistance to the Company with specific internal audit projects, as directed by the Corporate Risk Manager, and ad hoc tax projects.

Remuneration policy

The policy is designed to ensure that Executive Directors are provided with sufficient remuneration to motivate each individual, together with appropriate incentives that are aligned to strategy and encourage enhanced performance. The Committee undertakes an annual review of market practices and commentary and remuneration levels of directors in similar roles in companies of comparable sizes and complexity. In addition, they review the levels of remuneration for other employees and the pay increases awarded throughout the Group; the aim is to reward all employees fairly according to their role, performance, the economic environment and the financial performance of the Group. To align the remuneration of Executive Directors with the Group's strategic objectives and the interests of shareholders, the total remuneration comprises both fixed and variable elements, the latter being based solely on the Group's performance.

Activities

During the year the Committee met for the following reasons:

- ***To review Executive Directors' pay.*** Before approving any salary increases the Committee have regard to pay awards across the Group, salary levels for similar roles in appropriate comparator companies, and the performance, experience and responsibilities of the individual.
- ***To review bonuses for Executive Directors and senior managers.***
- ***To review Board changes.*** The Committee considered and approved the changes effective from 1 October 2011. Derek Andrew stepped down from the Company and received a termination payment in accordance with his contractual entitlement. He has been retained as a part-time consultant to the site acquisition programme only. Stephen Oliver has stepped down from the Board to concentrate on managing the enlarged Marston's Beer and Pub Company division. Alistair Darby became Chief Operating Officer.
- ***To review and approve awards under the Save As You Earn (SAYE) share option scheme and recommend the approval of a new SAYE scheme to shareholders.*** A summary is set out later in the report.
- ***To review and approve an adjustment to and award under the Long Term Incentive Plan (LTIP).*** Details of the adjustment and award made are set out later in the report.
- ***To review the Group's pension arrangements and preparation for Auto-enrolment.*** No changes have been made this year and details of the current arrangements are set out later in this report.
- ***To review and approve its terms of reference.***

Non-executive Director fees and benefits

The Group's remuneration policy in respect of Non-executive Directors is to pay annual fees which reflect the responsibilities and duties placed upon them, whilst also having regard to market practice. The fees for Non-executive Directors are determined by the Board as a whole and are normally reviewed every two years. They were last reviewed in 2010 and so remain unchanged for the current year. The Non-executive Directors do not participate in any of the Group's share incentive plans, nor do they receive any benefits or pension contributions with the exception of David Thompson whose pension benefits are set out on page 39.

Non-executive Director fees	2010/11 £
Basic fee	43,000
Remuneration Committee Chairman	5,000
Audit Committee Chairman	6,000
Senior Independent Director	5,000
Chairman	145,000

External appointments of Executive Directors

With the exception of Stephen Oliver, no Executive Director serves as a paid director of any company outside the Group. The fees earned by Stephen Oliver as a Non-executive Director of George Bateman & Co Limited were invoiced by and paid to the Group during the year. With effect from 2 October 2011, Stephen Oliver will retain these fees.

Service contracts

All Executive Directors' contracts are on a rolling 12 month basis whilst the Chairman has a six month rolling contract. The Executive Directors are subject to 12 months' notice when terminated by the Company and six months' notice when terminated by the Director.

		Notice period	
	Contract date	**(Group)**	**(Director)**
Andrew Andrea	31 March 2009	12 months	6 months
Derek Andrew	22 July 2004	12 months	6 months
Alistair Darby	16 May 2003	12 months	6 months
Ralph Findlay	15 August 2001	12 months	6 months
Stephen Oliver	15 August 2001	12 months	6 months
David Thompson	24 January 2002	6 months	6 months

Payments to Directors upon termination of their contracts will be equal to basic salary for the duration of the notice period. With the exception of Andrew Andrea, there is no reduction for mitigation or for early payment as the Remuneration Committee has taken the view that as long-standing employees of the Group they would merit full compensation in the event of unilateral termination of their employment by the Group. For new directors, including Andrew Andrea, any payment during their notice period will be reduced by any amount earned in that period from alternative employment.

With the exception of David Thompson, the Non-executive Directors 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, in line with the recommendations of the Corporate Governance Code.

Salaries

Having regard to pay and conditions elsewhere in the Group, the performance of the Group, similar roles in comparable companies and the increased responsibilities as a result of the new structure, the Directors have been awarded the following pay increases with effect from 2 October 2011. In particular, the salary of the COO has been increased to reflect the additional responsibilities and the increased contribution expected from this role and to maintain its competitiveness to similar roles elsewhere.

Salary	2010/11	2011/12	Increase
Ralph Findlay	£465,000	£480,000	3.2%
Andrew Andrea	£285,000	£300,000	5.3%
Alistair Darby	£275,000	£300,000	9.1%

Bonuses

The maximum bonus opportunity for the Directors is 100% of salary.

With the exception of our field-based sales teams, all bonus arrangements within the Group have the same structure and payout mechanism. One-third of the maximum entitlement for employees (including Directors) is linked to Group Return on Capital (ROC); the remaining two-thirds is linked to the achievement of Group profit. For each measure, 40% of the maximum entitlement is payable to participants for achieving the target ROC or profit.

For 2010/11, 46% of the maximum payout for each Director was awarded following a review of the Company's profit and ROC performance by the Remuneration Committee.

Share incentive schemes

The Group operates a Save As You Earn (SAYE) share option scheme, an Executive share Option Scheme and a Long Term Incentive Plan (LTIP). The Remuneration Committee does not intend to make awards under both the Executive Share Option Scheme and the LTIP in the same period.

SAYE share options

The Group operates an HMRC approved SAYE plan which is open to all eligible employees, including Executive Directors, on the completion of two years' service. Invitations are usually offered annually for a savings contract of three, five or seven years subject to the maximum monthly savings limit of £250. Options are granted at a discount of 20% to the market value of the Company's share price at the date of invitation, subject to the agreement of the Remuneration Committee. Their exercise is not subject to performance conditions.

HMRC approval for the SAYE rules expires in 2012. In order to continue offering SAYE to employees, the Company is reapplying for HMRC approval for a further ten years. Apart from taking the opportunity to update the rules for current best practice it is not proposed to make any changes to the fundamental features of the current SAYE plan. Further details are set out in the Notice of Annual General Meeting (AGM) and shareholder approval will be sought for the SAYE rules at the AGM.

Executive share options

The Company has a 2004 Executive Share Option Scheme which was approved by shareholders at the AGM held on 23 January 2004. Executive share options are granted at the prevailing market rate on the date of grant. Options are normally exercisable between three and ten years after grant and upon achievement of stated performance criteria.

No executive options have been granted since 2003 and the Committee has no plans to grant options under this scheme in the foreseeable future, although it has the ability to do so should it wish.

Long Term Incentive Plan

Following shareholder approval in 2004 the Company introduced an LTIP for Executive Directors and senior managers. The maximum annual conditional award of nil cost options that can be granted is equivalent to 100% of salary for Directors and 35% for senior managers. The options granted will only become exercisable (vest) after three years if the performance conditions are met and the participant satisfies the minimum shareholding requirement. Once the options vest, the participant may choose to exercise those options at any time thereafter

DIRECTORS' REMUNERATION REPORT CONTINUED

provided they remain an employee of the Group. In the case of awards granted on or after 1 July 2010, the exercise period is limited to the tenth anniversary of the date of grant.

Participants will usually be required to hold shares in the Company with a cost equal to at least one times salary. Spouse holdings are taken into account in satisfying this requirement. The holding requirement is scaled down to 35% of salary for participants below Board level.

The options will vest to the extent that the Group's growth in EPS exceeds the growth in RPI over a period of three years. Awards vest on a sliding scale with 35% becoming exercisable if annual EPS growth exceeds RPI by 3%. For 100% of an award to vest EPS growth must exceed RPI growth by 9% per annum.

During the period the Committee reviewed the performance metrics and vesting ranges for the 2011 grant to ensure that they remain appropriately stretching for the three year period and they concluded that they were appropriate. The LTIP options granted in 2008 lapsed as the performance conditions were not met.

In 2010, HM Revenue & Customs 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 future years 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 from the Company's Employee Benefit Trust but these additional shares are not delivered to the participant. During the period a minor amendment was made to the APSP to allow approved options to be granted 'in parallel' to those approved options granted to the participants in 2010. A participant will only be able to exercise the approved option granted to him on 24 June 2011 if the approved option granted to him in 2010 has lapsed or been released. If the participant exercises the approved option granted to him in 2010, the approved option granted to him on 24 June 2011 shall lapse.

The table of LTIP and APSP awards made is set out on page 38.

Group pension arrangements

At the start of the year the Group operated one final salary pension scheme, the Marston's Scheme, and ten defined contribution arrangements.

The Marston's Scheme

The Marston's Scheme was closed to new entrants from 29 September 1997. From 1 October 2009 the Group contributed 28.2% of pensionable payroll for those members who opted for the salary sacrifice arrangement introduced on 1 November 2007. For all other members the Group contributed, from 1 October 2009, 20.7% of pensionable payroll. Members contributed in accordance with the rules. All employees in the Marston's Scheme have permanent health insurance and death-in-service life assurance cover to the value of four times their salary, subject to acceptance by insurers.

With effect from 1 May 2010, members were given the option to increase their contribution rate by 6% of pensionable pay (either directly or through salary sacrifice) to be able to maintain their existing accrual, maintain their contribution rate and move to an accrual rate of 80ths, or increase their contribution rate by 3% of pensionable pay (either directly or through salary sacrifice) and move to an accrual rate of 70ths.

The funds of the Marston's Scheme are administered by Trustees and are separate from the Group. An actuarial valuation of the Marston's Scheme was carried out as at 30 September 2008. This resulted in a long-term Group contribution rate of 28.2% of members' pensionable earnings for members who opted for the salary sacrifice and 20.7% of members' pensionable earnings for other members plus an annual contribution of £10 million, increasing by 5.75% each October. In 2010/11, the Company paid these contributions monthly. The 30 September 2011 actuarial valuation is currently in progress and is expected to be completed by 31 December 2012.

The assumptions that have the most significant effect on the funding position of the Marston's Scheme are those relating to the differences between the long-term rate of return on investments and the rates of increase in earnings and pension increases. The 30 September 2008 funding valuation for the Marston's Scheme assumed that: the long-term investment return before retirement would exceed salary increases by 2.1% per annum and price inflation by 2.6% per annum, and the long-term investment return after retirement would exceed post-6 April 1997 and pre-6 April 2006 pension increases by 1.6% per annum and price inflation by 1.6% per annum.

The market value of the Marston's Scheme assets was £273.9 million, which was sufficient to cover 72% of members' accrued benefits at 30 September 2008, after allowing for future increases in earnings at the long-term rate.

Defined contribution arrangements

The Group introduced a Group Personal Pension Plan (GPPP) for new entrants with effect from 29 September 1997 to which it contributes 7.0% of pensionable salary and members contribute a minimum of 3.5% of their pensionable salary.

Membership of the GPPP provides permanent health insurance and death-in-service life assurance cover to the value of between three and four times pensionable salary, subject to acceptance by insurers.

Directors' emoluments (audited information)

The emoluments of the Directors for their services as Directors of the Group for the period ended 1 October 2011 were:

	Salary/ Fees £	Bonus £	Non-cash benefits[4] £	Other cash benefits[5] £	**2011 Total £**	2010 Total £
Executive Directors						
Andrew Andrea	285,000	131,100	904	26,325	**443,329**	354,829
Derek Andrew[1]	275,000	126,500	646	13,500	**415,646**	379,097
Alistair Darby	275,000	126,500	904	13,500	**415,904**	378,539
Ralph Findlay	465,000	213,900	904	16,200	**696,004**	625,637
Stephen Oliver[2]	275,000	126,500	904	13,500	**415,904**	378,539
	1,575,000	724,500	4,262	83,025	**2,386,787**	2,116,641
Non-executive Directors						
Rosalind Cuschieri	43,000				**43,000**	34,000
Miles Emley	44,043				**44,043**	40,000
Lord Hodgson[3]	53,000				**53,000**	44,000
Neil Goulden	47,956				**47,956**	34,000
Robin Rowland	43,000				**43,000**	2,833
David Thompson	145,000		646	16,200	**161,846**	149,029
	1,950,999	724,500	4,908	99,225	**2,779,632**	2,420,503

(1) Left the Company on 1 October 2011. In addition to the pay set out above, Derek Andrew received a £357,250 termination payment in accordance with his contractual entitlement comprising salary, car allowance and the equivalent pension contribution. As referred to last year, the Company has retained Derek Andrew's services as an adviser to the new site acquisition programme.

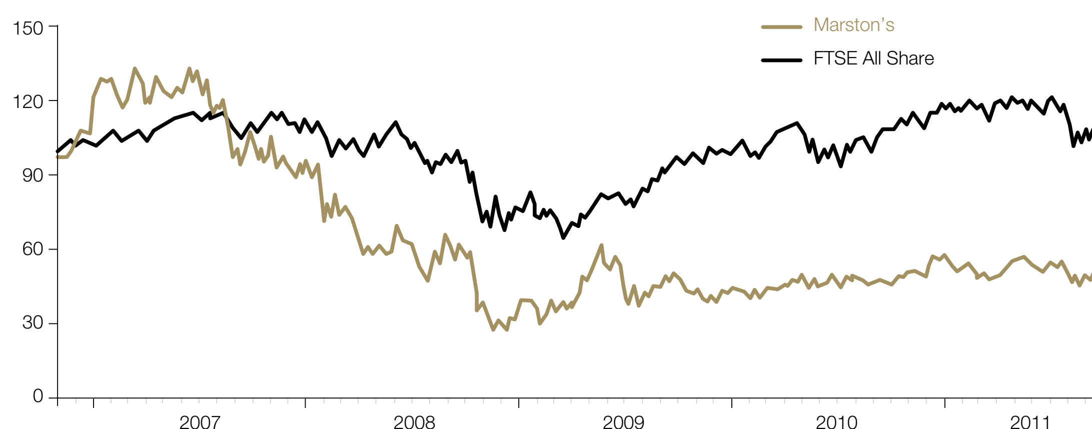
(2) Resigned from the Board on 1 October 2011 but retains managerial responsibilities.

(3) The fees relating to the services of Lord Hodgson were paid to Johnson Brothers & Co Limited.

(4) Non-cash benefits principally comprise private health cover.

(5) Other cash benefits represent cash allowances paid in lieu of a company car and, for Andrew Andrea, salary supplement in lieu of pension.

Total shareholder return



The graph shows the comparative Total Shareholder Return (TSR) perfomance of the Company against the FTSE All Share Index during the previous five financial years. The FTSE All Share Index has been selected as a comparator because the Group believes it is the most meaningful market index of which the Company is a member.

Governance

DIRECTORS' REMUNERATION REPORT CONTINUED

SAYE Share options (audited information)

	Date of Grant	At 02.10.10	Granted	Exercised	Cancelled	At 01.10.11	Option price p
Ralph Findlay	25 June 10	20,302				**20,302**	76.10
Derek Andrew	25 June 10	20,302				**20,302**	76.10
Stephen Oliver	25 June 10	20,302				**20,302**	76.10
Andrew Andrea	25 June 10	11,826				**11,826**	76.10

Long Term Incentive Plan (LTIP) (audited information)

	Date of grant	At 02.10.10	Granted**	Vested	Lapsed	At 01.10.11	Exercise period from***
Ralph Findlay	02.06.08	272,561			272,561	**0**	2 June 11
	01.07.10	459,534*				**459,534**	1 July 13
	24.06.11		476,923			**476,923**	24 June 14
Derek Andrew	02.06.08	163,465			163,465	**0**	2 June 11
	01.07.10	275,600*			275,600	**0**	1 July 13
Alistair Darby	02.06.08	153,523			153,523	**0**	2 June 11
	01.07.10	275,000*				**275,000**	1 July 13
	24.06.11		282,051			**282,051**	24 June 14
Stephen Oliver	02.06.08	163,108			163,108	**0**	2 June 11
	01.07.10	275,000*				**275,000**	1 July 13
	24.06.11		282,051			**282,051**	24 June 14
Andrew Andrea	02.06.08	22,821			22,821	**0**	2 June 11
	01.07.10	253,699*				**253,699**	1 July 13
	24.06.11		292,307			**292,307**	24 June 14

* The grant comprises an HMRC approved option over 31,712 shares with an exercise price of 94.6p and an unapproved award for the balance. A further share award over 31,712 shares is also provided to enable participants to fund the exercise of the approved option. If the approved option is released in connection with the 'parallel' terms described below, the linked award will be exercisable in full, subject to the satisfaction of the performance condition, with no reduction made to ensure that it is exercisable only to fund the exercise of the approved option.

This linked award is satisfied by shares from the Company's employee benefit trust which are used to fund the approved option exercise price. These shares are then retained by the trust and not delivered to the participant.

** The grant comprises an HMRC approved option over 30,769 shares with an exercise price of 97.5p and an unapproved award for the balance. A further share award over 30,769 shares is also provided to enable participants to fund the exercise of the approved option. The approved option has been granted 'in parallel' to the approved option granted on 1 July 2010 so that only one of the approved options can be exercised. If the approved option granted on 1 July 2010 is exercised, the approved option granted on 24 June 2011 will lapse and the linked award made on 24 June 2011 will be exercisable in full, subject to the satisfaction of the performance condition, with no reduction made to ensure that it is exercisable only to fund the exercise of the approved option.

This linked award is satisfied by shares from the Company's employee benefit trust which are used to fund the approved option exercise price. These shares are then retained by the trust and not delivered to the participant.

*** Provided the required shareholding and the three-year performance conditions are met, options granted under the LTIP will not expire until the tenth anniversary of the date of the grant.

The performance condition to which awards under the LTIP are subject is set out on page 35.

The mid-market ordinary share price on 30 September 2011 (1 October being a Saturday) was 93p and the daily mid-market share price range during the period was 84.2p to 117.9p.

Directors' pensions (audited information)

Defined contribution scheme

The Group makes contributions into the Group Personal Pension Plan (GPPP) on behalf of Andrew Andrea. A rate of 15% of base salary is payable in return for the Director making a personal contribution of 7.5%. For the period under review the Company contribution for Andrew Andrea was £42,750, being £29,925 pension contribution and a salary supplement of £12,825.

Defined benefit scheme

The following Directors accrued benefits under the Marston's PLC Pension and Life Assurance Scheme (the 'Scheme') provided by the Group.

	Accrued pension at 1 October 2011 £	Change in accrued pension over 2010/2011 excluding increase for inflation £	Transfer Value at 1 October 2011 £	Transfer Value at 2 October 2010 £	Change in Transfer Value over 2010/2011 net of members' contributions £	Transfer Value of the increase in the accrued pension £
Derek Andrew	93,576	4,738	2,111,313	2,383,484	(272,171)	108,313
Alistair Darby	75,744	3,577	986,851	864,167	122,684	90,324
Ralph Findlay	95,152	11,970	1,435,961	1,135,774	300,187	236,965
Stephen Oliver	84,570	7,742	1,509,836	1,244,716	265,120	196,915
David Thompson	163,889	139	2,761,737	2,473,506	288,231	156,706

Notes to the table

1 The accrued pension is the amount that the Director would receive annually on retirement based on service to the end of the year. Derek Andrew retired from the Scheme on 28 February 2011 and elected to take a tax free lump sum of £450,000. The 1 October 2011 accrued pension is for his remaining pension entitlement. The value of this £450,000 is effectively included into the transfer value as at 2 October 2010 but not at 1 October 2011 and explains the 'change in transfer value'.

2 The change in accrued pension during the year reflects that inflation over the period has been 5.6%, being the measure of RPI to September 2011. Given Derek Andrew retired from the Scheme before the year end, no allowance for inflation has been made in this figure. For Derek Andrew we have calculated the change in the accrued pension to 28 February 2011 before the reduction for early payment and the tax free lump sum. David Thompson's pension has increased over the year but only by marginally more than the rate of RPI hence the small change in accrued pension net of inflation.

3 The Transfer Values at 1 October 2011 are calculated in accordance with the cash equivalent transfer value basis adopted by the Trustee on 7 September 2011, after taking advice from the Scheme Actuary.

4 The figures as at 2 October 2010 for Alistair Darby have been restated to reflect his decision to choose 80th accrual from 1 May 2010.

5 From 1 May 2010 Directors were provided with the option of a 25% salary supplement as an alternative to continued membership of the Scheme. No Director has yet taken this option.

Additional information:

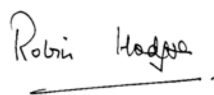
(a) Normal retirement age is 60. Early retirement can be taken from age 55 provided the Group gives its consent. The accrued pension will then be reduced to take account of its early payment.

(b) On death before retirement a lump sum is payable equal to the Director's contributions (including those made via salary sacrifice). Some or all of this lump sum may be used to provide a statutory minimum spouse's pension. On death after retirement the spouse's pension payable is two-thirds of the member's pre-commutation pension for David Thompson, 60% for Ralph Findlay and Alistair Darby and, in respect of Stephen Oliver, 60% of his post-1 January 2002 service and 50% of his pre-1 January 2002 service.

(c) The normal contribution rate for Directors retaining existing benefits is 13.5%, paid by way of salary sacrifice.

(d) There are no discretionary benefits.

This report was approved by the Board and signed on its behalf by



Lord Hodgson
Chairman of the Remuneration Committee
30 November 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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, and the parent 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 European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent 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 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.

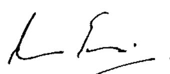
The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on pages 26 and 27 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 Business Review on pages 8 to 25 includes a fair review of the development and performance of the business and the position of the Group, together with the principal risks and uncertainties that it faces.

Disclosure of information to Auditors

The Directors who held office at the date of this statement confirm that, so far as they are each aware, there is no relevant audit information of which the Group's Auditors are unaware. Each Director has taken all the steps that he/she ought to have taken to make himself/herself aware of any relevant audit information and to establish that the Group's Auditors are aware of that information.



Ralph Findlay
Chief Executive Officer
30 November 2011

Andrew Andrea
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

We have audited the Group financial statements of Marston's PLC for the period ended 1 October 2011 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Cash Flow Statement, the Group Balance Sheet, the Group Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 40, the Directors are responsible for the preparation of the Group 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 Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Scope of the audit of the financial statements

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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 1 October 2011 and of its profit and cash flows for the period then ended;
- have been properly prepared in accordance with 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial period for which the Group financial statements are prepared is consistent with the Group financial statements; and
- the information given in the Corporate Governance Statement set out on pages 30 to 33 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

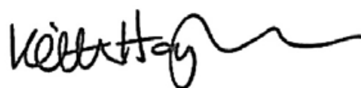
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the parent Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 29, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matters

We have reported separately on the parent Company financial statements of Marston's PLC for the period ended 1 October 2011 and on the information in the Directors' Remuneration Report that is described as having been audited.



Keith Harrington
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
30 November 2011

FIVE YEAR RECORD

	2007 (52 weeks) £m	2008 (53 weeks) £m	2009 (52 weeks) £m	2010 (52 weeks) £m	**2011 (52 weeks) £m**
Revenue	652.8	666.1	645.1	650.7	**682.2**
Profit before exceptional items	98.0	85.1	70.3	73.5	**80.4**
Exceptional items	(3.3)	(8.9)	(48.9)	(21.0)	**0.4**
Profit before taxation	94.7	76.2	21.4	52.5	**80.8**
Taxation*	(12.4)	(14.4)	(5.0)	(5.0)	**(12.0)**
Profit after taxation	82.3	61.8	16.4	47.5	**68.8**
Capital employed	748.5	706.9	783.2	780.5	**817.6**
Earnings per ordinary share†	20.0p	16.3p	3.9p	8.3p	**12.1p**
Exceptional items†	(1.2)p	2.0p	9.5p	1.7p	**(0.9)p**
Earnings per ordinary share before exceptional items†	18.8p	18.3p	13.4p	10.0p	**11.2p**
Dividend per ordinary share†	9.2p	9.5p	7.1p	5.8p	**5.8p**
Retail price index	100.0	105.0	103.5	108.3	**114.4**
Earnings per share performance	100.0	81.5	19.5	41.5	**60.5**
Earnings per share performance before exceptional items	100.0	97.3	71.3	53.2	**59.6**
Dividend performance	100.0	103.3	77.2	63.0	**63.0**

* Taxation includes the tax impact on exceptional operating items together with exceptional credits of £5.0 million in 2011 and £2.1 million in 2010 in respect of the change in corporation tax rate, an exceptional charge of £1.4 million in 2008 relating to the phasing out of industrial buildings allowances, and an exceptional credit of £7.2 million in 2007 relating to the change in tax rate and abolition of balancing charges.

† Adjusted where appropriate to reflect the impact of the issue of new shares under a rights issue on 22 July 2009. For comparative purposes, the weighted average number of ordinary shares in issue in 2010 was 569.3 million compared to 415.8 million in 2009.

GROUP INCOME STATEMENT

For the 52 weeks ended 1 October 2011

	Note	**2011** Before exceptional items £m	**2011** Exceptional items £m	**2011** Total £m	2010 Before exceptional items £m	2010 Exceptional items £m	2010 Total £m
Revenue	2, 3	**682.2**	**–**	**682.2**	650.7	–	650.7
Operating expenses	3, 4	**(527.9)**	**(2.7)**	**(530.6)**	(502.0)	(16.3)	(518.3)
Operating profit	2	**154.3**	**(2.7)**	**151.6**	148.7	(16.3)	132.4
Finance costs	6	**(76.1)**	**–**	**(76.1)**	(75.7)	–	(75.7)
Finance income	6	**2.2**	**–**	**2.2**	0.5	–	0.5
Movement in fair value of interest rate swaps	4, 6	**–**	**3.1**	**3.1**	–	(4.7)	(4.7)
Net finance costs	6	**(73.9)**	**3.1**	**(70.8)**	(75.2)	(4.7)	(79.9)
Profit before taxation		**80.4**	**0.4**	**80.8**	73.5	(21.0)	52.5
Taxation	4, 7	**(16.8)**	**4.8**	**(12.0)**	(16.4)	11.4	(5.0)
Profit for the period attributable to equity shareholders		**63.6**	**5.2**	**68.8**	57.1	(9.6)	47.5
Earnings per share:							
Basic earnings per share	9			**12.1p**			8.3p
Basic earnings per share before exceptional items	9			**11.2p**			10.0p
Diluted earnings per share	9			**12.0p**			8.3p
Diluted earnings per share before exceptional items	9			**11.1p**			10.0p

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 1 October 2011

	Note	**2011** £m	2010 £m
Profit for the period		**68.8**	47.5
Losses arising on cash flow hedges		**(47.4)**	(54.3)
Transfers to the income statement on cash flow hedges		**21.1**	22.3
Actuarial gains/(losses) on retirement benefits		**17.0**	(1.0)
Unrealised surplus on revaluation of properties		**–**	3.3
Reversal of past revaluation surplus		**(0.2)**	(2.0)
Tax relating to components of other comprehensive income/(expense)	7	**10.4**	14.4
Other comprehensive income/(expense) for the period		**0.9**	(17.3)
Total comprehensive income for the period		**69.7**	30.2

GROUP CASH FLOW STATEMENT

For the 52 weeks ended 1 October 2011

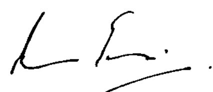
	Note	**2011** **£m**	2010 £m
Operating activities			
Operating profit before exceptional items		**154.3**	148.7
Exceptional operating items	4	**(2.7)**	(16.3)
Depreciation and amortisation		**41.5**	39.9
EBITDA		**193.1**	172.3
Working capital and non-cash movements	29	**12.9**	26.4
Difference between defined benefit pension contributions paid and amounts charged		**(13.0)**	(11.8)
Income tax (paid)/received		**(10.6)**	2.4
Net cash inflow from operating activities		**182.4**	189.3
Investing activities			
Interest received		**0.4**	0.9
Sale of property, plant and equipment and assets held for sale		**13.3**	17.5
Purchase of property, plant and equipment and intangible assets		**(111.5)**	(83.5)
Sale of subsidiary and associated business		**1.9**	—
Movement in other non-current assets		**2.1**	2.7
Net cash outflow from investing activities		**(93.8)**	(62.4)
Financing activities			
Equity dividends paid	8	**(33.0)**	(33.0)
Interest paid		**(70.3)**	(73.5)
Proceeds of ordinary share capital issued		**0.1**	—
Repayment of securitised debt		**(20.3)**	(19.4)
Advance/(repayment) of bank loans		**29.0**	(28.0)
Repayment of loan notes		**(0.6)**	(4.8)
Net cash outflow from financing activities		**(95.1)**	(158.7)
Net decrease in cash and cash equivalents	30	**(6.5)**	(31.8)
Reconciliation of net cash flow to movement in net debt			
Decrease in cash and cash equivalents in the period	30	**(6.5)**	(31.8)
Cash (inflow)/outflow from movement in debt		**(8.1)**	52.2
Change in debt resulting from cash flows	30	**(14.6)**	20.4
Non-cash movements and deferred issue costs	30	**(4.0)**	(3.3)
Movement in net debt in the period		**(18.6)**	17.1
Net debt at beginning of the period	30	**(1,082.2)**	(1,099.3)
Net debt at end of the period	30	**(1,100.8)**	(1,082.2)

GROUP BALANCE SHEET

As at 1 October 2011

	Note	1 October 2011 £m	2 October 2010 £m
ASSETS			
Non-current assets			
Goodwill	10	**224.2**	224.2
Other intangible assets	11	**24.6**	24.6
Property, plant and equipment	12	**1,989.4**	1,930.2
Deferred tax assets	22	**63.3**	65.5
Retirement benefit surplus	25	**7.1**	–
Other non-current assets	13	**17.1**	19.2
		2,325.7	2,263.7
Current assets			
Inventories	14	**18.8**	17.2
Trade and other receivables	16	**74.5**	65.3
Cash and cash equivalents	30	**76.6**	59.5
		169.9	142.0
Assets held for sale	15	**6.5**	16.0
LIABILITIES			
Current liabilities			
Borrowings	17	**(41.1)**	(16.9)
Derivative financial instruments	18	**(17.6)**	(20.8)
Trade and other payables	21	**(143.9)**	(115.7)
Current tax liabilities		**(25.8)**	(25.2)
		(228.4)	(178.6)
Non-current liabilities			
Borrowings	17	**(1,136.3)**	(1,124.8)
Derivative financial instruments	18	**(135.2)**	(108.9)
Retirement benefit obligations	25	**–**	(25.0)
Deferred tax liabilities	22	**(159.3)**	(171.3)
Other non-current liabilities	23	**(0.4)**	(0.3)
Provisions for other liabilities and charges	24	**(24.9)**	(32.3)
		(1,456.1)	(1,462.6)
Net assets		**817.6**	780.5
Shareholders' equity			
Equity share capital	27	**44.3**	44.3
Share premium account		**332.6**	332.5
Merger reserve	28	**41.5**	41.5
Revaluation reserve		**411.4**	401.7
Capital redemption reserve	28	**6.8**	6.8
Hedging reserve		**(101.4)**	(79.5)
Own shares	28	**(130.9)**	(130.9)
Foreign exchange reserve		**–**	0.2
Retained earnings		**213.3**	163.9
Total equity		**817.6**	780.5

The financial statements on pages 43 to 83 were approved by the Board on 30 November 2011 and signed on its behalf by:



Ralph Findlay
Chief Executive Officer
30 November 2011

GROUP STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ended 1 October 2011

	Equity share capital £m	Share premium account £m	Merger reserve £m	Revaluation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Own shares £m	Foreign exchange reserve £m	Retained earnings £m	Total £m
At 3 October 2010	44.3	332.5	41.5	401.7	6.8	(79.5)	(130.9)	0.2	163.9	780.5
Profit for the period	—	—	—	—	—	—	—	—	68.8	68.8
Actuarial gains	—	—	—	—	—	—	—	—	17.1	17.1
Tax on actuarial gains	—	—	—	—	—	—	—	—	(4.5)	(4.5)
Post-retirement medical benefits	—	—	—	—	—	—	—	—	(0.1)	(0.1)
Losses on cash flow hedges	—	—	—	—	—	(47.4)	—	—	—	(47.4)
Transfers to the income statement on cash flow hedges	—	—	—	—	—	21.1	—	—	—	21.1
Tax on hedging reserve movements	—	—	—	—	—	4.4	—	—	—	4.4
Property impairment	—	—	—	(0.2)	—	—	—	—	—	(0.2)
Deferred tax on properties	—	—	—	10.5	—	—	—	—	—	10.5
Total comprehensive income/(expense)	—	—	—	10.3	—	(21.9)	—	—	81.3	69.7
Share-based payments	—	—	—	—	—	—	—	—	0.3	0.3
Issue of shares	—	0.1	—	—	—	—	—	—	—	0.1
Disposal of properties	—	—	—	(0.4)	—	—	—	(0.2)	0.6	—
Transfer to retained earnings	—	—	—	(0.2)	—	—	—	—	0.2	—
Dividends paid	—	—	—	—	—	—	—	—	(33.0)	(33.0)
Total transactions with owners	—	0.1	—	(0.6)	—	—	—	(0.2)	(31.9)	(32.6)
At 1 October 2011	**44.3**	**332.6**	**41.5**	**411.4**	**6.8**	**(101.4)**	**(130.9)**	**—**	**213.3**	**817.6**

	Equity share capital £m	Share premium account £m	Merger reserve £m	Revaluation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Own shares £m	Foreign exchange reserve £m	Retained earnings £m	Total £m
At 4 October 2009	44.3	332.5	41.5	396.0	6.8	(55.4)	(130.9)	0.2	148.2	783.2
Profit for the period	—	—	—	—	—	—	—	—	47.5	47.5
Actuarial losses	—	—	—	—	—	—	—	—	(1.3)	(1.3)
Tax on actuarial losses	—	—	—	—	—	—	—	—	0.3	0.3
Post-retirement medical benefits	—	—	—	—	—	—	—	—	0.3	0.3
Losses on cash flow hedges	—	—	—	—	—	(54.3)	—	—	—	(54.3)
Transfers to the income statement on cash flow hedges	—	—	—	—	—	22.3	—	—	—	22.3
Tax on hedging reserve movements	—	—	—	—	—	7.9	—	—	—	7.9
Property impairment	—	—	—	(2.0)	—	—	—	—	—	(2.0)
Property revaluation	—	—	—	3.3	—	—	—	—	—	3.3
Deferred tax on properties	—	—	—	6.2	—	—	—	—	—	6.2
Total comprehensive income/(expense)	—	—	—	7.5	—	(24.1)	—	—	46.8	30.2
Share-based payments	—	—	—	—	—	—	—	—	0.1	0.1
Disposal of properties	—	—	—	(1.6)	—	—	—	—	1.6	—
Transfer to retained earnings	—	—	—	(0.2)	—	—	—	—	0.2	—
Dividends paid	—	—	—	—	—	—	—	—	(33.0)	(33.0)
Total transactions with owners	—	—	—	(1.8)	—	—	—	—	(31.1)	(32.9)
At 2 October 2010	**44.3**	**332.5**	**41.5**	**401.7**	**6.8**	**(79.5)**	**(130.9)**	**0.2**	**163.9**	**780.5**

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 2011

1 ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements for the 52 weeks ended 1 October 2011 (2010: 52 weeks ended 2 October 2010) have been prepared in accordance with IFRS and International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC) 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.

New standards and interpretations

The following new accounting standards and interpretations were effective in the current period:

IFRS 1	First-time Adoption of International Financial Reporting Standards
	Amendments relating to oil and gas assets and determining whether an arrangement contains a lease
	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
IFRS 2	Share-based Payment
	Amendments relating to group cash-settled share-based payment transactions
IAS 32	Financial Instruments: Presentation
	Amendments relating to classification of rights issues
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

These have not impacted, and are not likely to have a future impact on, the financial statements of the Group.

In 2010 the UK Government announced its intention to change the measure of inflation for the purposes of statutory minimum rates at which pensions must increase for public and private sector defined benefit schemes. This change would reference the consumer prices index (CPI) as the measure of inflation rather than the retail prices index (RPI) as is currently the case. Some of the Group's defined benefit pensions are linked to statutory inflation increases. As such, increases in these pensions will now be based on CPI. This has been reflected in the actuarial assumptions used in the valuation of the Group's defined benefit plan at the end of the current period.

The International Accounting Standards Board (IASB) and IFRIC 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 and therefore after the date of these financial statements:

IFRS 1	First-time Adoption of International Financial Reporting Standards	
	Replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'	1 July 2011
	Additional exemption for entities ceasing to suffer from severe hyperinflation	1 July 2011
IFRS 7	Financial Instruments: Disclosures	
	Amendments enhancing disclosures about transfers of financial assets	1 July 2011
IFRS 9	Financial Instruments: Classification and Measurement	
	New accounting standard	1 January 2015
IFRS 10	Consolidated Financial Statements	
	New accounting standard	1 January 2013
IFRS 11	Joint Arrangements	
	New accounting standard	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	
	New accounting standard	1 January 2013
IFRS 13	Fair Value Measurement	
	New accounting standard	1 January 2013
IAS 1	Presentation of Financial Statements	
	Amendments to revise the way other comprehensive income is presented	1 July 2012
IAS 12	Income Taxes	
	Limited scope amendment (recovery of underlying assets)	1 January 2012
IAS 19	Employee Benefits	
	Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects	1 January 2013
IAS 24	Related Party Disclosures	
	Revised definition of related parties	1 January 2011
IAS 27	Consolidated and Separate Financial Statements	
	Reissued as IAS 27 Separate Financial Statements (as amended in 2011)	1 January 2013

1 ACCOUNTING POLICIES (CONTINUED)

IAS 28	Investments in Associates	
	Reissued as IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)	1 January 2013
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	
	November 2009 Amendments with respect to voluntary prepaid contributions	1 January 2011

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

Adopting the amendments to IAS 19 will require the Group to recognise a single net interest component in respect of its defined benefit pension scheme, calculated by applying the discount rate to the net defined benefit liability/asset. The impact of this change on the Group's reported income in the period of adoption will depend upon the asset profile of the plan at that date.

The Directors do not anticipate that the adoption of any of the other above amendments will have a material impact on the Group's reported income or net assets in the period of adoption. The Group continues to evaluate standards and interpretations and their impact on the financial statements.

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.

The Group has applied the purchase method in its 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. 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 also incorporate the results of Marston's Issuer PLC, a company set up with the sole purpose of issuing debt secured on assets owned by the Group. The Directors of Marston's PLC consider this company meets the definition of a special purpose entity under SIC 12 'Consolidation – Special Purpose Entities' and hence for the purpose of the consolidated financial statements it has been treated as a subsidiary undertaking. Details of this company are provided in note 32.

Revenue and other operating income

Revenue represents the value of goods (principally drink and food) and services (principally accommodation and gaming machines) supplied to customers, and rents receivable from licensed properties. Revenue for drink, food and accommodation 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 comprises mainly rents 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 four distinguishable operating segments, being Marston's Inns and Taverns, Marston's Pub Company, Marston's Beer Company and Marston's Group Services. This mirrors the Group's internal reporting structure, and reflects the different risk profiles to which the business is exposed. An element of Marston's Group Services' costs is allocated to each of the trading divisions.

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 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 trading divisions.

Exceptional 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.

NOTES CONTINUED

For the 52 weeks ended 1 October 2011

1 ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and any impairment losses. Intangible assets arising on acquisition of subsidiaries 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.

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

Acquired brands	Indefinite
Lease premiums	Life of the lease
Computer software	5 to 10 years
Development costs	10 years

Any impairment of carrying value is charged to the income statement.

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.

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 is instead 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, which 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 residual value over their useful lives.
- Freehold and long leasehold buildings are depreciated to 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.

1 ACCOUNTING POLICIES (CONTINUED)

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 market value less costs to sell.

If 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.

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 the 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.

NOTES CONTINUED

For the 52 weeks ended 1 October 2011

1 ACCOUNTING POLICIES (CONTINUED)

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 hedge 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. They are included in current assets, except for those with maturities greater than 12 months from the balance sheet date. These are classified as non-current assets. 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 and trade 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 at each balance sheet date whether there is objective evidence that a financial asset is impaired.

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 value 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 and loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flow affects profit or loss.

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 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 recognised initially 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 gross interest costs incurred on the financing of major projects which are capitalised until the time that the projects are available for use.

Trade payables

Trade 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 scheme are determined by the Projected Unit Credit Method, with actuarial calculations being carried out at each period end date. Costs are recognised separately as operating and finance costs in the income statement. Operating costs comprise the current service cost, any income or expenses on settlements or curtailments and past service costs where the benefits have vested. Finance items comprise the interest on scheme liabilities and the expected return on scheme assets.

Actuarial gains or losses comprising differences between the actual and expected return on scheme assets, changes in scheme liabilities due to experience and changes in actuarial assumptions are recognised in full in the period in which they occur in the statement of comprehensive income.

The liability/asset recognised in the balance sheet for the defined benefit pension scheme is the present value of scheme liabilities less the fair value of scheme assets. Where the fair value of scheme assets exceeds the present value of scheme liabilities, the Group recognises an asset at the lower of the fair value of scheme assets less the present value of scheme liabilities, and the total of any cumulative unrecognised past service cost 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.

NOTES CONTINUED

For the 52 weeks ended 1 October 2011

1 ACCOUNTING POLICIES (CONTINUED)

Pension costs for the Group's defined contribution pension schemes 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 scheme.

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.

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 calculation are the discount rate and the 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. The Group has taken advantage of the transitional provisions contained within IFRS 2 'Share-based Payment' and has only applied this accounting policy to equity-settled awards granted after 7 November 2002. Awards granted prior to 7 November 2002 are not charged to the income statement.

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 consist of treasury shares, shares held within a Long Term Incentive Plan (LTIP) and shares held within an Executive Share Option Plan (ESOP), 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 treasury 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.

1 ACCOUNTING POLICIES (CONTINUED)

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, share-based payments and exceptional items. Details of these assumptions and judgements are set out 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 scheme, which include discount rates, rates of increase in pensionable salaries, rates of increase in pensions, inflation rates, expected returns on scheme assets and life expectancies (note 25).

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 calculation, in particular market rents, vacant periods and discount rates (see accounting policy).

Share-based payments

- Inputs to the Black-Scholes option-pricing model, which include dividend yield, expected volatilities and risk free interest rates (note 26).

Exceptional items

- Determination of items to be classed as exceptional (see accounting policy).

2 SEGMENT REPORTING

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

Segment	Division	Revenue
Marston's Inns and Taverns	Managed house	Food and drink sales, accommodation and gaming machine income
Marston's Pub Company	Tenanted	Food and drink sales, rent from licensed properties and gaming machine income
Marston's Beer Company	Brewing and wholesale	Drink sales
Marston's Group Services	Central activities	N/A

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

NOTES CONTINUED

For the 52 weeks ended 1 October 2011

2 SEGMENT REPORTING (CONTINUED)

52 weeks ended 1 October 2011

	Marston's Inns and Taverns £m	Marston's Pub Company £m	Marston's Beer Company £m	Marston's Group Services £m	Group £m
Income statement					
Revenue	391.8	183.9	136.1	—	711.8
Less: sales to other segments	—	—	(29.6)	—	(29.6)
	391.8	183.9	106.5	—	682.2
Operating expenses before exceptional items	(320.8)	(104.6)	(90.2)	(12.3)	(527.9)
Operating profit before exceptional items	71.0	79.3	16.3	(12.3)	154.3
Exceptional items	(0.7)	(1.0)	(0.2)	(0.8)	(2.7)
Operating profit	70.3	78.3	16.1	(13.1)	151.6
Finance costs					(76.1)
Finance income					2.2
Movement in fair value of interest rate swaps					3.1
Profit before taxation					80.8
Taxation					(12.0)
Profit for the period attributable to equity shareholders					**68.8**
Balance sheet					
Segment assets	1,016.9	1,120.2	180.8	37.2	2,355.1
Unallocated assets					
Retirement benefit surplus					7.1
Deferred tax assets					63.3
Group cash and cash equivalents					76.6
Total assets					**2,502.1**
Segment liabilities	(89.9)	(26.5)	(32.0)	(20.8)	(169.2)
Unallocated liabilities					
Group borrowings					(1,177.4)
Current tax liabilities					(25.8)
Deferred tax liabilities					(159.3)
Derivative financial instruments					(152.8)
Total liabilities					**(1,684.5)**
Other segment information					
Capital expenditure					
Intangible assets	0.1	0.2	0.1	0.5	0.9
Property, plant and equipment	72.1	32.8	6.9	3.3	115.1
Amortisation of intangible assets	0.3	0.2	—	0.3	0.8
Depreciation of property, plant and equipment	19.9	10.1	8.7	2.0	40.7

2 SEGMENT REPORTING (CONTINUED)

52 weeks ended 2 October 2010

	Marston's Inns and Taverns £m	Marston's Pub Company £m	Marston's Beer Company £m	Marston's Group Services £m	Group £m
Income statement					
Revenue	373.8	170.8	136.9	—	681.5
Less: sales to other segments	—	—	(30.8)	—	(30.8)
	373.8	170.8	106.1	—	650.7
Operating expenses before exceptional items	(308.7)	(92.0)	(89.9)	(11.4)	(502.0)
Operating profit before exceptional items	65.1	78.8	16.2	(11.4)	148.7
Exceptional items	(11.4)	(3.6)	(0.3)	(1.0)	(16.3)
Operating profit	53.7	75.2	15.9	(12.4)	132.4
Finance costs					(75.7)
Finance income					0.5
Movement in fair value of interest rate swaps					(4.7)
Profit before taxation					52.5
Taxation					(5.0)
Profit for the period attributable to equity shareholders					**47.5**
Balance sheet					
Segment assets	976.3	1,105.2	180.4	34.8	2,296.7
Unallocated assets					
Deferred tax assets					65.5
Group cash and cash equivalents					59.5
Total assets					**2,421.7**
Segment liabilities	(74.2)	(17.0)	(32.0)	(25.1)	(148.3)
Unallocated liabilities					
Group borrowings					(1,141.7)
Current tax liabilities					(25.2)
Retirement benefit obligations					(25.0)
Deferred tax liabilities					(171.3)
Derivative financial instruments					(129.7)
Total liabilities					**(1,641.2)**
Other segment information					
Capital expenditure					
Intangible assets	0.3	0.4	0.1	0.5	1.3
Property, plant and equipment	52.7	22.0	6.0	3.4	84.1
Amortisation of intangible assets	0.3	—	—	0.3	0.6
Depreciation of property, plant and equipment	19.2	9.6	8.7	1.8	39.3

Geographical areas

Revenue generated outside the United Kingdom during the period was £2.7 million (2010: £2.2 million).

NOTES CONTINUED

For the 52 weeks ended 1 October 2011

3 REVENUE AND OPERATING EXPENSES

Revenue	2011 £m	2010 £m
Goods	**618.0**	583.8
Services	**64.2**	66.9
	682.2	650.7

Revenue from services includes rents receivable from licensed properties of £31.4 million (2010: £35.7 million).

Operating expenses	2011 £m	2010 £m
Change in stocks of finished goods and work in progress	**(0.7)**	0.2
Own work capitalised	**(2.0)**	(1.3)
Other operating income	**(7.2)**	(7.0)
Raw materials, consumables and excise duties	**228.3**	217.6
Depreciation of property, plant and equipment	**40.7**	39.3
Amortisation of intangible assets	**0.8**	0.6
Employee costs	**152.3**	141.8
Hire of plant and machinery	**0.9**	1.0
Other operating lease rentals	**10.5**	12.1
Income from other non-current assets	**(0.3)**	(0.4)
Impairment of freehold and leasehold properties	**0.5**	0.6
Other net operating charges	**106.8**	113.8
	530.6	518.3

An exceptional charge of £0.4 million (2010: £16.3 million) is included in other net operating charges and an exceptional charge of £2.3 million (2010: £nil) is included in employee costs.

PricewaterhouseCoopers LLP fees:	2011 £m	2010 £m
Statutory audit fees — consolidated Group financial statements	**0.2**	0.2
Statutory audit fees — other entity financial statements	**0.1**	0.1
Tax advisory services	**0.3**	—
Other fees	**0.1**	—
	0.7	0.3

4 EXCEPTIONAL ITEMS

	2011 £m	2010 £m
Operating items		
Reorganisation costs	**2.7**	—
Recognition of onerous lease and other property related provisions	**—**	18.9
Property related insurance claims	**—**	2.1
VAT refund	**—**	(4.7)
	2.7	16.3
Non-operating items		
Movement in fair value of interest rate swaps	**(3.1)**	4.7
	(0.4)	21.0

4 EXCEPTIONAL ITEMS (CONTINUED)

Reorganisation costs
Reorganisation costs of £2.7 million were incurred during the period. These related to the restructuring of the Group's trading divisions.

Movement in fair value of interest rate swaps
The interest rate swaps are revalued to fair value at each balance sheet date and the movement is recognised in the income statement unless hedge accounting is applied. The increase of £3.1 million (2010: decrease of £4.7 million) in the fair value of swaps, where hedge accounting has not been applied, is shown as an exceptional item.

Impact of taxation
The current tax credit relating to the above exceptional items amounts to £0.7 million (2010: £7.8 million). The deferred tax charge relating to the above exceptional items amounts to £0.9 million (2010: credit of £1.5 million). In addition, £5.0 million (2010: £2.1 million) has been credited as exceptional in relation to the change in corporation tax rate (note 7).

Prior period exceptional items
A review of the Group's leases during the prior period identified £18.9 million of onerous leases requiring provision. This related to an additional provision for some previously recognised onerous leases where market conditions had deteriorated, and a provision for rent payments following the reversion of onerous leases to the Group in the prior period.

Property related insurance claim costs of £2.1 million were incurred during the prior period, principally relating to flooding and fire claims. The Group's properties in the Lake District, including the Jennings Brewery and local pubs in particular, suffered significant flood damage during the prior period. A condition of the Group's insurance policy is that it is responsible for a portion of the claims.

During the prior period a refund of £5.1 million was received from HM Revenue & Customs in relation to VAT on gaming machine income. It followed Tribunal/Court of Appeal hearings involving The Rank Group Plc. A gain of £4.7 million (net of associated fees) was recognised as an exceptional item in the income statement.

5 EMPLOYEES

Employee costs	**2011 £m**	2010 £m
Wages and salaries	**135.3**	127.8
Social security costs	**10.3**	9.6
Pension costs	**4.2**	4.3
Share-based payments	**0.3**	0.1
Termination costs	**2.2**	—
	152.3	141.8

An exceptional charge of £2.3 million (2010: £nil) is included in employee costs.

Key management personnel
Directors' emoluments are set out in the Directors' Remuneration Report on pages 34 to 39. The total cost to the Group of the Directors' remuneration for the period was £3.2 million (2010: £2.7 million), including employers' national insurance and share-based payments.

Average monthly number of employees	**2011 No.**	2010 No.
Full-time	**5,895**	5,731
Part-time	**6,838**	6,221

NOTES CONTINUED

For the 52 weeks ended 1 October 2011

6 FINANCE COSTS AND INCOME

Finance costs	2011 £m	2010 £m
Bank borrowings	**13.3**	11.5
Securitised debt	**60.3**	61.5
Other interest payable	**2.5**	2.5
Net finance cost in respect of retirement benefits	**—**	0.2
	76.1	75.7
Exceptional finance costs		
Movement in fair value of interest rate swaps	**—**	4.7
Total finance costs	**76.1**	80.4
Finance income		
Deposit and other interest receivable	**(0.2)**	(0.5)
Net finance income in respect of retirement benefits	**(2.0)**	—
	(2.2)	(0.5)
Exceptional finance income		
Movement in fair value of interest rate swaps	**(3.1)**	—
Total finance income	**(5.3)**	(0.5)
Net finance costs	**70.8**	79.9

The movement in fair value of derivative financial instruments relates to the change in mark to market value of interest rate swaps in the period. Over the lives of the instruments the Group's cumulative fair value gain/loss on these financial derivatives will be £nil as it is the Group's intention to hold them to maturity. These financial instruments are categorised as at fair value through profit or loss (note 20).

7 TAXATION

Income statement	2011 £m	2010 £m
Current tax		
Current period	**15.4**	16.0
Credit in respect of tax on exceptional items	**(0.7)**	(7.8)
Adjustments in respect of prior periods	**(3.3)**	(9.1)
	11.4	(0.9)
Deferred tax		
Current period	**1.0**	0.3
Adjustments in respect of prior periods	**3.7**	9.2
Exceptional charge/(credit) in respect of the movement in fair value of interest rate swaps	**0.9**	(1.3)
Exceptional credit in relation to the change in tax rate	**(5.0)**	(2.1)
Credit in respect of tax on other exceptional items	**—**	(0.2)
	0.6	5.9
Taxation charge reported in the income statement	**12.0**	5.0

Statement of comprehensive income	2011 £m	2010 £m
Gains/(losses) on actuarial valuation of retirement benefits	**4.5**	(0.3)
Impairment and revaluation of properties	**(5.2)**	(3.3)
Losses on cash flow hedges	**(7.1)**	(8.6)
Deferred tax credit in respect of the change in tax rate	**(2.6)**	(2.2)
Taxation credit reported in the statement of comprehensive income	**(10.4)**	(14.4)

7 TAXATION (CONTINUED)

The actual tax rate for the period is lower (2010: lower) than the standard rate of corporation tax of 27% (2010: 28%). The differences are explained below:

Tax reconciliation	2011 £m	2010 £m
Profit before tax	**80.8**	52.5
Profit before tax multiplied by the corporation tax rate of 27% (2010: 28%)	**21.8**	14.7
Effect of:		
Adjustments to tax in respect of prior periods	**0.4**	0.1
Net deferred tax credit in respect of land and buildings	**(5.4)**	(4.2)
Costs not deductible for tax purposes	**0.2**	–
Change in tax treatment in respect of costs charged in the prior period	**–**	(3.5)
Impact of change in tax rate	**(5.0)**	(2.1)
Current period taxation charge	**12.0**	5.0

The June 2010 Emergency Budget Statement announced a reduction in the standard rate of corporation tax from 28% to 24% phased in over four years at 1% per annum from April 2011. The change in the corporation tax rate from 28% to 27% with effect from 1 April 2011 was enacted in the Finance Act 2010. An exceptional deferred tax credit of £2.1 million was recognised in the prior period in respect of this.

The March 2011 Budget announced that the standard rate of corporation tax would now change from 28% to 26% with effect from 1 April 2011. Accordingly, the Group's profits for the current period are taxed at an effective rate of 27%. The Budget also announced a further reduction in the standard rate of corporation tax from 26% to 23% phased in over 3 years at 1% per annum from April 2012. The change from 26% to 25% with effect from 1 April 2012 was enacted in the Finance Act 2011. An exceptional deferred tax credit of £5.0 million has been recognised in the current period in respect of this.

8 ORDINARY DIVIDENDS ON EQUITY SHARES

Paid in the period	2011 £m	2010 £m
Final dividend for 2010 of 3.70p per share (2009: 3.70p)	**21.0**	21.0
Interim dividend for 2011 of 2.10p per share (2010: 2.10p)	**12.0**	12.0
	33.0	33.0

A final dividend for 2011 of 3.70p per share amounting to £21.0 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 1 February 2012 to those shareholders on the register at close of business on 16 December 2011.

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 in the Executive Share Option Plan and the Long Term Incentive Plan.

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 items. The Directors consider that the supplementary figures are a useful indicator of performance.

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9 EARNINGS PER ORDINARY SHARE (CONTINUED)

	2011 Earnings £m	2011 Weighted average number of shares m	2011 Per share amount p	2010 Earnings £m	2010 Weighted average number of shares m	2010 Per share amount p
Basic earnings per share	**68.8**	**568.9**	**12.1**	47.5	569.3	8.3
Effect of dilutive options	**—**	**3.1**	**—**	—	2.0	—
Diluted earnings per share	**68.8**	**572.0**	**12.0**	47.5	571.3	8.3
Underlying earnings per share figures						
Basic earnings per share	**68.8**	**568.9**	**12.1**	47.5	569.3	8.3
Effect of exceptional items	**(5.2)**		**(0.9)**	9.6		1.7
Basic earnings per share before exceptional items	**63.6**	**568.9**	**11.2**	57.1	569.3	10.0
Diluted earnings per share	**68.8**	**572.0**	**12.0**	47.5	571.3	8.3
Effect of exceptional items	**(5.2)**		**(0.9)**	9.6		1.7
Diluted earnings per share before exceptional items	**63.6**	**572.0**	**11.1**	57.1	571.3	10.0

10 GOODWILL

	£m
Cost	
At 3 October 2010 and 1 October 2011	**225.3**
Aggregate impairment	
At 3 October 2010 and 1 October 2011	**1.1**
Net book amount at 2 October 2010	224.2
Net book amount at 1 October 2011	**224.2**

	£m
Cost	
At 4 October 2009 and 2 October 2010	**225.3**
Aggregate impairment	
At 4 October 2009 and 2 October 2010	**1.1**
Net book amount at 3 October 2009	224.2
Net book amount at 2 October 2010	**224.2**

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 £115.2 million (2010: £115.2 million) to Marston's Inns and Taverns, £85.4 million (2010: £85.4 million) to Marston's Pub Company and £23.6 million (2010: £23.6 million) to Marston's Beer Company. Goodwill has been allocated to operating segments based on the extent to which the benefits of acquisitions flow to that segment.

10 GOODWILL (CONTINUED)

The key assumptions used in determining value in use are the pre-tax discount rate applied to the cash flow projections of 6.5% (2010: 7.5%) and the growth rate used to extrapolate the projected cash flows beyond the one year budgets of 2.0% (2010: 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 trading divisions.

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 3 October 2010	19.3	2.0	6.1	0.1	27.5
Additions	—	—	0.9	—	0.9
Disposals	—	—	(0.3)	—	(0.3)
At 1 October 2011	**19.3**	**2.0**	**6.7**	**0.1**	**28.1**
Amortisation					
At 3 October 2010	—	0.5	2.4	—	2.9
Charge for the period	—	—	0.8	—	0.8
Disposals	—	—	(0.2)	—	(0.2)
At 1 October 2011	**—**	**0.5**	**3.0**	**—**	**3.5**
Net book amount at 2 October 2010	19.3	1.5	3.7	0.1	24.6
Net book amount at 1 October 2011	**19.3**	**1.5**	**3.7**	**0.1**	**24.6**

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 4 October 2009	19.3	2.0	4.9	—	26.2
Additions	—	—	1.2	0.1	1.3
At 2 October 2010	**19.3**	**2.0**	**6.1**	**0.1**	**27.5**
Amortisation					
At 4 October 2009	—	0.4	1.9	—	2.3
Charge for the period	—	0.1	0.5	—	0.6
At 2 October 2010	**—**	**0.5**	**2.4**	**—**	**2.9**
Net book amount at 3 October 2009	19.3	1.6	3.0	—	23.9
Net book amount at 2 October 2010	**19.3**	**1.5**	**3.7**	**0.1**	**24.6**

NOTES CONTINUED

For the 52 weeks ended 1 October 2011

11 OTHER INTANGIBLE ASSETS (CONTINUED)

The carrying value of acquired brands is split as follows:

	2011 £m	2010 £m
Wychwood	**13.6**	13.6
Jennings	**2.8**	2.8
Ringwood	**2.9**	2.9
	19.3	19.3

Impairment testing of acquired brands

Acquired brands relate to Marston's Beer Company.

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 6.5% (2010: 7.5%) and a long-term growth rate used to extrapolate cash flows beyond the cash flow projection period of one year of 2.0% (2010: 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.

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 3 October 2010	1,760.1	38.3	350.6	2,149.0
Additions	74.9	3.4	36.8	115.1
Net transfers to assets held for sale and disposals	(14.6)	(1.3)	(35.8)	(51.7)
Revaluation	(0.9)	—	—	(0.9)
At 1 October 2011	**1,819.5**	**40.4**	**351.6**	**2,211.5**
Depreciation				
At 3 October 2010	14.1	20.0	184.7	218.8
Charge for the period	2.3	3.7	34.7	40.7
Net transfers to assets held for sale and disposals	(2.7)	(1.2)	(33.3)	(37.2)
Revaluation	(0.2)	—	—	(0.2)
At 1 October 2011	**13.5**	**22.5**	**186.1**	**222.1**
Net book amount at 2 October 2010	1,746.0	18.3	165.9	1,930.2
Net book amount at 1 October 2011	**1,806.0**	**17.9**	**165.5**	**1,989.4**

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or valuation				
At 4 October 2009	1,715.7	37.1	347.4	2,100.2
Additions	49.7	1.6	32.8	84.1
Net transfers to assets held for sale and disposals	(6.8)	(0.4)	(29.6)	(36.8)
Revaluation	1.5	—	—	1.5
At 2 October 2010	**1,760.1**	**38.3**	**350.6**	**2,149.0**
Depreciation				
At 4 October 2009	12.4	16.8	176.6	205.8
Charge for the period	2.1	3.6	33.6	39.3
Net transfers to assets held for sale and disposals	(0.4)	(0.4)	(25.5)	(26.3)
At 2 October 2010	**14.1**	**20.0**	**184.7**	**218.8**
Net book amount at 3 October 2009	1,703.3	20.3	170.8	1,894.4
Net book amount at 2 October 2010	**1,746.0**	**18.3**	**165.9**	**1,930.2**

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

	2011 £m	2010 £m
Freehold properties	**1,621.8**	1,575.2
Leasehold properties over 50 years unexpired	**156.8**	140.6
Leasehold properties under 50 years unexpired	**27.4**	30.2
	1,806.0	1,746.0

Cost or valuation of land and buildings comprises:

	2011 £m	2010 £m
Valuation	**1,668.7**	1,645.4
At cost	**150.8**	114.7
	1,819.5	1,760.1

If the freehold and leasehold properties had not been revalued, the historical cost net book amount would be £1,346.5 million (2010: £1,285.7 million).

Cost at 1 October 2011 includes £7.7 million (2010: £10.2 million) of assets in the course of construction.

Interest costs of £nil (2010: £0.2 million) were capitalised in respect of the financing of major projects, using the Group's bank borrowings interest rate.

Profit on disposal of property, plant and equipment and assets held for sale was £5.1 million (2010: £1.6 million). Property related insurance claim costs were £1.4 million (2010: £2.1 million). These costs were classified as an exceptional item in the prior period (note 4).

Capital expenditure authorised and committed at the period end but not provided for in the financial statements was £13.7 million (2010: £9.2 million).

NOTES CONTINUED

For the 52 weeks ended 1 October 2011

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Impairment

During the current and prior period various properties were reviewed for impairment. This review identified an impairment of £0.7 million (2010: £0.5 million) which has been taken either to the income statement or, where the impairment reverses a previous upwards revaluation, to the revaluation reserve.

Revaluation

The last major revaluation of the Group's freehold and leasehold properties was performed in 2007.

During the prior period a number of properties were revalued prior to their transfer to Marston's Pubs Limited (note 19). These revaluations generated an unrealised revaluation surplus of £3.3 million and a reversal of past revaluation surplus of £1.3 million, a net increase in shareholders' equity/property, plant and equipment of £2.0 million.

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

	2011 **£m**	2010 £m
Income statement:		
Impairment	**(0.5)**	(0.2)
	(0.5)	(0.2)
Revaluation reserve:		
Unrealised revaluation surplus	**–**	3.3
Reversal of past revaluation surplus	**(0.2)**	(1.6)
	(0.2)	1.7
Net (decrease)/increase in shareholders' equity/property, plant and equipment	**(0.7)**	1.5

13 OTHER NON-CURRENT ASSETS

Trade loans	**2011** **£m**	2010 £m
At beginning of the period	**19.2**	21.9
Additions	**2.2**	1.7
Disposals, repayments and impairments	**(4.3)**	(4.4)
At end of the period	**17.1**	19.2

Other non-current assets are shown net of a provision of £1.8 million (2010: £1.5 million).

14 INVENTORIES

	2011 **£m**	2010 £m
Raw materials and consumables	**4.7**	3.8
Work in progress	**0.5**	0.3
Finished goods	**13.6**	13.1
	18.8	17.2

15 ASSETS HELD FOR SALE

	2011 **£m**	2010 £m
Properties	**6.5**	16.0

During the prior period various properties held for sale were reviewed for impairment. This review identified an impairment of £0.8 million of which £0.4 million was taken to the income statement and £0.4 million to the revaluation reserve.

16 TRADE AND OTHER RECEIVABLES

	2011 £m	2010 £m
Trade receivables	**28.9**	33.7
Prepayments and accrued income	**15.0**	15.9
Other receivables	**30.6**	15.7
	74.5	65.3

Trade receivables are shown net of a provision of £1.0 million (2010: £0.7 million). Other receivables are shown net of a provision of £12.5 million (2010: £11.1 million).

The ageing analysis of trade receivables is as follows:

	2011 £m	2010 £m
Neither past due nor impaired	**22.2**	19.7
Less than 30 days	**3.0**	5.1
31 to 60 days	**0.9**	1.9
Greater than 60 days	**2.8**	7.0
	28.9	33.7

Included within other receivables is an amount of £7.7 million (2010: £10.1 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 2011 the value of collateral held in the form of cash deposits was £8.9 million (2010: £8.6 million).

17 BORROWINGS

Current	2011 £m	2010 £m
Unsecured bank borrowings	**22.1**	(1.5)
Securitised debt (note 19)	**19.0**	17.8
Unsecured loan notes	**–**	0.6
	41.1	16.9

Non-current	2011 £m	2010 £m
Unsecured bank borrowings	**124.7**	94.2
Securitised debt (note 19)	**1,011.5**	1,030.5
Preference shares	**0.1**	0.1
	1,136.3	1,124.8

Unsecured bank borrowings due within one year comprise bank overdrafts less unamortised issue costs expected to be charged to the income statement within 12 months of the balance sheet date.

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.

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For the 52 weeks ended 1 October 2011

17 BORROWINGS (CONTINUED)

Maturity of borrowings

The maturity profile of the carrying amount of the Group's borrowings at the period end was as follows:

	2011			2010		
	Gross borrowings	Unamortised issue costs	Net borrowings	Gross borrowings	Unamortised issue costs	Net borrowings
Due:	£m	£m	£m	£m	£m	£m
Within one year	45.0	(3.9)	41.1	20.9	(4.0)	16.9
In more than one year but less than two years	148.7	(2.1)	146.6	21.4	(3.9)	17.5
In more than two years but less than five years	76.1	(2.1)	74.0	169.1	(3.5)	165.6
In more than five years	919.6	(3.9)	915.7	946.3	(4.6)	941.7
	1,189.4	(12.0)	1,177.4	1,157.7	(16.0)	1,141.7

Fair value of borrowings

The carrying amount and the fair value of the Group's borrowings are as follows:

	Carrying amount		Fair value	
	2011	2010	2011	2010
	£m	£m	£m	£m
Unsecured bank borrowings	149.6	97.0	149.6	97.0
Securitised debt	1,039.7	1,060.0	905.2	945.2
Unsecured loan notes	—	0.6	—	0.6
Preference shares	0.1	0.1	0.1	0.1
	1,189.4	1,157.7	1,054.9	1,042.9

Interest rates

Interest rates in respect of the Group's securitised debt are shown in note 19. Interest rates applicable to the Group's other borrowings are as follows:

	2011	2010
Unsecured bank borrowings	Variable*	Variable*
Unsecured loan notes	Variable*	Variable*
Preference shares	6.00%	6.00%

* Variable interest rates on unsecured bank borrowings and loan notes are all linked to LIBOR.

Preference shares

The Group has 75,000 (2010: 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.

18 DERIVATIVE FINANCIAL INSTRUMENTS

	2011	2010
Interest rate swaps	£m	£m
Current liabilities	(17.6)	(20.8)
Non-current liabilities	(135.2)	(108.9)
	(152.8)	(129.7)

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 (note 32).

During the period ended 1 October 2011, 8 (2010: 21) of the securitised pubs were sold to third parties, one (2010: nil) was sold to another member of the Group and 3 (2010: 20) pubs were acquired from other members of the Group. The carrying amount of the securitised pubs at 1 October 2011 was £1,433.2 million (2010: £1,399.1 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 securitised debt at 1 October 2011 consists of six tranches with the following principal terms:

Tranche	**2011 £m**	2010 £m	Interest	Principal repayment period — by instalments	Expected average life	Expected maturity date
A1	**162.1**	176.2	Floating	2011 to 2020	9 years	2020
A2	**214.0**	214.0	Fixed/floating	2020 to 2027	8 years	2019
A3	**200.0**	200.0	Fixed/floating	2027 to 2032	16 years	2027
A4	**228.6**	234.8	Floating	2011 to 2031	20 years	2031
AB1	**80.0**	80.0	Floating	2031 to 2035	24 years	2035
B	**155.0**	155.0	Fixed/floating	2032 to 2035	8 years	2019
	1,039.7	1,060.0				

It is currently assumed that the Class A2, A3 and B notes will be refinanced at their step-up date. It is not currently expected that the Class A1, A4 and AB1 notes will be refinanced at their step-up date.

Interest on the Class A1 notes is payable at three month LIBOR plus a margin of 0.55%, stepping up to three month LIBOR plus 1.375% from July 2012.
Interest on the Class A2 notes is payable at a rate of 5.1576% until July 2019 and thereafter at three month LIBOR plus a margin of 1.32%.
Interest on the Class A3 notes is payable at a rate of 5.1774% until April 2027 and thereafter at three month LIBOR plus a margin of 1.45%.
Interest on the Class A4 notes is payable at three month LIBOR plus a margin of 0.65%, stepping up to three month LIBOR plus 1.625% from October 2012.
Interest on the Class AB1 notes is payable at three month LIBOR plus a margin of 1.25%, stepping up to three month LIBOR plus 3.125% from October 2012.
Interest on the Class B notes is payable at a rate of 5.6410% until July 2019 and thereafter at three month LIBOR plus a margin of 2.55%.

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 2011 Marston's Pubs Limited held cash of £60.8 million (2010: £44.5 million) which was governed by certain restrictions under the covenants associated with the securitisation.

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For the 52 weeks ended 1 October 2011

20 FINANCIAL INSTRUMENTS

Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

At 1 October 2011	Loans and receivables £m	Total £m
Assets as per the balance sheet		
Trade receivables (before provision)	29.9	29.9
Other receivables (before provision)	43.1	43.1
Trade loans (before provision)	18.9	18.9
Cash and cash equivalents	76.6	76.6
	168.5	**168.5**

At 1 October 2011	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	135.2	17.6	—	152.8
Borrowings	—	—	1,177.4	1,177.4
Trade payables	—	—	56.1	56.1
	135.2	**17.6**	**1,233.5**	**1,386.3**

At 2 October 2010	Loans and receivables £m	Total £m
Assets as per the balance sheet		
Trade receivables (before provision)	34.4	34.4
Other receivables (before provision)	26.8	26.8
Trade loans (before provision)	20.7	20.7
Cash and cash equivalents	59.5	59.5
	141.4	**141.4**

At 2 October 2010	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	108.9	20.8	—	129.7
Borrowings	—	—	1,141.7	1,141.7
Trade payables	—	—	43.7	43.7
	108.9	**20.8**	**1,185.4**	**1,315.1**

Financial instruments at fair value through profit or loss were designated as such on initial recognition.

The fair value of financial instruments that are not traded in an active market, such as over-the-counter derivatives, is determined using valuation techniques. The Group obtains such valuations from counterparties who use a variety of assumptions based on market conditions existing at each balance sheet date.

The fair values of all financial instruments are equal to their book values, with the exception of borrowings (note 17). The carrying value less impairment provision of trade receivables, other receivables and trade loans, and the carrying value of trade payables, are assumed to approximate their fair values.

20 FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

IFRS 7 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:

Liabilities as per the balance sheet

	2011				2010			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Derivative financial instruments	**–**	**152.8**	**–**	**152.8**	–	129.7	–	129.7

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

Over the life of the Group's derivative financial instruments the cumulative fair value gain/loss on those instruments will be £nil as it is the Group's intention to hold them to maturity.

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), credit risk, counterparty 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 written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

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 long-term 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 long-term borrowings at floating rates and 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 (primarily quarterly), 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 2011, with all other variables held constant, post-tax profit for the period would have been £0.2 million (2010: £0.2 million) higher/lower as a result of lower/higher interest expense.

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For the 52 weeks ended 1 October 2011

20 FINANCIAL INSTRUMENTS (CONTINUED)

The Group uses interest rate swaps to fix the interest rate payable on the floating rate tranches of its securitised debt (note 19). These derivative financial instruments have qualified for cash flow hedge accounting. Consequently, changes in fair value are recognised in other comprehensive income for the effective portion of the hedge. The losses taken directly to other comprehensive income in the period totalled £26.6 million (2010: £30.8 million). The notional principal amounts of these interest rate swap contracts at 1 October 2011 totalled £470.7 million (2010: £491.0 million). The interest rate swaps, including borrowing margins, fix interest at 5.3% and 6.0%.

On 1 October 2007 the Group entered into two interest rate swaps of £70.0 million each to fix the interest rate payable on the Group's unsecured bank borrowings. These derivative financial instruments have not qualified for cash flow hedge accounting. Consequently, changes in fair value are recorded in the income statement. The gains taken to the income statement in the period totalled £3.1 million (2010: losses of £4.7 million) (note 4). The notional principal amounts of these interest rate swap contracts at 1 October 2011 totalled £140.0 million (2010: £140.0 million). The interest rate swaps fix interest at 5.5% and 5.6%.

On 20 May 2009 the Group entered into a further interest rate swap of £20.0 million to fix the interest rate payable on the Group's unsecured bank borrowings. This swap contract fixed interest at 1.1% and terminated on 8 August 2010. This derivative financial instrument qualified for cash flow hedge accounting. Consequently, changes in fair value were recognised in other comprehensive income for the effective portion of the hedge. The gains taken directly to other comprehensive income in the prior period totalled £0.1 million.

Also on 20 May 2009 the Group entered into a forward starting interest rate swap of £20.0 million to continue to fix the interest rate payable on the Group's unsecured bank borrowings. This derivative financial instrument has qualified for cash flow hedge accounting. Consequently, changes in fair value are recognised in other comprehensive income for the effective portion of the hedge. The gains taken directly to other comprehensive income in the period totalled £0.3 million (2010: losses of £1.3 million). The notional principal amount of this interest rate swap contract at 1 October 2011 was £20.0 million (2010: £20.0 million). The interest rate swap fixes interest at 3.3%. This interest rate swap commenced on 9 August 2010 and terminates on 8 August 2013.

The interest rate risk profile, after taking account of derivative financial instruments, is as follows:

	2011			2010		
	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	**–**	**1,189.4**	**1,189.4**	0.6	1,157.1	1,157.7

The weighted average interest rate of the fixed rate financial borrowings was 5.5% (2010: 5.5%) and the weighted average period for which the rate is fixed was six years (2010: seven 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.

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 following a review of individual receivable accounts 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.

20 FINANCIAL INSTRUMENTS (CONTINUED)

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 table below analyses 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 table are the contractual undiscounted cash flows.

At 1 October 2011	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
Borrowings	64.8	195.7	210.1	1,511.1	1,981.7
Derivative financial instruments	25.2	23.9	43.6	79.9	172.6
Trade payables	56.1	—	—	—	56.1
	146.1	**219.6**	**253.7**	**1,591.0**	**2,210.4**

At 2 October 2010	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
Borrowings	62.7	65.3	308.6	1,589.1	2,025.7
Derivative financial instruments	27.1	23.9	41.9	53.5	146.4
Trade payables	43.7	—	—	—	43.7
	133.5	**89.2**	**350.5**	**1,642.6**	**2,215.8**

21 TRADE AND OTHER PAYABLES

	2011 £m	2010 £m
Trade payables	**56.1**	43.7
Other taxes and social security	**23.8**	17.1
Accruals and deferred income	**47.4**	37.9
Other payables	**16.6**	17.0
	143.9	115.7

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22 DEFERRED TAX

Net deferred tax liability

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 25% (2010: 27%). The movement on the deferred tax accounts is shown below:

	2011 £m	2010 £m
At beginning of the period	**105.8**	113.9
Charged to the income statement	**0.6**	5.9
(Credited)/charged to equity		
Impairment and revaluation of properties	**(10.5)**	(6.2)
Hedging reserve	**(4.4)**	(7.9)
Retirement benefits	**4.5**	0.1
At end of the period	**96.0**	105.8

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) 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 liabilities

	Pensions £m	**Accelerated capital allowances £m**	**Revaluation of properties £m**	**Rolled over capital gains £m**	**Other £m**	**Total £m**
At 3 October 2010	—	38.6	118.7	7.4	6.6	171.3
Charged/(credited) to the income statement	1.8	(1.2)	(1.2)	(0.5)	(0.4)	(1.5)
Credited to equity	—	—	(10.5)	—	—	(10.5)
At 1 October 2011	**1.8**	**37.4**	**107.0**	**6.9**	**6.2**	**159.3**

Deferred tax assets

	Pensions £m	**Tax losses £m**	**Hedging reserve £m**	**Other £m**	**Total £m**
At 3 October 2010	(6.8)	(23.4)	(29.4)	(5.9)	(65.5)
Charged/(credited) to the income statement	2.3	(1.4)	—	1.2	2.1
Charged/(credited) to equity	4.5	—	(4.4)	—	0.1
At 1 October 2011	**—**	**(24.8)**	**(33.8)**	**(4.7)**	**(63.3)**

Net deferred tax liability

At 2 October 2010	105.8
At 1 October 2011	**96.0**

Deferred tax liabilities

	Accelerated capital allowances £m	**Revaluation of properties £m**	**Rolled over capital gains £m**	**Other £m**	**Total £m**
At 4 October 2009	30.5	126.2	9.2	7.4	173.3
Charged/(credited) to the income statement	8.1	(1.3)	(1.8)	(0.8)	4.2
Credited to equity	—	(6.2)	—	—	(6.2)
At 2 October 2010	**38.6**	**118.7**	**7.4**	**6.6**	**171.3**

22 DEFERRED TAX (CONTINUED)

Deferred tax assets

	Pensions £m	Tax losses £m	Hedging reserve £m	Other £m	Total £m
At 4 October 2009	(9.9)	(23.3)	(21.5)	(4.7)	(59.4)
Charged/(credited) to the income statement	3.1	(0.1)	—	(1.3)	1.7
(Credited)/charged to equity	—	—	(7.9)	0.1	(7.8)
At 2 October 2010	**(6.8)**	**(23.4)**	**(29.4)**	**(5.9)**	**(65.5)**

Net deferred tax liability	
At 3 October 2009	113.9
At 2 October 2010	**105.8**

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.

23 OTHER NON-CURRENT LIABILITIES

	2011 £m	2010 £m
Accruals and deferred income	**—**	0.1
Other liabilities	**0.4**	0.2
	0.4	0.3

24 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Property leases	2011 £m	2010 £m
At beginning of the period	**32.3**	17.2
Released in the period	**(5.6)**	(0.7)
Provided in the period	**3.3**	18.9
Unwinding of discount	**1.2**	0.9
Utilised in the period	**(6.3)**	(4.0)
At end of the period	**24.9**	32.3

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 58 years (2010: 1 to 60 years).

25 RETIREMENT BENEFITS

During the period the Group contributed to a funded defined benefit (final salary) pension scheme and ten defined contribution arrangements.

Defined contribution schemes

Pension costs for defined contribution schemes are as follows:

	2011 £m	2010 £m
Defined contribution schemes	**2.5**	2.1

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25 RETIREMENT BENEFITS (CONTINUED)

Defined benefit scheme

An updated actuarial valuation of the Marston's PLC Pension and Life Assurance Scheme was performed by Mercer as at 1 October 2011 for the purposes of IAS 19. The principal assumptions made by the actuaries were:

	2011	2010
Discount rate	**5.3%**	5.1%
Rate of increase in pensionable salaries	**3.6%**	3.6%
Rate of increase in pensions — 5% LPI	**3.1%**	3.1%
Rate of increase in pensions — 2.5% LPI	**2.3%**	2.3%
Inflation assumption (RPI)	**3.1%**	3.1%
Inflation assumption (CPI)	**2.4%**	N/A
Expected return on scheme assets	**5.1%**	6.1%
Life expectancy for active and deferred members from age 65		
Male	**22.5 years**	22.4 years
Female	**25.8 years**	25.7 years
Life expectancy for current pensioners from age 65		
Male	**20.5 years**	20.4 years
Female	**23.7 years**	23.6 years

The expected return on scheme assets is based on market expectation at the beginning of the period for returns over the entire life of the benefit obligation. Mortality assumptions are based on standard tables adjusted for scheme experience and with an allowance for future improvement in life expectancy.

Movement in scheme assets and pension obligations during the period:

	Scheme assets		Scheme liabilities		Net surplus/(deficit)	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
At beginning of the period	**357.9**	314.5	**(382.9)**	(349.8)	**(25.0)**	(35.3)
Current service cost	**—**	—	**(2.7)**	(2.8)	**(2.7)**	(2.8)
Interest cost on benefit obligations	**—**	—	**(19.2)**	(19.2)	**(19.2)**	(19.2)
Expected return on scheme assets	**21.2**	19.0	**—**	—	**21.2**	19.0
Employer contributions	**14.7**	14.0	**—**	—	**14.7**	14.0
Employee contributions	**0.1**	0.1	**(0.1)**	(0.1)	**—**	—
Benefits paid	**(16.6)**	(16.1)	**16.6**	16.1	**—**	—
Curtailment gain	**—**	—	**1.0**	0.6	**1.0**	0.6
Actuarial (losses)/gains	**(8.6)**	26.4	**25.7**	(27.7)	**17.1**	(1.3)
At end of the period	**368.7**	357.9	**(361.6)**	(382.9)	**7.1**	(25.0)

The major categories of scheme assets as a percentage of total scheme assets are as follows:

	2011	2010
Equities/Properties	**47.0%**	65.0%
Bonds/Gilts	**52.0%**	34.8%
Cash/Other	**1.0%**	0.2%

The actual return on scheme assets was a gain of £12.6 million (2010: £45.4 million).

Pension costs recognised in the income statement

The amounts recognised in the income statement are as follows:

	2011 £m	2010 £m
Current service cost	**2.7**	2.8
Interest cost	**19.2**	19.2
Expected return on scheme assets	**(21.2)**	(19.0)
Curtailment gain	**(1.0)**	(0.6)
Total (income)/expense recognised in the income statement	**(0.3)**	2.4

25 RETIREMENT BENEFITS (CONTINUED)

A charge of £1.7 million (2010: £2.2 million) is included within employee costs (note 5) and a credit of £2.0 million (2010: charge of £0.2 million) is included within finance costs and income (note 6).

Cumulative actuarial gains and losses recognised in the statement of comprehensive income

	2011 £m	2010 £m
At beginning of the period	**(19.2)**	(17.9)
Net actuarial gains/(losses) recognised in the period	**17.1**	(1.3)
At end of the period	**(2.1)**	(19.2)

Actuarial losses of £0.1 million (2010: gains of £0.3 million) in respect of post-retirement medical benefits have been included in the statement of comprehensive income.

History of experience gains and losses

	2011	2010	2009	2008	2007
Experience adjustments arising on scheme assets:					
Amount	**£(8.6)m**	£26.4m	£22.2m	£(54.8)m	£8.9m
Percentage of fair value of scheme assets	**2.3%**	7.4%	7.1%	20.0%	3.0%
Experience adjustments arising on scheme liabilities:					
Amount	**–**	–	£13.1m	–	–
Percentage of present value of scheme liabilities	**–**	–	3.7%	–	–
Present value of scheme liabilities	**£(361.6)m**	£(382.9)m	£(349.8)m	£(311.6)m	£(340.1)m
Fair value of scheme assets	**£368.7m**	£357.9m	£314.5m	£273.7m	£301.5m
Surplus/(deficit)	**£7.1m**	£(25.0)m	£(35.3)m	£(37.9)m	£(38.6)m

The employer contributions expected to be paid during the financial period ending 29 September 2012 amount to £15.6 million.

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) Executive Share Option Plan (ESOP). Under this scheme executive share options are awarded at the prevailing market rate on the date of the grant. Options are normally exercisable between three and ten years after grant and upon the achievement of performance criteria in relation to earnings per share, as set out in the Directors' Remuneration Report on page 35.

(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, as set out in the Directors' Remuneration Report on pages 35 to 36, 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 future years 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 from the Company's Employee Benefit Trust but these additional shares are not delivered to the participant. Under these rules the LTIP options are still issued at nil cost to the employee.

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26 SHARE-BASED PAYMENTS (CONTINUED)

In the current period a minor amendment was made to the APSP to allow approved options to be granted 'in parallel' to those approved options granted to the participants in 2010. A participant will only be able to exercise the approved option granted to him in 2011 if the approved option granted to him in 2010 has lapsed or been released. If the participant exercises the approved option granted to him in 2010, the approved option granted to him in 2011 shall lapse.

The tables below summarise outstanding options that were issued after 7 November 2002.

	Number of shares		Weighted average exercise price	
	2011	2010	**2011**	2010
SAYE:	**m**	m	**p**	p
Outstanding at beginning of the period	**6.0**	4.5	**92.3**	109.7
Granted	**1.3**	4.0	**86.1**	76.1
Exercised	**(0.1)**	(0.1)	**83.6**	93.2
Expired	**(0.9)**	(2.4)	**115.3**	105.9
Outstanding at end of the period	**6.3**	6.0	**87.7**	92.3
Exercisable at end of the period	**0.3**	0.3	**131.9**	170.8
Range of exercise prices	**76.1p to 265.5p**	76.1p to 265.5p		
Weighted average remaining contractual life (years)	**3.5**	4.1		

	Number of shares		Weighted average exercise price	
	2011	2010	**2011**	2010
ESOP:	**m**	m	**p**	p
Outstanding at beginning and end of the period	**0.1**	0.1	**108.4**	108.4
Exercisable at end of the period	**0.1**	0.1	**108.4**	108.4
Exercise price	**108.4p**	108.4p		
Weighted average remaining contractual life (years)	**1.3**	2.3		

	Number of shares		Weighted average exercise price	
	2011	2010	**2011**	2010
LTIP:	**m**	m	**p**	p
Outstanding at beginning of the period	**4.1**	1.9	**—**	—
Granted	**2.0**	2.9	**—**	—
Expired	**(2.5)**	(0.7)	**—**	—
Outstanding at end of the period	**3.6**	4.1	**—**	—
Exercisable at end of the period	**—**	—		
Exercise price	**—**	—		

LTIP options granted before 1 July 2010 are exercisable until the retirement date of the holder. LTIP options granted on or after 1 July 2010 are exercisable no later than the tenth anniversary of the date of grant.

The fair values of the SAYE, ESOP 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:

	2011	2010
Dividend yield %	**5.8**	6.5
Expected volatility %	**40.0 to 52.2**	39.5 to 55.7
Risk free interest rate %	**1.2 to 2.8**	1.5 to 3.0
Expected life of rights		
SAYE	**3 to 7 years**	3 to 7 years
ESOP	**3 years**	3 years
LTIP	**3 years**	3 years

26 SHARE-BASED PAYMENTS (CONTINUED)

The expected volatility is based on historical volatility over the expected life of the rights. The performance criteria of the ESOP and LTIP, as set out previously, are built into the pricing model.

The weighted average fair value of options granted during the period in relation to the SAYE was 18.5p (2010: 18.2p). The fair value of options granted during the period in relation to the LTIP was 82.8p (2010: nil).

The weighted average share price for options exercised over the period was 103.3p (2010: 93.6p). The total charge for the period relating to employee share-based payment plans was £0.3 million (2010: £0.1 million), all of which related to equity-settled share-based payment transactions. After tax, the total charge was £0.2 million (2010: £0.1 million).

The table below summarises outstanding options that were issued prior to 7 November 2002 which have therefore not been charged to the income statement:

	SAYE				ESOP			
	Number of shares		Weighted average exercise price		Number of shares		Weighted average exercise price	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	m	m	**p**	p	**m**	m	**p**	p
Outstanding at beginning of the period	**–**	0.1	**–**	99.4	**–**	0.1	**–**	98.6
Expired	**–**	(0.1)	**–**	99.4	**–**	(0.1)	**–**	92.6
Outstanding at end of the period	**–**	–	**–**	–	**–**	–	**–**	–
Exercisable at end of the period	**–**	–	**–**	–	**–**	–	**–**	–
Weighted average remaining contractual life (years)	**–**	–			**–**	–		

The LTIP was introduced in January 2004.

27 EQUITY SHARE CAPITAL

	2011		2010	
	Number	**Value**	Number	Value
Authorised	**m**	**£m**	m	£m
Ordinary shares of 7.375p each	**800.0**	**59.0**	800.0	59.0

	2011		2010	
	Number	**Value**	Number	Value
Allotted, called up and fully paid	**m**	**£m**	m	£m
Ordinary shares of 7.375p each:				
At beginning of the period	**600.8**	**44.3**	600.7	44.3
Allotted under share option schemes	**0.1**	**–**	0.1	–
At end of the period	**600.9**	**44.3**	600.8	44.3

A total of 0.1 million (2010: 0.1 million) ordinary shares were issued during the period ended 1 October 2011 pursuant to the exercise of ESOP and SAYE share options. The aggregate consideration in respect of these exercises was £0.1 million (2010: £nil).

At 1 October 2011 there were 0.1 million (2010: 0.1 million) executive share options outstanding and 6.3 million (2010: 6.0 million) SAYE options outstanding at prices from 76.1p to 265.5p per share exercisable between 2011 and 2019. Details of the Group's LTIP and other executive share option schemes are included in the Directors' Remuneration Report on pages 35 to 36.

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28 OTHER COMPONENTS OF EQUITY

The merger reserve of £41.5 million (2010: £41.5 million) was recognised on the acquisition of Burtonwood and reflects the difference between the nominal and fair value of the Company's shares issued as part of the consideration for the acquisition. Merger relief was taken, relieving the Group from the need to transfer this difference to the share premium account.

The capital redemption reserve of £6.8 million (2010: £6.8 million) arose on share buy-backs.

Own shares represent the carrying value of the investment in own shares held by the Group's ESOP and LTIP and in treasury shares as set out in the table below. ESOP and LTIP shares are held pursuant to the Company's executive share option schemes. The trustee of the ESOP is Banks's Brewery Insurance Limited, a wholly-owned subsidiary of Marston's PLC. The trustee of the LTIP is Computershare Trustees (C.I.) Limited.

	2011		2010	
	Number of shares m	**Value £m**	Number of shares m	Value £m
ESOP	**0.1**	**0.1**	0.1	0.1
LTIP	**1.7**	**4.1**	1.3	4.1
Treasury shares	**30.2**	**126.7**	30.2	126.7
	32.0	**130.9**	31.6	130.9

The market value of own shares held is £29.7 million (2010: £29.7 million). Shares held by the LTIP represent 0.3% (2010: 0.2%) of issued share capital. Treasury shares held represent 5.0% (2010: 5.0%) of issued share capital.

Dividends on own shares have been waived.

Capital management

The Group considers its capital to comprise equity and debt financing. 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 balances risks and returns at an acceptable level and maintains sufficient funds to meet working capital targets, investment requirements and comply with lending covenants. The Board reviews the Group's dividend policy and funding requirements at least once a year.

29 WORKING CAPITAL AND NON-CASH MOVEMENTS

	2011 £m	2010 £m
Income from other non-current assets	**(0.3)**	(0.4)
(Increase)/decrease in inventories	**(1.6)**	0.1
Decrease in trade and other receivables	**4.7**	5.9
Increase in trade and other payables and other non-current liabilities	**14.4**	2.8
Movements in respect of property, plant and equipment and assets held for sale	**(4.6)**	17.9
Share-based payments	**0.3**	0.1
Working capital and non-cash movements	**12.9**	26.4

Further details of movements in respect of property, plant and equipment and assets held for sale are given in notes 4, 12 and 15.

30 ANALYSIS OF NET DEBT

	2011 £m	Cash flow £m	Non-cash movements and deferred issue costs £m	2010 £m
Cash and cash equivalents				
Cash at bank and in hand	**76.6**	17.1	–	59.5
Bank overdrafts	**(23.6)**	(23.6)	–	–
	53.0	(6.5)	–	59.5
Debt due within one year				
Loan notes	**–**	0.6	–	(0.6)
Bank loans	**1.5**	–	–	1.5
Securitised debt	**(19.0)**	20.3	(21.5)	(17.8)
	(17.5)	20.9	(21.5)	(16.9)
Debt due after one year				
Bank loans	**(124.7)**	(29.0)	(1.5)	(94.2)
Securitised debt	**(1,011.5)**	–	19.0	(1,030.5)
Preference shares	**(0.1)**	–	–	(0.1)
	(1,136.3)	(29.0)	17.5	(1,124.8)
	(1,100.8)	(14.6)	(4.0)	(1,082.2)

Included within cash at bank and in hand is an amount of £4.3 million (2010: £3.9 million), which relates to a letter of credit with Royal Sun Alliance Insurance, and an amount of £8.9 million (2010: £8.6 million), which relates to collateral held in the form of cash deposits. These amounts are considered to be restricted cash.

In addition, cash held in connection with the securitised business is governed by certain restrictions under the covenants associated with the securitisation (note 19).

Bank loans due within one year represent unamortised issue costs expected to be charged to the income statement within 12 months of the balance sheet date.

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:

	2011		2010	
Due:	**Land and buildings £m**	**Other £m**	Land and buildings £m	Other £m
Within one year	**14.2**	**0.5**	14.3	0.5
In more than one year but less than five years	**52.6**	**0.4**	53.7	0.4
In more than five years	**212.6**	**–**	219.8	–
	279.4	**0.9**	287.8	0.9

NOTES CONTINUED

For the 52 weeks ended 1 October 2011

31 OPERATING LEASES (CONTINUED)

The Group as lessor

The Group leases a proportion of its licensed estate and other non-licensed properties to tenants. The majority of lease agreements have terms of between 3 and 21 years and are classified as operating leases. Future minimum lease rentals receivable under non-cancellable operating leases are as follows:

	2011		2010	
Due:	**Land and buildings £m**	**Other £m**	Land and buildings £m	Other £m
Within one year	**31.6**	**—**	39.5	—
In more than one year but less than five years	**94.9**	**—**	126.3	—
In more than five years	**183.8**	**—**	240.5	—
	310.3	**—**	406.3	—

32 SPECIAL PURPOSE ENTITY — MARSTON'S ISSUER PLC

The summarised financial statements of Marston's Issuer PLC are as follows:

Income statement	**2011 £m**	2010 £m
Finance costs	**(57.8)**	(58.9)
Finance income	**57.8**	58.9
Profit for the period attributable to equity shareholders	**—**	—

The profit for the period attributable to equity shareholders represents total comprehensive income for the period.

Cash flow statement	**2011 £m**	2010 £m
Net cash inflow from operating activities	**—**	—
Investing activities		
Interest received	**58.3**	59.3
Repayment of loans advanced	**20.3**	19.4
Net cash inflow from investing activities	**78.6**	78.7
Financing activities		
Interest paid	**(58.3)**	(59.3)
Repayment of securitised debt	**(20.3)**	(19.4)
Net cash outflow from financing activities	**(78.6)**	(78.7)
Net increase in cash and cash equivalents	**—**	—

Balance sheet	**2011 £m**	2010 £m
Assets		
Amounts due from Marston's Pubs Limited	**1,039.7**	1,060.0
Other receivables	**146.8**	120.8
Liabilities		
Securitised debt	**(1,039.7)**	(1,060.0)
Other payables	**(146.7)**	(120.7)
Total shareholders' equity	**0.1**	0.1

33 PRINCIPAL SUBSIDIARY UNDERTAKINGS

Details of the Group's principal subsidiary undertakings are provided in note 4 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 de-grouping liability now stands at £49.8 million (2010: £173.8 million), of which £46.6 million (2010: £163.6 million) relates to CGT and £3.2 million (2010: £10.2 million) relates to SDLT.

The Group has received refunds of £5.9 million from HM Revenue & Customs (HMRC). This followed Tribunal/Court of Appeal hearings involving The Rank Group Plc ('Rank'), which concluded that there had been a breach of fiscal neutrality in the treatment of gaming machine income as liable to UK VAT. The matter was referred to the European Court of Justice, which released its decision on 10 November 2011 confirming the key principles upon which Rank's case relied. HMRC are currently considering their position and may ask for the matter to be referred back to the Upper Tribunal to further test whether the comparable machines that had different VAT treatments were in fact 'similar'. HMRC issued protective assessments to recover the repayments pending the result of further Court hearings. If HMRC are ultimately successful, the Group would be required to repay the £5.9 million plus interest. The likelihood of such a repayment being required is not considered probable.

The Group has issued a letter of credit in favour of Royal Sun Alliance Insurance totalling £4.3 million (2010: £3.9 million) to secure reinsurance contracts. The letter of credit is secured on fixed deposit 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 EVENTS AFTER THE BALANCE SHEET DATE

Since the balance sheet date proceeds of £16.0 million have been received in relation to property disposals recorded in the period.

In October 2011, the Group commenced discussions with a syndicate of banks to refinance its existing bank facility. On 29 November 2011, the Group entered into a new bank facility for £257.5 million expiring in May 2016.

INDEPENDENT AUDITORS' REPORT

We have audited the parent Company financial statements of Marston's PLC for the period ended 1 October 2011 which comprise the Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 40, the Directors are responsible for the preparation of the parent Company 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 parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Scope of the audit of the financial statements

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 parent 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 1 October 2011;
- 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial period for which the parent Company financial statements are prepared is consistent with the parent Company financial statements.

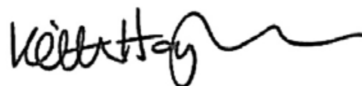
Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Marston's PLC for the period ended 1 October 2011.



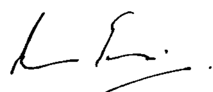
Keith Harrington
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
30 November 2011

COMPANY BALANCE SHEET

As at 1 October 2011

	Note	1 October 2011 £m	2 October 2010 £m
Fixed assets			
Tangible assets	3	**201.0**	209.4
Investments	4	**260.9**	281.4
		461.9	490.8
Current assets			
Assets held for sale	5	**–**	4.5
Debtors			
Amounts falling due within one year	6	**782.7**	905.2
Amounts falling due after more than one year	6	**521.5**	481.9
Cash at bank and in hand		**46.2**	48.4
		1,350.4	1,440.0
Creditors Amounts falling due within one year	7	**(915.2)**	(1,046.0)
Net current assets		**435.2**	394.0
Total assets less current liabilities		**897.1**	884.8
Creditors Amounts falling due after more than one year	7	**(0.1)**	(0.1)
Provisions for liabilities and charges	8	**(11.7)**	(14.2)
Net assets		**885.3**	870.5
Capital and reserves			
Equity share capital	10	**44.3**	44.3
Share premium account	11	**332.6**	332.5
Revaluation reserve	11	**30.8**	31.0
Capital redemption reserve	11	**6.8**	6.8
Own shares	11	**(130.9)**	(130.9)
Profit and loss account	11	**601.7**	586.8
Total shareholders' funds	12	**885.3**	870.5

The financial statements on pages 85 to 92 were approved by the Board on 30 November 2011 and signed on its behalf by:



Ralph Findlay
Chief Executive Officer
30 November 2011

Financial Statements

NOTES

For the 52 weeks ended 1 October 2011

1 ACCOUNTING POLICIES

Basis of preparation

The Company financial statements are prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain freehold and leasehold properties, and in accordance with the Companies Act 2006 and applicable UK accounting standards.

As permitted by section 408(3) of the Companies Act 2006 no profit and loss account or statement of total recognised gains and losses has been presented for the Company. As permitted by section 408(2) of the Companies Act 2006 information about the Company's employee numbers and costs has not been presented.

Related party disclosures

The Company is exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Group.

Revenue and other operating income

Revenue represents rents receivable from licensed properties, which is recognised in the period to which it relates. Other operating income comprises mainly rents from unlicensed properties.

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 recognised in respect of all timing differences that have originated but not reversed by the balance sheet date that give rise to an obligation to pay more or less tax in the future. Timing differences are differences between the Company's taxable profits and profits as stated in the financial statements. Deferred tax assets and liabilities are not discounted and assets are only recognised where recoverability is probable.

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 residual value over their useful lives.
- Freehold and long leasehold buildings are depreciated to 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.
- Own labour and 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 five year period, on an existing use basis. 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.

Assets held for sale

Assets, typically properties, 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 Company must be committed to the sale and the 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.

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 the profit and loss reserve at the date of sale.

1 ACCOUNTING POLICIES (CONTINUED)

Leases
Rental costs under operating leases are charged to the profit and loss account over the term of the lease. The cost of assets held under finance leases is included within tangible fixed assets and depreciation is provided in accordance with the policy for the class of asset concerned. The corresponding obligations under those leases are shown as creditors. The finance charge element of rentals is charged to the profit and loss account as incurred.

Investments in subsidiaries
Investments in subsidiaries are stated at cost, less any provision for diminution in value.

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.

When valuations of leasehold properties (based on future estimated discounted income streams) give rise to a deficit as a result of onerous lease conditions they are recognised as liabilities in provisions. Payments are expected to continue on these properties for periods of 1 to 33 years (2010: 1 to 57 years).

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
On 23 December 2008 the Company entered into an intra group funding agreement with certain other members of the Marston's Group. The agreement stipulated that all amounts outstanding on any intercompany loan account between these companies were interest bearing at a prescribed rate.

On 18 March 2011 two new clauses were added to the agreement. The first provided that no interest would be charged on any balances due to/from certain Group companies during the period of their restructuring. The second stipulated that with effect from 18 March 2011 no interest will accrue or be charged on any intercompany loan account where the balance is less than or equal to £1.

There is a 12.5% subordinated loan due to the Company from Marston's Pubs 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, repayable on demand.

2 AUDITORS' REMUNERATION

The Company's statutory audit fees for the financial statements were £0.1 million (2010: £0.1 million). Non-audit fees paid to the Company's Auditors totalled £0.4 million (2010: £nil).

NOTES CONTINUED

For the 52 weeks ended 1 October 2011

3 TANGIBLE FIXED ASSETS

	Land and buildings £m	Fixtures, fittings, plant and equipment £m	Total £m
Cost or valuation			
At 3 October 2010	210.1	15.3	225.4
Additions	5.0	0.6	5.6
Net transfers to assets held for sale and disposals	(12.8)	(0.4)	(13.2)
Revaluation	(0.2)	—	(0.2)
Net transfers to Group undertakings	(0.8)	—	(0.8)
At 1 October 2011	**201.3**	**15.5**	**216.8**
Depreciation			
At 3 October 2010	11.4	4.6	16.0
Charge for the period	1.4	1.6	3.0
Net transfers to assets held for sale and disposals	(2.5)	(0.4)	(2.9)
Revaluation	(0.1)	—	(0.1)
Net transfers to Group undertakings	(0.2)	—	(0.2)
At 1 October 2011	**10.0**	**5.8**	**15.8**
Net book value at 2 October 2010	198.7	10.7	209.4
Net book value at 1 October 2011	**191.3**	**9.7**	**201.0**

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

	2011 £m	2010 £m
Freehold properties	**136.9**	142.7
Leasehold properties over 50 years unexpired	**40.5**	39.0
Leasehold properties under 50 years unexpired	**13.9**	17.0
	191.3	198.7

Cost or valuation of land and buildings comprises:

	2011 £m	2010 £m
Valuation	**169.9**	176.8
At cost	**31.4**	33.3
	201.3	210.1

Cost at 1 October 2011 includes £0.6 million (2010: £0.6 million) of assets in the course of construction.

Capital expenditure authorised and committed at the period end but not provided for in the financial statements was £0.9 million (2010: £1.2 million).

During the current period various properties were reviewed for impairment. This review identified an impairment of £0.1 million which was taken to the profit and loss account.

During the prior period a number of properties were revalued prior to their transfer to Marston's Pubs Limited. These revaluations generated an unrealised revaluation surplus of £0.9 million and a reversal of past revaluation surplus of £0.7 million.

If the land and buildings had not been revalued, the historical cost net book value would be £160.5 million (2010: £167.7 million).

3 TANGIBLE FIXED ASSETS (CONTINUED)

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

	2011 £m	2010 £m
Profit and loss account:		
Revaluation loss charged as an impairment	**(0.1)**	–
	(0.1)	–
Revaluation reserve:		
Unrealised revaluation surplus	**–**	0.9
Reversal of past revaluation surplus	**–**	(0.7)
	–	0.2
Net (decrease)/increase in shareholders' funds/fixed assets	**(0.1)**	0.2

4 FIXED ASSET INVESTMENTS

	Subsidiary undertakings £m
Cost	
At 3 October 2010	310.1
Acquired from Group undertakings	1.9
At 1 October 2011	**312.0**
Impairments	
At 3 October 2010	28.7
On restructuring of subsidiary undertakings	22.4
At 1 October 2011	**51.1**
Net book value at 2 October 2010	281.4
Net book value at 1 October 2011	**260.9**

The principal subsidiary undertakings are:

	Country of incorporation	**Nature of business**	**% held**	**Class of share**
Marston's Trading Limited	England	Pub retailer and brewer	100	Ordinary £5 shares
Marston's Property Developments Limited	England	Property developer	100	Ordinary £1 shares
Marston's Pubs Limited	England	Pub retailer	100	Ordinary £1 shares
Marston's Estates Limited	England	Property management	100	Ordinary 25p shares
Marston's Operating Limited	England	Pub retailer and brewer	100	Ordinary £1 shares
Banks's Brewery Insurance Limited	Guernsey	Insurance	100	Ordinary £1 shares

Details of the principal operating subsidiaries by type of business are set out above. All of these are held directly by Marston's PLC with the exception of Marston's Operating Limited, which is a wholly-owned subsidiary of Marston's Estates Limited, and Marston's Pubs Limited, which is a wholly-owned subsidiary of Marston's Pubs Parent Limited, an intermediate holding company. A complete list of subsidiary undertakings is available at the Group's registered office. All subsidiaries have been included in the consolidated financial statements.

The Group financial statements also include the consolidation of Marston's Issuer PLC, which the Directors consider to be a special purpose entity as set out in note 32 to the Group financial statements. The ultimate parent undertaking of Marston's Issuer PLC is Wilmington Trust SP Services (London) Limited, which holds the shares of the company's parent company under a charitable trust. Marston's Issuer PLC was set up with the sole purpose of issuing debt secured on the assets of Marston's Pubs Limited.

As part of the Group restructuring that was carried out during the period the Company received dividends of £26.9 million from a number of its non-trading subsidiaries. Following this, the Company's investment in its subsidiary undertakings was written down by £22.4 million.

NOTES CONTINUED

For the 52 weeks ended 1 October 2011

5 ASSETS HELD FOR SALE

	2011 £m	2010 £m
Properties	–	4.5

6 DEBTORS

Amounts falling due within one year	2011 £m	2010 £m
Other debtors	15.7	0.4
Amounts owed by Group undertakings	753.3	888.9
Interest owed by Group undertakings	13.7	15.9
	782.7	905.2
Amounts falling due after more than one year		
12.5% subordinated loan owed by Group undertakings	521.5	481.9

7 CREDITORS

Amounts falling due within one year	2011 £m	2010 £m
Unsecured loan notes	–	0.6
Amounts owed to Group undertakings	877.1	999.9
Interest owed to Group undertakings	26.7	36.7
Corporation tax	11.2	8.8
Accruals and deferred income	0.2	–
	915.2	1,046.0
Amounts falling due after more than one year		
Preference shares	0.1	0.1

The preference shares carry a right to a fixed preferential dividend. They participate in the event of a winding-up and carry the right to attend and vote at general meetings of the Company.

8 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred tax £m	Property leases £m	Total £m
At 3 October 2010	5.9	8.3	14.2
Released in the period	–	(1.7)	(1.7)
Provided in the period	–	0.8	0.8
Unwinding of discount	–	0.3	0.3
Utilised in the period	–	(2.2)	(2.2)
Charged to the profit and loss account	0.3	–	0.3
At 1 October 2011	**6.2**	**5.5**	**11.7**

Deferred tax

The amount provided in respect of deferred tax is as follows:	2011 £m	2010 £m
Excess of capital allowances over accumulated depreciation	6.2	5.9

Deferred tax has been calculated at the tax rates expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted at the balance sheet date.

9 OPERATING LEASE COMMITMENTS

At 1 October 2011 the Company had annual commitments under non-cancellable operating leases as follows:

	2011		2010	
Leases which expire:	**Land and buildings £m**	**Other £m**	Land and buildings £m	Other £m
Within one year	**0.2**	**–**	–	–
Later than one year and less than five years	**0.6**	**–**	0.5	–
After five years	**5.5**	**–**	5.8	–
	6.3	**–**	6.3	–

10 SHARE CAPITAL

	2011		2010	
Authorised	**Number m**	**Value £m**	Number m	Value £m
Ordinary shares of 7.375p each	**800.0**	**59.0**	800.0	59.0

	2011		2010	
Allotted, called up and fully paid	**Number m**	**Value £m**	Number m	Value £m
Ordinary shares of 7.375p each:				
At beginning of the period	**600.8**	**44.3**	600.7	44.3
Allotted under share option schemes	**0.1**	**–**	0.1	–
At end of the period	**600.9**	**44.3**	600.8	44.3

Further information on share capital is provided in note 27 to the Group financial statements.

11 RESERVES

	Share premium account £m	**Revaluation reserve £m**	**Capital redemption reserve £m**	**Own shares £m**	**Profit and loss account £m**	**Total £m**
At 3 October 2010	332.5	31.0	6.8	(130.9)	586.8	826.2
Share option schemes	0.1	–	–	–	–	0.1
Disposal of properties	–	(0.1)	–	–	0.1	–
Transfer to profit and loss account	–	(0.1)	–	–	0.1	–
Profit for the financial period	–	–	–	–	47.7	47.7
Dividends paid	–	–	–	–	(33.0)	(33.0)
At 1 October 2011	**332.6**	**30.8**	**6.8**	**(130.9)**	**601.7**	**841.0**

The capital redemption reserve arose on share buy-backs.

Details of own shares are provided in note 28 to the Group financial statements.

NOTES CONTINUED

For the 52 weeks ended 1 October 2011

12 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2011 £m	2010 £m
Profit for the financial period	**47.7**	33.8
Dividends paid	**(33.0)**	(33.0)
Issue of shares	**0.1**	–
Impairment/revaluation of properties	**–**	0.2
Net addition to shareholders' funds	**14.8**	1.0
Opening shareholders' funds	**870.5**	869.5
Closing shareholders' funds	**885.3**	870.5

13 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.

On 4 August 2010 the Company, together with a number of its subsidiary undertakings, entered into a Deed of Guarantee with Barclays Bank PLC whereby it guarantees the obligations of Marston's Trading Limited under the interest rate swaps it holds with Barclays Bank PLC. The maximum aggregate liability of the Guarantors under the deed as at 1 October 2011 was £25.0 million (2010: £30.0 million).

for the facts... **drinkaware.co.uk**

Single Hop Ales

Join our global hop tour!

Marston's has created a seductive range of single hop world beers designed for those with a passion for taste and ingredients. Each of the 12 unique craft-brewed ales is made with exotic hops sourced from around the world.

DISCOVERED & CRAFT BREWED BY MARSTON'S

COMING IN 2012

Marston’s PLC

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